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

FORM 10-Q

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from _______ to _______

PIONEER BANCORP, INC.

(Exact Name of Company as Specified in its Charter)

Maryland	001-38991	83-4274253
(State of Other Jurisdiction of Incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

652 Albany Shaker Road, Albany, New York 12211
(Address of Principal Executive Office) (Zip Code)

(518) 730-3025
(Issuer's Telephone Number including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01	PBFS	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 (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 May 10, 2024 there were 25,977,679 shares outstanding of the registrant's common stock.

PIONEER BANCORP, INC.
INDEX

PART I - FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION (unaudited)
(in thousands, except share and per share amounts)

	March 31, 2024	June 30, 2023
Assets		
Cash and due from banks	$ 38,518	$ 33,584
Federal funds sold	1,196	2,167
Interest-earning deposits with banks	206,827	114,727
Cash and cash equivalents	246,541	150,478
Securities available for sale, at fair value	296,893	431,667
Securities held to maturity, net of allowance for credit losses of $238 at March 31, 2024 (fair value of $20,793 at March 31, 2024; and $21,744 at June 30, 2023)	23,317	23,949
Equity securities, at fair value	—	2,413
Federal Home Loan Bank of New York stock	1,421	1,196
Loans receivable	1,333,789	1,166,638
Allowance for credit losses	(21,600)	(22,469)
Net loans receivable	1,312,189	1,144,169
Accrued interest receivable	7,688	7,194
Premises and equipment, net	40,701	41,617
Bank-owned life insurance	16,105	16,322
Goodwill	10,879	8,799
Other intangible assets, net	3,083	2,096
Other assets	23,017	26,291
Total assets	$ 1,981,834	$ 1,856,191
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing deposits	$ 492,443	$ 526,119
Interest bearing deposits	1,155,567	1,015,732
Total deposits	1,648,010	1,541,851
Mortgagors' escrow deposits	5,983	7,888
Other liabilities	38,885	39,752
Total liabilities	1,692,878	1,589,491
Commitments and contingent liabilities – See Note 9		
Shareholders' Equity		
Preferred stock ($0.01 par value, 5,000,000 shares authorized, no shares issued or outstanding as of March 31, 2024 and June 30, 2023)	—	—
Common stock ($0.01 par value, 75,000,000 shares authorized, 25,977,679 shares issued and outstanding as of March 31, 2024 and June 30, 2023)	260	260
Additional paid in capital	113,383	113,543
Retained earnings	184,875	173,038
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(10,062)	(10,573)
Accumulated other comprehensive income (loss)	500	(9,568)
Total shareholders' equity	288,956	266,700
Total liabilities and shareholders' equity	$ 1,981,834	$ 1,856,191

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(in thousands, except share and per share amounts)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2024	2023	2024	2023
Interest and dividend income:				
Loans	$ 18,740	$ 14,658	$ 52,996	$ 39,676
Securities	2,341	2,624	7,510	7,081
Interest-earning deposits with banks and other	2,034	1,497	4,252	5,192
Total interest and dividend income	23,115	18,779	64,758	51,949
Interest expense:				
Deposits	5,536	1,049	14,578	2,087
Borrowings and other	248	214	865	538
Total interest expense	5,784	1,263	15,443	2,625
Net interest income	17,331	17,516	49,315	49,324
Provision for credit losses	80	—	1,950	(280)
Net interest income after provision for credit losses	17,251	17,516	47,365	49,604
Noninterest income:				
Bank fees and service charges	1,501	1,398	4,445	4,437
Insurance and wealth management services	2,298	1,715	7,035	5,636
Net gain (loss) on equity securities	386	(59)	735	170
Net loss on securities available for sale transactions	—	—	(5,645)	—
Litigation-related income	—	—	5,950	—
Other	49	196	122	758
Total noninterest income	4,234	3,250	12,642	11,001
Noninterest expense:				
Salaries and employee benefits	7,387	7,068	21,768	20,881
Net occupancy and equipment	1,912	1,912	5,644	5,464
Data processing	1,065	1,143	3,569	3,256
Advertising and marketing	164	176	517	611
Insurance premiums	221	225	686	682
Federal Deposit Insurance Corporation insurance premiums	271	244	803	568
Professional fees	3,102	1,202	8,532	3,073
Other	1,307	1,128	4,109	3,936
Total noninterest expense	15,429	13,098	45,628	38,471
Income before income taxes	6,056	7,668	14,379	22,134
Income tax expense	1,337	1,644	3,049	4,693
Net income	$ 4,719	$ 6,024	$ 11,330	$ 17,441
Net earnings per common share:				
Basic	$ 0.19	$ 0.24	$ 0.45	$ 0.69
Diluted	$ 0.19	$ 0.24	$ 0.45	$ 0.69
Weighted average shares outstanding – basic and diluted	25,220,299	25,169,382	25,213,934	25,163,018

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(in thousands)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2024	2023	2024	2023
Net income	$ 4,719	$ 6,024	$ 11,330	$ 17,441
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	433	5,377	7,987	(819)
Reclassification adjustment for losses included in net income	—	—	5,645	—
	433	5,377	13,632	(819)
Tax expense (benefit)	114	1,406	3,564	(215)
	319	3,971	10,068	(604)
Defined benefit plan:				
Change in funded status of defined benefit plans	—	—	—	—
Reclassification adjustment for amortization of net actuarial gain	—	—	—	—
	—	—	—	—
Tax expense	—	—	—	—
	—	—	—	—
Total other comprehensive income (loss)	319	3,971	10,068	(604)
Comprehensive income	$ 5,038	$ 9,995	$ 21,398	$ 16,837

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)
(in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unallocated Common Stock of ESOP	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount					
Balance as of July 1, 2022	25,977,679	$ 260	$ 113,713	$ 151,090	(11,256)	$ (11,180)	$ 242,627
Net income	—	—	—	5,234	—	—	5,234
Other comprehensive loss	—	—	—	—	—	(6,274)	(6,274)
ESOP shares committed to be released (12,729 shares)	—	—	(48)	—	170	—	122
Balance as of September 30, 2022	25,977,679	$ 260	$ 113,665	$ 156,324	$ (11,086)	$ (17,454)	$ 241,709
Net income	—	—	—	6,183	—	—	6,183
Other comprehensive income	—	—	—	—	—	1,699	1,699
ESOP shares committed to be released (12,729 shares)	—	—	(32)	—	171	—	139
Balance as of December 31, 2022	25,977,679	$ 260	$ 113,633	$ 162,507	$ (10,915)	$ (15,755)	$ 249,730
Net income	—	—	—	6,024	—	—	6,024
Other comprehensive income	—	—	—	—	—	3,971	3,971
ESOP shares committed to be released (12,729 shares)	—	—	(30)	—	170	—	140
Balance as of March 31, 2023	25,977,679	$ 260	$ 113,603	$ 168,531	$ (10,745)	$ (11,784)	$ 259,865

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unallocated Common Stock of ESOP	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
Balance as of July 1, 2023	25,977,679	$ 260	$ 113,543	$ 173,038	(10,573)	$ (9,568)	$ 266,700
Cumulative effect of change in accounting principle - Current Expected Credit Losses (1)	—	—	—	507	—	—	507
Net income	—	—	—	3,419	—	—	3,419
Other comprehensive income	—	—	—	—	—	1,028	1,028
ESOP shares committed to be released (12,729 shares)	—	—	(52)	—	169	—	117
Balance as of September 30, 2023	25,977,679	$ 260	$ 113,491	$ 176,964	$ (10,404)	$ (8,540)	$ 271,771
Net income	—	—	—	3,192	—	—	3,192
Other comprehensive income	—	—	—	—	—	8,721	8,721
ESOP shares committed to be released (12,729 shares)	—	—	(59)	—	171	—	112
Balance as of December 31, 2023	25,977,679	$ 260	$ 113,432	$ 180,156	$ (10,233)	$ 181	$ 283,796
Net income	—	—	—	4,719	—	—	4,719
Other comprehensive income	—	—	—	—	—	319	319
ESOP shares committed to be released (12,729 shares)	—	—	(49)	—	171	—	122
Balance as of March 31, 2024	25,977,679	$ 260	$ 113,383	$ 184,875	$ (10,062)	$ 500	$ 288,956

(1) Adoption of Accounting Standard Update 2016-13.

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	For the Nine Months Ended March 31, 2024	2023
Cash flows from operating activities:		
Net income	$ 11,330	$ 17,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,955	2,044
Provision for credit losses	1,950	(280)
Net (accretion) amortization on securities	(1,328)	288
ESOP compensation	351	401
Loss (earnings) on bank-owned life insurance	217	(364)
Net gain on the sale of other real estate owned	(54)	—
Proceeds from sale of loans	92	100
Net loss on sale of loans	8	—
Net gain on equity securities	(735)	(170)
Net loss on securities available for sale transactions	5,645	—
Deferred tax expense	(565)	576
Increase in accrued interest receivable	(494)	(3,529)
(Increase) decrease in other assets	(1,396)	1,541
Decrease in other liabilities	(2,186)	(5,346)
Changes in operating leases	16	17
Net cash provided by operating activities	14,806	12,719
Cash flows from investing activities:		
Proceeds from maturities, paydowns and calls of securities available for sale	99,954	104,417
Proceeds from sales of securities available for sale	74,462	—
Purchases of securities available for sale	(30,327)	(127,901)
Proceeds from maturities and paydowns of securities held to maturity	2,195	6,255
Purchases of securities held to maturity	(1,801)	(6,275)
Proceeds from sales of equity securities	3,149	—
Net purchases of FHLBNY stock	(225)	(48)
Net increase in loans receivable	(167,693)	(103,474)
Purchases of premises and equipment	(637)	(170)
Proceeds from bank-owned life insurance death benefit	—	1,143
Proceeds from sale of other real estate owned	106	—
Cash paid for acquisitions	(1,980)	—
Net cash used in investing activities	(22,797)	(126,053)
Cash flows from financing activities:		
Net increase (decrease) in deposits	106,159	(115,718)
Net decrease in mortgagors' escrow deposits	(1,905)	(1,127)
Payments on acquisition contingent consideration	(124)	(734)
Repayment of finance lease liability	(76)	(89)
Net cash provided by (used in) financing activities	104,054	(117,668)
Net increase (decrease) in cash and cash equivalents	96,063	(231,002)
Cash and cash equivalents at beginning of period	150,478	376,060
Cash and cash equivalents at end of period	$ 246,541	$ 145,058
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 15,422	$ 2,615
Income taxes	$ 3,000	$ 2,050
Non-cash investing and financing activity:		
Loans transferred to other real estate owned	$ 51	$ —
Acquisition contingent consideration payable	$ 1,499	$ —
Right of use assets obtained in exchange for new finance lease liabilities	$ 26	$ —
Right of use assets obtained in exchange for new operating lease liabilities	$ 199	$ —
Adoption of lease accounting standard:		
Right of use assets	$ —	$ 6,535
Lease liabilities	$ —	$ 6,883

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

1. NATURE OF OPERATIONS

Pioneer Bancorp, Inc. (the "Company") is a mid-tier stock holding company whose wholly owned subsidiary is Pioneer Bank (the "Bank"). The Bank, as of March 31, 2024 was a New York State chartered savings bank whose wholly owned subsidiaries are Pioneer Commercial Bank, Anchor Agency, Inc. and Pioneer Financial Services, Inc. On July 17, 2019, the Company became the holding company of the Bank when it closed its stock offering in connection with the completion of the reorganization of the Bank into the two-tier mutual holding company form of organization.

On April 1, 2024, the Bank completed its conversion to a national bank following approval of the conversion by the Office of the Comptroller of the Currency (the "OCC"), the regulator of national banks. Following the completion of the conversion, the Bank will operate under the name "Pioneer Bank, National Association" and be subject to the supervision, regulation and examination by the OCC.

The Company provides diversified financial services through the Bank and its subsidiaries, with 23 offices in the Capital Region of New York State. The Company, through its subsidiaries, offers a broad array of deposit, lending, and other financial services to individuals, businesses, and municipalities.

The interim financial data as of March 31, 2024 and for the three and nine months ended March 31, 2024 and 2023, respectively, is unaudited and reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented in conformance with accounting principles generally accepted in the United States of America ("GAAP"). The results of operations for the three and nine months ended March 31, 2024 are not necessarily indicative of the results to be achieved for the remainder of fiscal 2024 or any other period.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K, for the year ended June 30, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ substantially from those estimates. The allowance for credit losses, valuation of securities and other financial instruments, the funded status and expense of employee benefit plans, legal proceedings and other contingent liabilities, and the realizability of deferred tax assets are particularly subject to change.

Reclassifications

Amounts in the prior period's consolidated financial statements are reclassified whenever necessary to conform to the current period's presentation.

Adoption of Recent Accounting Pronouncements

Financial Instruments - Credit Losses - Topic 326

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13 to its guidance on "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available for sale debt securities. For an available for sale debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. The amendments in this ASU are effective for the Company for the fiscal year beginning July 1, 2023. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which aligns the implementation date for nonpublic entities' annual financial statements with the implementation date for their interim financial statements and clarifies the scope of the guidance in the amendments in ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. ASU 2019-04 clarifies or addresses stakeholders' specific issues about certain aspects of the amendments in ASU 2016-13 related to measuring the allowance for loan losses under the new guidance. The effective dates and transition requirements for the amendments related to this ASU are the same as the effective dates and transition requirements in ASU 2016-13. In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments-Credit Losses clarifying certain amendments to various provisions of ASU 2016-13 relating to (1) purchased financial assets with credit deterioration, (2) financial assets secured by collateral maintenance agreements, (3) transition relief for troubled debt restructurings, and (4) disclosure relief when the practical expedient for accrued interest receivables is applied.

On July 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, the CECL guidance made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities which management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted the CECL guidance using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures, except for debt securities for which other-than-temporary impairment had been recognized prior to July 1, 2023 for which the Company adopted the CECL guidance using the prospective transition approach. Results for reporting periods beginning after July 1, 2023, are presented under the CECL guidance while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net increase to retained earnings of $507,000 as of July 1, 2023 for the cumulative effect of adopting the CECL guidance. The transition adjustment includes a $2.3 million decrease to the allowance for credit losses, a $ 1.6 million increase to the allowance for credit losses on unfunded commitments, and a $180,000 impact to the deferred tax assets. The Company did not record an allowance for credit losses on held to maturity and available for sale debt securities on July 1, 2023, as the amount of credit risk was deemed immaterial.

Allowance for Credit Losses on Loans

The CECL approach requires an estimate of the credit losses expected over the life of a loan (or pool of loans). The allowance for credit losses is a valuation account deducted from the amortized cost basis of loans to present the net, lifetime amount expected to be collected on the loans. Expected losses are evaluated and calculated on a collective, or pooled, basis for those loans which share similar risk characteristics. If the loan does not share risk characteristics with other loans, the Company will evaluate the loan on an individual basis. Individually evaluated loans are primarily non-accrual and collateral dependent loans. Loan losses are charged off against the allowance when management believes a loan balance is confirmed to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and amounts expected to be charged-off.

The loan portfolio is segmented at the level at which the Company develops and documents a systematic methodology to determine its allowance for credit losses. Upon adoption of CECL, management revised the manner in which loans were pooled for similar risk characteristics. Management developed the following segments for estimating loss based on type of borrower and collateral which is generally based upon federal call report segmentation and have been combined or subsegmented as needed to ensure loans of similar risk profiles are appropriately pooled: commercial (commercial real estate, commercial and industrial, and commercial construction), residential mortgages, home equity loans and lines, and consumer loans.

Management estimates the allowance for credit losses on loans by using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts that affect the collectability of loans. Historical loss experience was considered by the Company for estimating expected credit losses and determined the need to use peer data, with similar risk profiles, to develop and calculate the CECL reserve models.

Historical credit loss experience for the Company and peer losses by loan segments, provide a foundation for estimating an expected credit loss. The observed credit losses are converted to probability of default ("PD") rate curves through the use of loss given default ("LGD") risk factors that converts default rates to estimated loss for each loan segment. This is based on industry-level, observed relationships between the PD and LGD variables for each segment. The historical PD curves correspond to economic variables through historical economic cycles, which establishes a quantitative relationship between forecasted economic conditions and loan performance.

Using the historical quantitative relationship between economic conditions and loan performance, management developed a model, using selected external economic forecasts that is highly correlated for each loan segment. These forecasts are then applied over a period that management has determined to be reasonable and supportable. Beyond the period over which management can develop or source a reasonable and supportable forecast, the model will revert to long-term average economic conditions using a straight-line methodology.

The allowance for credit losses on loans is measured on a collective basis, when similar risk characteristics are present, with both a quantitative and qualitative analysis that is applied on a quarterly basis. The respective quantitative reserve for each segment is calculated using a PD/LGD modeling methodology, with segment-specific regression models. The discounted cash flows methodology uses expected credit losses estimated over the effective life of each loan by measuring the difference between the net present value of modeled cash flows and amortized cost basis. Contractual cash flows over the contractual life of the loans are the basis for modeled cash flows, adjusted for modeled defaults and expected prepayments and discounted at the loan-level stated interest rate.

Management applies a qualitative adjustment for each segment as of the consolidated statements of condition date. The qualitative adjustments include limitations inherent in the quantitative model; changes in lending policies and procedures; changes in international, national, regional, and local economic conditions; changes in the nature and volume of the portfolio and terms of loans; the experience, ability and depth of lending management and staff; changes in the volume and severity of past due loans; changes in value of underlying collateral; existence and effect of any concentrations of credit and changes in the levels of such concentrations; and the effect of external factors; such as competition, legal and regulatory requirements.

On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the estimated fair value of the collateral, as applicable.

Allowance for Credit Losses on Unfunded Commitments

The Company estimates expected credit losses over the contractual period in which the Company has exposure to a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on unfunded commitments exposure is recognized in other liabilities on the consolidated statement of condition and is adjusted by the provision for credit losses on the consolidated statement of operations. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over the estimated contractual life. The probable funding amount by segment is multiplied by the respective reserve percentage calculated in the allowance for credit losses on loans to calculate a reserve on unfunded commitments.

Allowance for Credit Losses on Securities Held to Maturity

The Company is required to utilize the CECL approach to estimate expected credit losses. Management measures expected credit losses on held to maturity debt securities on a collective basis by major security types that share similar risk characteristics. Management classifies the held to maturity debt securities portfolio into the following major security types: Corporate debt securities and municipal obligations. Expected losses are calculated on a pooled basis using a probability of default/loss given default (PD/LGD) model, based on historical credit loss data from a reliable source. Management utilizes corporate and municipal default and loss rates which provides decades of data across all corporate and municipal sectors and geographies. Management may exercise discretion to make adjustments based on environmental factors. The model calculates the expected loss for each security over the contractual life. If the risk of a held to maturity debt security no longer matches the collective assessment pool, it is removed and individually assessed for credit deterioration.

Allowance for Credit Losses on Securities Available for Sale

The impairment model for available for sale debt securities differs from the CECL approach utilized for held to maturity debt securities because available for sale debt securities are measured at fair value rather than amortized cost. For available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more than likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax. Changes in the allowance for credit losses are recorded as provision for, or reversal of, credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued Interest Receivable

Accrued interest receivable balances are presented separately on the consolidated statements of financial condition and are not included in amortized cost when determining the allowance for credit losses. The Company does not estimate expected credit losses on accrued interest receivable on loans and investment securities, as accrued interest receivable is reversed or written off when the full collection of the accrued interest receivable related to a loan or investment security becomes doubtful.

Troubled Debt Restructurings and Vintage Disclosures - Topic 326

In March 2022, the FASB issued ASU 2022-02, amendments related to Troubled Debt Restructurings (TDRs) for all entities after they adopt ASU 2016-13 and amendments related to vintage disclosures that affect public business entities with investments in financing receivables, under Financial Instruments-Credit Losses (Topic 326). This ASU eliminates the guidance on TDRs in Subtopic 310-40, Receivables-Troubled Debt Restructurings, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The ASU also requires that public business entities disclose current-period gross charge-offs by year of origination. The Company adopted the standard prospectively, beginning July 1, 2023, concurrently with the adoption of ASU 2016-13. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Reference Rate Reform - Topic 848

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848). The ASU and related amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments (1) apply to contract modifications that replace a reference rate affected by reference rate reform, (2) provide exceptions to existing guidance related to changes to the critical terms of a hedging relationship due to reference rate reform (3) provide optional expedients for fair value hedging relationships, cash flow hedging relationships, and net investment hedging relationships, and (4) provide a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The amendments for contract modifications can be elected to be applied as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020. The amendments for existing hedging relationships can be elected to be applied as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. On December 21, 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which extends the sunset (or expiration) date of ASC Topic 848, Reference Rate Reform, from December 31, 2022, to December 31, 2024. On July 1, 2023, the Company adopted ASC 848, as amended. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Impact of Recent Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09—Income Taxes (Topic 740)—Improvements to Income Tax Disclosures, to provide more transparency about income tax information through improvements to income tax disclosures. Specifically, the update requires enhancements to the rate reconciliation, including disclosure of specific categories and additional information for reconciling items meeting a quantitative threshold, and greater disaggregation of income tax disclosures related to income taxes paid. The amendments in this update are effective for fiscal years beginning after December 15, 2024 and early adoption is permitted. The Company is evaluating the impact this will have on the consolidated financial statements.

3. ACQUISITIONS

On July 13, 2023, the Company, through its subsidiary, Pioneer Financial Services, Inc., completed the acquisition of certain assets of Hudson Financial LLC, a company engaged in the wealth management services business in the Hudson Valley Region of New York. The Company paid an aggregate of $2.0 million in cash and recorded $1.5 million in contingent consideration payable to acquire the assets and recorded a $1.4 million customer list intangible asset and goodwill in the amount of $2.1 million in conjunction with the acquisitions. No contingent consideration was paid during the three and nine months ended March 31, 2024. The effects of the acquired assets have been included in the consolidated financial statements since the acquisition date. The above referenced acquisition was made to expand the Company’s wealth management services activities.

4. INVESTMENT SECURITIES

The amortized cost and estimated fair value of securities available for sale are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2024				
U.S. Government and agency obligations	$ 276,946	$ 51	$ (5,212)	$ 271,785
Municipal obligations	24,641	22	(21)	24,642
Other debt securities	224	311	(69)	466
Total available for sale securities	$ 301,811	$ 384	$ (5,302)	$ 296,893
June 30, 2023				
U.S. Government and agency obligations	$ 396,464	$ 2	$ (18,737)	$ 377,729
Municipal obligations	53,492	9	(67)	53,434
Other debt securities	261	309	(66)	504
Total available for sale securities	$ 450,217	$ 320	$ (18,870)	$ 431,667

Accrued interest receivable on available for sale debt securities totaled $ 1.8 million at March 31, 2024 and is excluded from the estimate of credit losses.

There was no allowance for credit losses for securities available for sale as of March 31, 2024.

The amortized cost and estimated fair value of securities held to maturity are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses	Net Carrying Value
March 31, 2024						
Corporate debt securities	$ 20,000	$ —	$ (2,672)	$ 17,328	$ 238	$ 19,762
Municipal obligations	3,555	—	(90)	3,465	—	3,555
Total held to maturity securities	$ 23,555	$ —	$ (2,762)	$ 20,793	$ 238	$ 23,317
June 30, 2023						
Corporate debt securities	$ 20,000	$ —	$ (2,049)	$ 17,951	$ —	$ 20,000
Municipal obligations	3,949	—	(156)	3,793	—	3,949
Total held to maturity securities	$ 23,949	$ —	$ (2,205)	$ 21,744	$ —	$ 23,949

Accrued interest receivable on held to maturity debt securities totaled $ 108,000 at March 31, 2024 and is excluded from the estimate of credit losses.

Allowance for credit losses for held to maturity securities totaled $ 238,000 as of March 31, 2024. There were no held to maturity securities that were 30 days or more past due or classified as non-accrual as of March 31, 2024.

The following tables present the activity in the allowance for credit losses on securities held-to-maturity (dollars in thousands):

	For the Three Months Ended March 31, 2024				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Corporate debt securities	$ 238	$ —	$ —	$ —	$ 238
Municipal obligations	—	—	—	—	—
Total allowance for credit losses on securities held to maturity	$ 238	$ —	$ —	$ —	$ 238

	For the Nine Months Ended March 31, 2024				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Corporate debt securities	$ —	$ 238	$ —	$ —	$ 238
Municipal obligations	—	—	—	—	—
Total allowance for credit losses on securities held to maturity	$ —	$ 238	$ —	$ —	$ 238

The estimated fair value and gross unrealized losses aggregated by security category and length of time such securities have been in a continuous unrealized loss position, is summarized as follows (dollars in thousands):

	March 31, 2024					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Government and agency obligations	$ 38,806	$ (104)	$ 213,425	$ (5,108)	$ 252,231	$ (5,212)
Municipal obligations	11,648	(21)	—	—	11,648	(21)
Other debt securities	—	—	104	(69)	104	(69)
	$ 50,454	$ (125)	$ 213,529	$ (5,177)	$ 263,983	$ (5,302)
Securities held to maturity:						
Corporate debt securities	$ —	$ —	$ 17,328	$ (2,672)	$ 17,328	$ (2,672)
Municipal obligations	—	—	3,465	(90)	3,465	(90)
	$ —	$ —	$ 20,793	$ (2,762)	$ 20,793	$ (2,762)

	June 30, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities available for sale:						
U.S. Government and agency obligations	$ 104,145	$ (1,975)	$ 268,782	$ (16,762)	$ 372,927	$ (18,737)
Municipal obligations	47,781	(67)	—	—	47,781	(67)
Other debt securities	14	(1)	107	(65)	121	(66)
	$ 151,940	$ (2,043)	$ 268,889	$ (16,827)	$ 420,829	$ (18,870)
Securities held to maturity:						
Corporate debt securities	$ —	$ —	$ 17,951	$ (2,049)	$ 17,951	$ (2,049)
Municipal obligations	—	—	3,793	(156)	3,793	(156)
	$ —	$ —	$ 21,744	$ (2,205)	$ 21,744	$ (2,205)

Unrealized losses on securities available for sale have not been recognized into income because the issuers' debt securities are of high credit quality (rated AA or higher), management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. The fair value is expected to recover as the securities approach maturity.

As a result of the Company adopting the CECL guidance using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to July 1, 2023, the amortized cost basis remains the same before and after the effective date of the CECL guidance. The effective interest rate on these debt securities was not changed. Amounts previously recognized in accumulated other comprehensive income as of July 1, 2023 relating to improvements in cash flows expected to be collected will be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after July 1, 2023 will be recorded in earnings when received.

The following table sets forth information with regard to contractual maturities of debt securities (dollars in thousands). Securities not due at a single maturity date are shown separately.

	March 31, 2024	
	Amortized Cost	Estimated Fair Value
Securities available for sale:		
Due in one year or less	$ 174,389	$ 171,592
Due after one to five years	127,198	124,835
Other debt securities	224	466
	$ 301,811	$ 296,893
Securities held to maturity:		
Due in one year or less	$ 2,132	$ 2,042
Due after one to five years	1,423	1,423
Due after five to ten years	20,000	17,328
	$ 23,555	$ 20,793

There were no sales of securities available for sale for the three months ended March 31, 2024. During the nine months ended March 31, 2024, the Company received $74.5 million in proceeds from the sale of securities available for sale, realizing gross losses of $5.6 million. There were no sales of securities available for sale for the three and nine months ended March 31, 2023.

There were no sales of securities held to maturity for the three and nine months ended March 31, 2024 and 2023.

During the three and nine months ended March 31, 2024, the Company received $ 3.1 million in proceeds from the sale of equity securities. There were no sales of equity securities for the three and nine months ended March 31, 2023.

At March 31, 2024, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of the Company's equity. As of March 31, 2024 and June 30, 2023, the carrying value of available for sale securities pledged to secure Federal Home Loan Bank of New York ("FHLBNY") advances and municipal deposits was $293.5 million and $428.5 million, respectively.

5. NET LOANS RECEIVABLE

A summary of net loans receivable is as follows (dollars in thousands):

	March 31, 2024	June 30, 2023
Commercial:		
Real estate	$ 415,191	$ 411,165
Commercial and industrial	97,272	97,307
Construction	107,445	92,714
Total commercial	619,908	601,186
Residential mortgages	606,407	463,196
Home equity loans and lines	92,826	85,477
Consumer	14,648	16,779
	1,333,789	1,166,638
Allowance for credit losses	(21,600)	(22,469)
Net loans receivable	$ 1,312,189	$ 1,144,169

Accrued interest receivable on loans totaled $5.7 million at March 31, 2024 and is excluded from the estimate of credit losses.

Net deferred loan costs totaled $9.5 million at March 31, 2024 and are included in net loans receivable.

The Company's July 1, 2023 adoption of CECL resulted in a significant change to our methodology for estimating the allowance for credit losses. The allowance for credit losses on loans is established through a provision for credit losses based on the results of life of loan quantitative models, reserves associated with collateral-dependent loans evaluated individually and adjustments for the impact of current economic conditions not accounted for in the quantitative models. The discounted cash flow methodology is used to calculate the CECL reserve for the commercial, residential mortgages, and home equity loans and lines of credit segments. The Company uses a four-quarter reasonable and supportable forecast period based on economic forecast from the Federal Open Market Committee ("FOMC") of the Federal Reserve's projections of civilian unemployment and year-over-year U.S. GDP growth. The forecast will revert to long-term economic conditions over a four quarter reversion period on a straight-line basis. The remaining life method is used to determine the CECL reserve for the consumer loan segment. A qualitative factor framework has been developed to adjust the quantitative loss rates for asset-specific risk characteristics or current conditions at the reporting date.

The Company established a reserve for off-balance sheet credit exposures in conjunction with its adoption of the CECL guidance. The allowance for credit losses on off-balance sheet credit exposures is recognized as a liability (classified as a component of other liabilities on the consolidated statements of condition), with adjustments to the reserve recognized in the provision for credit losses on the consolidated statements of operations.

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

	For the Three Months Ended March 31, 2024				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Commercial	$ 12,674	$ (233)	$ —	$ 6	$ 12,447
Residential mortgages	6,970	455	(6)	—	7,419
Home equity loans and lines of credit	1,339	3	—	2	1,344
Consumer	379	33	(24)	2	390
Allowance for credit losses - loans	21,362	258	(30)	10	21,600
Allowance for credit losses - off-balance sheet credit exposures	1,681	(178)	—	—	1,503
Total	$ 23,043	$ 80	$ (30)	$ 10	$ 23,103

	For the Three Months Ended March 31, 2023				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses at beginning of period	$ 15,703	$ 4,533	$ 1,473	$ 483	$ 22,192
Provisions charged to operations	(866)	901	21	(56)	—
Loans charged off	—	(3)	—	(29)	(32)
Recoveries on loans charged off	18	25	—	11	54
Allowance for loan losses at end of period	$ 14,855	$ 5,456	$ 1,494	$ 409	$ 22,214

	For the Nine Months Ended March 31, 2024					
	Beginning Balance	Cumulative Effect Adjustment for the Adoption of ASU 2016-13	Provisions	Charge-offs	Recoveries	Ending Balance
Commercial	$ 14,288	$ (1,307)	$ (239)	$ (345)	$ 50	$ 12,447
Residential mortgages	6,222	(670)	1,873	(6)	—	7,419
Home equity loans and lines of credit	1,470	(265)	149	(12)	2	1,344
Consumer	489	(69)	50	(93)	13	390
Allowance for credit losses - loans	22,469	(2,311)	1,833	(456)	65	21,600
Allowance for credit losses - off-balance sheet credit exposures	—	1,624	(121)	—	—	1,503
Total	$ 22,469	$ (687)	$ 1,712	$ (456)	$ 65	$ 23,103

	For the Nine Months Ended March 31, 2023				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses at beginning of period	$ 17,818	$ 2,899	$ 1,388	$ 419	$ 22,524
Provisions charged to operations	(2,992)	2,517	92	103	(280)
Loans charged off	(42)	(26)	—	(130)	(198)
Recoveries on loans charged off	71	66	14	17	168
Allowance for loan losses at end of period	$ 14,855	$ 5,456	$ 1,494	$ 409	$ 22,214

The following tables present the balance in the allowance for credit losses and allowance for loan losses and the recorded investment in loans by portfolio segment (dollars in thousands):

	March 31, 2024				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for credit losses:					
Related to loans individually evaluated	$ 225	$ —	$ —	$ —	$ 225
Related to loans collectively evaluated	12,222	7,419	1,344	390	21,375
Ending balance	$ 12,447	$ 7,419	$ 1,344	$ 390	$ 21,600
Loans:					
Individually evaluated	$ 4,177	$ —	$ —	$ —	$ 4,177
Loans collectively evaluated	615,731	606,407	92,826	14,648	1,329,612
Ending balance	$ 619,908	$ 606,407	$ 92,826	$ 14,648	$ 1,333,789

	June 30, 2023				
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for loan losses:					
Related to loans individually evaluated for impairment	$ 792	$ —	$ —	$ —	$ 792
Related to loans collectively evaluated for impairment	13,496	6,222	1,470	489	21,677
Ending balance	$ 14,288	$ 6,222	$ 1,470	$ 489	$ 22,469
Loans:					
Individually evaluated for impairment	$ 11,544	$ —	$ —	$ —	$ 11,544
Loans collectively evaluated for impairment	589,642	463,196	85,477	16,779	1,155,094
Ending balance	$ 601,186	$ 463,196	$ 85,477	$ 16,779	$ 1,166,638

The following table presents information related to impaired loans by class (dollars in thousands):

	June 30, 2023			For the Year Ended June 30, 2023	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Real estate	$ 10,241	$ 10,213	$ —	$ 10,538	$ 133
Commercial and industrial	—	—	—	—	—
Construction	—	—	—	—	—
Subtotal	10,241	10,213	—	10,538	133
With an allowance recorded:					
Commercial:					
Real estate	681	681	142	699	35
Commercial and industrial	650	650	650	575	—
Construction	—	—	—	—	—
Subtotal	1,331	1,331	792	1,274	35
Total	$ 11,572	$ 11,544	$ 792	$ 11,812	$ 168

Interest income on nonaccrual loans is recognized using the cost recovery method. Interest income on impaired loans that were on nonaccrual status and cash-basis interest income for the year ended June 30, 2023 was immaterial.

At various times, certain loan modifications are executed for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan. Substantially all of these modifications include one or a combination of the following: extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; temporary reduction in the interest rate; change in scheduled payment amount including interest only; or extensions of additional credit for payment of delinquent real estate taxes or other costs.

As previously noted in Note 2 – Summary of Significant Accounting Policies, effective July 1, 2023, the Company adopted ASU 2022-02, Financial Instruments-Credit Losses (Topic 326)-Troubled Debt Restructurings. The Company may occasionally make modifications to loans where the borrower is considered to be experiencing financial difficulty. Types of modifications considered under ASU 2022-02 include principal reductions, interest rate reductions, term extensions, or a combination. There were no modifications to loans where the borrower is considered to be experiencing financial difficulty for the three and nine months ended March 31, 2024.

There were no loans modified as troubled debt restructurings during the three and nine months ended March 31, 2023. There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to March 31, 2023 which subsequently defaulted during the three or nine months ended March 31, 2023.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans (dollars in thousands):

	March 31, 2024			
	Nonaccrual	Nonaccrual Loans With No Related Allowance	Past Due 90 Days Still on Accrual	Recognized Interest Income
Commercial:				
Real estate	$ 3,413	$ 3,413	$ 4	$ —
Commercial and industrial	96	—	—	—
Construction	—	—	—	—
Residential mortgages	3,480	—	—	—
Home equity loans and lines	1,696	—	—	—
Consumer	—	—	—	—
	$ 8,685	$ 3,413	$ 4	$ —

	June 30, 2023	
	Nonaccrual	Past Due 90 Days Still on Accrual
Commercial:		
Real estate	$ 8,025	$ 174
Commercial and industrial	650	—
Construction	—	3,237
Residential mortgages	4,000	120
Home equity loans and lines	1,560	—
Consumer	—	—
	$ 14,235	$ 3,531

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated loans.

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the operation or sale of the collateral.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans (dollars in thousands):

	March 31, 2024	
	Amortized Cost	Collateral Type
Commercial:		
Real estate	$ 4,081	Commercial Real Estate Property
Commercial and industrial	96	Business Assets
Construction	—	
Residential mortgages	—	
Home equity loans and lines	—	
Consumer	—	
	$ 4,177	

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

	March 31, 2024					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or more Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial:						
Real estate	$ 884	$ —	$ 4	$ 888	$ 414,303	$ 415,191
Commercial and industrial	17	—	—	17	97,255	97,272
Construction	—	—	—	—	107,445	107,445
Residential mortgages	1,263	845	429	2,537	603,870	606,407
Home equity loans and lines	1,025	262	661	1,948	90,878	92,826
Consumer	3	22	—	25	14,623	14,648
Total	$ 3,192	$ 1,129	$ 1,094	$ 5,415	$ 1,328,374	$ 1,333,789

	June 30, 2023					
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or more Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial:						
Real estate	$ 4,798	$ —	$ 4,458	$ 9,256	$ 401,909	$ 411,165
Commercial and industrial	678	100	352	1,130	96,177	97,307
Construction	—	—	3,237	3,237	89,477	92,714
Residential mortgages	1,257	1,327	762	3,346	459,850	463,196
Home equity loans and lines	1,340	64	540	1,944	83,533	85,477
Consumer	18	22	—	40	16,739	16,779
Total	$ 8,091	$ 1,513	$ 9,349	$ 18,953	$ 1,147,685	$ 1,166,638

The Company categorizes commercial loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings:

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

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

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

Commercial loans not meeting the criteria above are considered to be pass rated loans.

The Company grades residential mortgages, home equity loans and lines of credit and consumer loans as either non-performing or performing.

Non-performing – Loans that are over 90 days past due and still accruing interest or on nonaccrual.

Performing – Loans not meeting any of the above criteria are considered to be performing loans.

The following table presents loans summarized by segment and class, and the risk category (dollars in thousands):

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
March 31, 2024	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**			**Total**
Commercial real estate									
Risk Rating									
Pass	$ 22,777	$ 48,102	$ 51,352	$ 23,752	$ 51,701	$ 177,891	$ 1,965	$ —	$ 377,540
Special mention	—	—	—	—	16,542	6,628	—	—	23,170
Substandard	—	—	—	—	762	13,052	—	—	13,814
Doubtful	—	—	—	—	—	667	—	—	667
Total commercial real estate	$ 22,777	$ 48,102	$ 51,352	$ 23,752	$ 69,005	$ 198,238	$ 1,965	$ —	$ 415,191
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial									
Risk Rating									
Pass	$ 8,779	$ 7,713	$ 5,151	$ 3,172	$ 4,396	$ 8,003	$ 53,865	$ —	$ 91,079
Special mention	—	—	1,167	—	1,250	242	641	—	3,300
Substandard	—	—	17	122	66	2,424	141	—	2,770
Doubtful	—	—	—	—	—	27	96	—	123
Total commercial and industrial	$ 8,779	$ 7,713	$ 6,335	$ 3,294	$ 5,712	$ 10,696	$ 54,743	$ —	$ 97,272
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 345	$ —	$ —	$ 345
Commercial construction									
Risk Rating									
Pass	$ 18,574	$ 12,508	$ 48,167	$ 20,506	$ —	$ 5,419	$ 2,271	$ —	$ 107,445
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial construction	$ 18,574	$ 12,508	$ 48,167	$ 20,506	$ —	$ 5,419	$ 2,271	$ —	$ 107,445
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential mortgages									
Performing	$ 144,019	$ 210,686	$ 43,260	$ 57,324	$ 33,356	$ 114,170	$ 112	$ —	$ 602,927
Non-performing	—	—	545	—	590	2,345	—	—	3,480
Total residential mortgages	$ 144,019	$ 210,686	$ 43,805	$ 57,324	$ 33,946	$ 116,515	$ 112	$ —	$ 606,407
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 6	$ —	$ —	$ 6
Home equity loans and lines of credit									
Performing	$ 6,020	$ 6,720	$ 9,657	$ 3,664	$ 1,426	$ 14,028	$ 49,615	$ —	$ 91,130
Non-performing	—	—	102	—	—	653	941	—	1,696
Total home equity loans and lines of credit	$ 6,020	$ 6,720	$ 9,759	$ 3,664	$ 1,426	$ 14,681	$ 50,556	$ —	$ 92,826
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 12	$ —	$ 12
Consumer									
Performing	$ 1,334	$ 1,619	$ 115	$ 81	$ 22	$ 3,308	$ 8,169	$ —	$ 14,648
Non-performing	—	—	—	—	—	—	—	—	—
Total consumer	$ 1,334	$ 1,619	$ 115	$ 81	$ 22	$ 3,308	$ 8,169	$ —	$ 14,648
Current period gross charge-offs	$ 71	$ —	$ 21	$ —	$ 1	$ —	$ —	$ —	$ 93

The following table presents commercial loans summarized by class of loans and the risk category (dollars in thousands):

	June 30, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Real estate	$ 352,874	$ 1,977	$ 56,196	$ 118	$ 411,165
Commercial and industrial	89,245	1,614	6,448	—	97,307
Construction	91,805	—	909	—	92,714
	$ 533,924	$ 3,591	$ 63,553	$ 118	$ 601,186

The Company considered the performance of the loan portfolio and its impact on the allowance for loan losses. For residential mortgages, home equity loans and lines of credit and consumer loan classes, the Company also evaluated credit quality based on the aging status of the loan, which was previously presented, and by payment activity.

As of March 31, 2024 and June 30, 2023, the Company had pledged $ 606.5 million and $476.6 million respectively, of residential mortgage, home equity and commercial loans as collateral for FHLBNY borrowings and stand-by letters of credit.

6. DERIVATIVES

In the normal course of servicing our commercial customers, the Company acts as an interest rate swap counterparty for certain commercial borrowers. The Company manages its exposure to such interest rate swaps by entering into corresponding and offsetting interest rate swaps with third parties that match the terms of the interest rate swap with the commercial borrowers. These positions directly offset each other and the Company's exposure is the fair value of the derivatives due to potential changes in credit risk of our commercial borrowers and third parties.

The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. At March 31, 2024, the Company held derivatives not designated as hedging instruments, comprised of back-to-back interest rate swaps, with a total notional amount of $422.2 million, consisting of $211.1 million of interest rate swaps with commercial borrowers and $211.1 million of offsetting interest rate swaps with third-party counterparties on substantially the same terms. At June 30, 2023, the Company held derivatives not designated as hedging instruments, comprised of back-to-back interest rate swaps, with a total notional amount of $455.8 million, consisting of $227.9 million of interest rate swaps with commercial borrowers and $227.9 million of offsetting interest rate swaps with third-party counterparties on substantially the same terms.

The fair value of derivatives are classified as other assets and other liabilities on the consolidated statements of condition. The estimated fair value of derivatives not designated as hedging instruments are as follows (dollars in thousands):

	March 31, 2024	
	Derivative Assets	Derivative Liabilities
Gross interest rate swaps	$ 17,236	$ 17,236
Less: cash collateral applied	(17,100)	(16)
Net amount	$ 136	$ 17,220

	June 30, 2023	
	Derivative Assets	Derivative Liabilities
Gross interest rate swaps	$ 18,844	$ 18,844
Less: cash collateral applied	(18,160)	(16)
Net amount	$ 684	$ 18,828

Under terms of the agreements with the third-party counterparties, the Company provides cash collateral to the counterparty, when required, for the initial trade. Subsequent to the trade, the margin is exchanged in either direction, based upon the estimated fair value of the underlying contracts. At March 31, 2024, the Company had received $17.1 million and deposited $16,000 as collateral for swap agreements with third-party counterparties. At June 30, 2023, the Company had received $18.2 million and deposited $16,000 as collateral for swap agreements with third-party counterparties.

7. OTHER COMPREHENSIVE INCOME (LOSS)

Reclassifications out of accumulated other comprehensive income (loss) were as follows (dollars in thousands):

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended March 31,		Nine Months Ended March 31,		
	2024	2023	2024	2023	
Unrealized gains/losses on securities (before tax):					
Net losses included in net income	$ —	$ —	$ 5,645	$ —	Net loss on securities transactions
Tax benefit	—	—	(1,475)	—	Income tax expense
Net of tax	—	—	4,170	—	
Amortization of defined benefit plan items (before tax):					
Net actuarial gain	—	—	—	—	
Settlement recognition	—	—	—	—	Salaries and employee benefits
Tax benefit	—	—	—	—	Income tax expense
Net of tax	—	—	—	—	
Total reclassification for the period, net of tax	$ —	$ —	$ 4,170	$ —	

The balances and changes in the components of accumulated other comprehensive income (loss), net of tax, are as follows (dollars in thousands):

	For the Three Months Ended March 31,		
	Unrealized Gains/Losses on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
2024:			
Accumulated other comprehensive income (loss) as of January 1, 2024	$ (3,953)	$ 4,134	$ 181
Other comprehensive income before reclassifications	319	—	319
Amounts reclassified from accumulated other comprehensive income	—	—	—
Accumulated other comprehensive income (loss) as of March 31, 2024	$ (3,634)	$ 4,134	$ 500
2023:			
Accumulated other comprehensive loss as of January 1, 2023	$ (15,447)	$ (308)	$ (15,755)
Other comprehensive income before reclassifications	3,971	—	3,971
Accumulated other comprehensive loss as of March 31, 2023	$ (11,476)	$ (308)	$ (11,784)

	For the Nine Months Ended March 31,		
	Unrealized Gains/Losses on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
2024:			
Accumulated other comprehensive income (loss) as of July l, 2023	$ (13,702)	$ 4,134	$ (9,568)
Other comprehensive income before reclassifications	5,898	—	5,898
Amounts reclassified from accumulated other comprehensive income	4,170	—	4,170
Accumulated other comprehensive income (loss) as of March 31, 2024	$ (3,634)	$ 4,134	$ 500
2023:			
Accumulated other comprehensive loss as of July l, 2022	$ (10,872)	$ (308)	$ (11,180)
Other comprehensive loss before reclassifications	(604)	—	(604)
Accumulated other comprehensive loss as of March 31, 2023	$ (11,476)	$ (308)	$ (11,784)

The amounts of income tax expense (benefit) allocated to each component of other comprehensive income (loss) were as follows (dollars in thousands):

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Unrealized gains on securities:		
Unrealized holdings gains arising during the period	$ 114	$ 1,406
Reclassification adjustment for losses included in net income	—	—
	114	1,406
Defined benefit plans:		
Change in funded status	—	—
Reclassification adjustment for amortization of net actuarial loss	—	—
	—	—
	$ 114	$ 1,406

	For the Nine Months Ended March 31, 2024	For the Nine Months Ended March 31, 2023
Unrealized gains (losses) on securities:		
Unrealized holdings gains (losses) arising during the period	$ 2,089	$ (215)
Reclassification adjustment for losses included in net income	1,475	—
	3,564	(215)
Defined benefit plans:		
Change in funded status	—	—
Reclassification adjustment for amortization of net actuarial gain	—	—
	—	—
	$ 3,564	$ (215)

8. EMPLOYEE BENEFIT PLANS

The Company maintains a noncontributory defined benefit pension plan and a defined benefit post-retirement plan. Plan assets and obligations that determine the funded status are measured as of the end of the fiscal year.

Pension Plan

The Company maintains a noncontributory defined benefit pension plan covering substantially all of its full-time employees twenty-one years of age or older, with at least one year of service hired before September 1, 2019. Through December 31, 2009, pensions were paid as an annuity using a pension formula of 2.0% of the average of the five highest consecutive years of total compensation over the last ten years multiplied by credited service up to thirty years. Effective January 1, 2010, the plan was amended and service rendered thereafter is paid using a pension formula of 1.5%. Amounts contributed to the plan are determined annually on the basis of (a) the maximum amount allowable under Internal Revenue Service regulations and (b) the amount certified by a consulting actuary as necessary to avoid an accumulated funding deficiency as defined by the Employee Retirement Income Security Act of 1974 ("ERISA"). The defined benefit pension plan was amended, effective August 31, 2019, to close the plan to new employees hired on or after September 1, 2019, therefore, no new employees hired on or after September 1, 2019 would be eligible to participate in the defined benefit pension plan.

Net periodic pension cost included in salaries and employee benefits in the Company's consolidated statements of operations included the following components (dollars in thousands):

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2024	2023	2024	2023
Service cost	$ 230	$ 383	$ 877	$ 1,150
Interest cost	379	471	1,299	1,414
Expected return on plan assets	(533)	(673)	(1,846)	(2,020)
Net periodic pension cost	$ 76	$ 181	$ 330	$ 544

Contributions

For the three and nine months ended March 31, 2024 and 2023, the Company made no cash contributions to the plan.

Post-Retirement Healthcare Plan

The Company offers a defined benefit post-retirement plan which provides medical and life insurance benefits to employees meeting certain requirements. Effective October 1, 2006, the plan was amended so that there have been no new plan participants for medical benefits. The cost of post-retirement plan benefits is recognized on an accrual basis as employees perform services. Active employees are eligible for retiree medical coverage upon reaching age sixty with twenty-five or more years of service. Employees with a minimum of thirty years of service are eligible for individual and spousal coverage. Retirees are eligible to participate in any bank-sponsored health insurance programs. The Company's contributions for retiree medical are limited to a monthly premium of $210 for individual coverage and $420 for employee and spousal coverage. The Company's funding policy is to pay insurance premiums as they come due.

Net periodic post-retirement benefit cost included in salaries and employee benefits in the Company's consolidated statements of operations included the following components (dollars in thousands):

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2024	2023	2024	2023
Service cost	$ 6	$ 5	$ 18	$ 16
Interest cost	19	17	57	51
Amortization of net actuarial gain	(10)	(4)	(30)	(12)
Net periodic post-retirement benefit cost	$ 15	$ 18	$ 45	$ 55

Employee Stock Ownership Plan

On July 17, 2019, the Company established an Employee Stock Ownership Plan ("ESOP") to provide eligible employees the opportunity to own Company stock. The ESOP is a tax-qualified retirement plan for the benefit of Company employees. The Company granted loans to the ESOP for the purchase of 1,018,325 shares of the Company's common stock at an average price of $13.40 per share. The loan obtained by the ESOP from the Company to purchase the common stock is payable annually over 20 years at a rate per annum equal to the Prime Rate. Loan payments are principally funded by cash contributions from the Bank. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. The balance of the ESOP loan at March 31, 2024 was $11.0 million. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax limits. The number of shares committed to be released annually is 50,916 through the year 2038. Participants may receive the shares at the end of employment.

Shares held by the ESOP include the following:

	As of March 31,	
	2024	2023
Allocated	254,580	203,664
Committed to be allocated	12,729	12,729
Unallocated	751,016	801,932
Total shares	1,018,325	1,018,325

Total compensation expense recognized in connection with the ESOP for the three and nine months ended March 31, 2024 was $122,000 and $351,000, respectively.

Total compensation expense recognized in connection with the ESOP for the three and nine months ended March 31, 2023 was $140,000 and $401,000, respectively.

9. COMMITMENTS AND CONTINGENT LIABILITIES

Off-Balance-Sheet Financing and Concentrations of Credit

The Company is a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include the Company's commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated statements of condition. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contractual notional amounts of those instruments which are presented in the tables below (dollars in thousands). The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

	March 31, 2024		
	Fixed Rate	Variable Rate	Total
Financial instruments whose contract amounts represent credit risk (including unused lines of credit and unadvanced loan funds):			
Commitments to extend credit	$ 18,804	$ 246,215	$ 265,019
Standby letters of credit	—	20,816	20,816
	$ 18,804	$ 267,031	$ 285,835

	June 30, 2023		
	Fixed Rate	Variable Rate	Total
Financial instruments whose contract amounts represent credit risk (including unused lines of credit and unadvanced loan funds):			
Commitments to extend credit	$ 20,541	$ 277,088	$ 297,629
Standby letters of credit	—	28,372	28,372
	$ 20,541	$ 305,460	$ 326,001

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 require payment of a fee. Since certain commitments are expected to expire without being fully drawn, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if any, required by the Company for the extension of credit is based on management's credit evaluation of the customer.

Commitments to extend credit may be written on a fixed rate basis thus exposing the Company to interest rate risk, given the possibility that market rates may change between commitment and actual extension of credit.

Standby letters of credit are conditional commitments issued by the Company to guarantee payment on behalf of a customer or to guarantee the performance of a customer to a third party. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Since a portion of these instruments will expire unused, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance-sheet instruments. Bank policies governing loan collateral apply to standby letters of credit at the time of credit extension.

Certain residential mortgage loans are written on an adjustable basis and include interest rate caps which limit annual and lifetime increases in interest rates. Generally, adjustable rate mortgages have an annual rate increase cap of 2% to 5% and lifetime rate increase cap of 5% to 6% above the initial loan rate. These caps expose the Company to interest rate risk should market rates increase above these limits. At March 31, 2024, approximately $268.9 million of adjustable rate residential mortgage loans had interest rate caps. In addition, certain adjustable rate residential mortgage loans have a conversion option whereby the borrower may elect to convert the loan to a fixed rate during a designated time period. At March 31, 2024, approximately $520,000 of the adjustable rate mortgage loans had conversion options.

The Company periodically sells residential mortgage loans to the Federal National Mortgage Association ("FNMA"). At March 31, 2024 and June 30, 2023, the Bank had no loans held for sale. In addition, the Bank had no loan commitments with borrowers at March 31, 2024 and June 30, 2023 with rate lock agreements which are intended to be held for sale, if closed. The Company generally determines whether or not a loan is held for sale at the time that loan commitments are entered into or at the time a convertible adjustable-rate mortgage loan converts to a fixed interest rate. In order to reduce the interest rate risk associated with the portfolio of loans held for sale, as well as loan commitments with locked interest rates which are intended to be held for sale if closed, the Company enters into agreements to sell loans in the secondary market. At March 31, 2024 and June 30, 2023, the Company had no commitments to sell loans to unrelated investors.

Concentrations of Credit

The Company primarily grants loans to customers located in the New York State counties of Albany, Greene, Rensselaer, Schenectady, Saratoga, and Warren. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the real estate and construction-related sectors of the economy, and general economic conditions in the Company's market area.

Legal Proceedings and Other Contingent Liabilities

In the ordinary course of business, the Company and the Bank are involved in a number of legal, regulatory, governmental and other proceedings, claims or investigations that could result in losses, including damages, fines and/or civil penalties, which could be significant concerning matters arising from the conduct of their business, including the matters described below. In view of the inherent difficulty of predicting the outcome of such matters, particularly where the claimants seek large or indeterminate damages, the Company generally cannot predict the eventual outcome of the pending matters, timing of the ultimate resolution of these matters, or eventual loss, fines or penalties related to each pending matter. In accordance with applicable accounting guidance, the Company will establish an accrued liability when those matters present loss contingencies that are both probable and estimable. The Company's estimates of potential losses will change over time and the actual losses may vary significantly, and there may be an exposure to loss in excess of any amounts accrued. As a matter develops, management, in conjunction with any outside counsel handling the matter, evaluate on an ongoing basis whether such matter presents a loss contingency that is probable and estimable; or where a loss is reasonably possible, whether in excess of a related accrued liability or where there is no accrued liability, whether it is possible to estimate a range of possible loss. Once the loss contingency is deemed to be both probable and estimable, the Company establishes an accrued liability and records a corresponding amount of litigation-related expense. The Company continues to monitor the matters for further developments that could affect the amount of the accrued liability that has been previously established. Excluding legal fees and expenses, litigation-related expense of $0 was recognized for the three and nine months ended March 31, 2024 and 2023. For those matters for which a loss is reasonably possible and estimable, whether in excess of an accrued liability or where there is no accrued liability, the Company's estimated range of possible loss is $0 to $54.4 million in excess of the accrued liability, if any, as of March 31, 2024. These estimates are based upon currently available information and are subject to significant judgment, a variety of assumptions and known and unknown uncertainties. The matters underlying the accrued liability and estimated range of possible losses are unpredictable and may change from time to time, and actual losses may vary significantly from the current estimate and accrual. The estimated range of possible loss does not represent the Company's maximum loss exposure.

Information is provided below regarding the nature of the matters and associated claimed damages. The Company and the Bank are defending each of these matters vigorously, and the Company believes that it and the Bank have substantial defenses, including affirmative defenses, counterclaims and cross-claims to the various allegations that have been asserted. In light of the significant judgment, variety of assumptions and uncertainties involved in the matters described below, some of which are beyond the Company's control, and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters, or matters related to or resulting from the matters described below, could have an adverse material impact on the Company's business, prospects, financial condition, results of operations, cash flows, or cause significant reputational harm and subject the Company to face civil litigation, significant fines, damage awards or other material regulatory consequences.

Mann Entities Related Fraudulent Activity

During the first fiscal quarter of 2020 (the quarter ended September 30, 2019), the Company became aware of potentially fraudulent activity associated with transactions by an established business customer of the Bank. The customer and various affiliated entities (collectively, the “Mann Entities”) had numerous accounts with the Bank. The transactions in question related both to deposit and lending activity with the Mann Entities.

For the fraudulent activity related to the Mann Entities, the Bank’s potential monetary exposure with respect to its deposit activity was approximately $18.5 million. In the first fiscal quarter of 2020, the Bank exercised its rights pursuant to state and federal law and the relevant Mann Entity general deposit account agreements to take actions to set off/recover approximately $16.0 million from general deposit corporate operating accounts held by the Mann Entities at the Bank to partially cover overdrafts/negative account balances in Mann Entity general deposit corporate operating accounts that primarily resulted from another bank returning/calling back $15.6 million in checks on August 30, 2019, that the Mann Entities had deposited into and then withdrawn from their accounts at the Bank the day before. In the first fiscal quarter of 2020, the Bank recognized a charge to non-interest expense in the amount of $2.5 million based on the net negative deposit balance of the various Mann Entities’ accounts after the setoffs/overdraft recoveries. Through March 31, 2024, no additional charges to non-interest expense were recognized related to the deposit transactions with the Mann Entities.

With respect to the Bank’s lending activity with the Mann Entities, its potential exposure was approximately $ 15.8 million (which represents the Bank’s participation interest in the approximately $35.8 million commercial loan relationships for which the Bank is the originating lender). In the fourth fiscal quarter of 2019, the Bank recognized a provision for loan losses in the amount of $15.8 million, related to the charge-off of the entire principal balance owed to the Bank related to the Mann Entities’ commercial loan relationships. During the third fiscal quarter of 2020 and the first fiscal quarter of 2021, the Bank recognized partial recoveries in the amount of $1.7 million and $34,000, respectively, related to the charge-off of the Mann Entities’ commercial loan relationships, which were credited to the allowance for loan losses. Through March 31, 2024, no additional charges to the provision for credit losses and no additional recoveries related to the charge-off of the loans were recognized related to the loan transactions with the Mann Entities.

Several other parties and regulatory agencies are asserting claims against the Company and the Bank related to the series of transactions between the Company or the Bank, on the one hand, and the Mann Entities, on the other. The Company and the Bank continue to investigate these matters and it is possible that the Company and the Bank will be subject to similar legal, regulatory, governmental or other proceedings and additional liabilities. The ultimate timing and outcome of any such proceedings, involving the Company, or the Bank, cannot be predicted with any certainty. It also remains possible that other private parties or governmental bodies will pursue existing or additional claims against the Bank as a result of the Bank’s dealings with certain of the Mann Entities or as a result of the actions taken by the Company or the Bank. The Company’s and the Bank’s legal fees and expenses related to these actions are significant and are expected to continue being significant. In addition, costs associated with potentially prosecuting, litigating or settling any litigation, satisfying any adverse judgments, if any, or other proceedings, could be significant. These legal, regulatory, governmental and other proceedings, claims or investigations, costs, settlements, judgments, sanctions or other expenses could have a material adverse effect on the Company’s business prospects, financial condition, results of operations or cash flows or cause significant reputational harm and subject the Company to face civil litigation, significant fines, damage awards or other material regulatory consequences. The Company is pursuing all available sources of recovery and other means of mitigating the potential loss, and the Company and the Bank are vigorously defending all claims asserted against them arising out of or otherwise related to the fraudulent activity of the Mann Entities. During the nine months ended March 31, 2024 and 2023, the Bank recognized insurance recoveries in the amount of $1.2 million and $2.5 million, respectively, related to the partial reimbursement of defense costs incurred as a result of these matters, which were credited to noninterest expense – professional fees on the consolidated statements of operations. Going forward, the Bank does not expect to recognize any such insurance recoveries, as the applicable policy limits and deductibles have been exceeded. For a fuller recitation of the procedural history of each of the matters summarized below, please refer to the Company’s earlier periodic filings on Forms 10-Q and 10-K. The Pioneer Parties (as defined below) vigorously dispute the assertions and claims in each of the matters noted below.

Legal Proceedings

On October 31, 2019, Southwestern Payroll Services, Inc. ("Southwestern") filed a complaint against the Company and the Bank ("Pioneer Parties"), Michael T. Mann, Valuewise Corporation, MyPayrollHR, LLC and Cloud Payroll, LLC (collectively, the "Mann Parties") in the United States District Court for the Northern District of New York. On April 10, 2023, the Court entered a memorandum decision and order granting Southwestern leave to file a third amended complaint adding Granite Solutions Groupe, Inc. ("Granite Solutions") as a plaintiff and asserting claims against the Pioneer Parties for declaratory judgment, conversion, fraud, negligence/gross negligence, unjust enrichment/money had and received, violations of the Racketeer Influenced and Corrupt Organizations ("RICO") Act, aiding and abetting conversion, and aiding and abetting fraud. Southwestern and Granite Solutions filed the third amended complaint on April 26, 2023. The third amended complaint seeks a monetary judgment of at least $39.0 million, allegedly comprised of compensatory damages in excess of $ 13.0 million, penalties and interest, treble damages, and punitive damages. The Pioneer Parties filed their answer to the third amended complaint on May 12, 2023. In addition to denying that Southwestern or Granite Solutions is entitled to any of the relief sought in the third amended complaint, the Pioneer Parties asserted numerous affirmative defenses, as well as counterclaims against Southwestern and cross-claims against certain of the Mann Parties for common law fraud under New York law and violations of RICO. The Pioneer Parties contend that the actions of Southwestern and certain of the Mann Parties have resulted in damages to the Pioneer Parties comprised of compensatory damages, treble damages, and attorneys' fees and costs. The Pioneer Parties seek to recover these damages jointly and severally against all counterclaim and cross-claim defendants. Southwestern filed its answer to the counterclaims on June 2, 2023. The parties currently are due to file any motions for summary judgment on or before June 3, 2024.

On December 10, 2019, National Payment Corp. ("NatPay") filed a motion to intervene as a plaintiff in Southwestern's lawsuit against the Pioneer Parties and the Mann Parties as described above. On August 4, 2020, the magistrate judge issued a decision recommending that NatPay be allowed to intervene, which was subsequently accepted by the Court. NatPay filed its complaint in intervention on August 18, 2020. On April 10, 2023, the Court entered a memorandum decision and order granting NatPay leave to file an amended complaint asserting claims against the Pioneer Parties for declaratory judgment, conversion, fraud, negligence/gross negligence, unjust enrichment/money had and received, violations of RICO, aiding and abetting conversion, and aiding and abetting fraud. NatPay filed its amended complaint on April 13, 2023. The amended complaint seeks a monetary judgment of at least $11.4 million, allegedly comprised of compensatory damages in excess of $3.8 million, penalties and interest, treble damages, and punitive damages. The Pioneer Parties filed their answer to NatPay's amended complaint on May 12, 2023. In addition to denying that NatPay is entitled to any of the relief sought in the third amended complaint, the Pioneer Parties asserted numerous affirmative defenses, as well as counterclaims against NatPay and cross-claims against certain of the Mann Parties for violations of RICO. The Pioneer Parties contend that the actions of NatPay and certain of the Mann Parties have resulted in damages to the Pioneer Parties comprised of compensatory damages, treble damages, and attorneys' fees and costs. The Pioneer Parties seek to recover these damages jointly and severally against all counterclaim and cross-claim defendants. On June 23, 2023, NatPay filed a motion to dismiss the counterclaims and certain affirmative defenses of the Pioneer Parties. The Pioneer Parties filed their opposition to the motion on July 21, 2023, and the motion was fully briefed and submitted to the Court for decision on August 4, 2023. On December 21, 2023, the Court entered an order granting NatPay's motion. On January 18, 2024, the Pioneer Parties filed a motion for reconsideration of the Court's order and for leave to amend their answer and counterclaims. On April 3, 2024, the Court entered an order granting the Pioneer Parties leave to amend their answer and counterclaims. The Pioneer Parties thereafter filed their amended answer and counterclaims on April 15, 2024. NatPay filed its reply to amended counterclaims on April 29, 2024. The parties currently are due to file any motions for summary judgment on or before June 3, 2024.

On January 21, 2020, Cachet Financial Services ("Cachet"), a third-party automated clearing house service provider, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the Central District of California, Los Angeles Division ("Bankruptcy Court"). The Bank is not listed as a creditor in the bankruptcy proceedings. On January 20, 2022, Cachet filed an adversary proceeding complaint against the Pioneer Parties in the Bankruptcy Court. On February 16, 2023, Cachet filed an amended complaint in lieu of responding to the Pioneer Parties' motion to dismiss. The amended complaint, like the initial complaint, alleges Michael T. Mann stole approximately $26.4 million from Cachet in August 2019 by manipulating Cachet's "batch file specifications," and that Mann subsequently caused approximately $8.5 million of those purportedly stolen funds to be deposited into accounts held by companies owned by Mann at Pioneer Bank. Cachet alleges Pioneer Bank refused Cachet's request to return the approximately $8.5 million in purportedly stolen funds to Cachet. Cachet's complaint asserts causes of action against the Pioneer Parties for avoidance and recovery of constructive fraudulent transfers, conversion, unjust enrichment, money had and received, violation of California Penal Code § 496(a), violations of RICO, aiding and abetting fraud, and declaratory relief. Cachet asserts "actual damages" of approximately $8.5 million, seeks three times its actual damages on its Section 496(a) claim (or approximately $ 25.6 million), and costs of suit and attorneys' fees. Cachet also seeks "treble damages according to proof and attorneys' fees," and for its aiding abetting fraud claim, Cachet seeks "general, consequential and special damages in an amount to be proven at trial." On April 28, 2023, the Pioneer Parties filed a motion to dismiss the amended complaint. On September 6, 2023, the Court entered an order granting in part and denying in part the Pioneer Parties' motion. In particular, the Court dismissed Cachet's claims for violations of RICO, violation of California Penal Code § 496(a), aiding and abetting fraud and conversion, and for declaratory relief. The Court denied the Pioneer Parties' motion as to the claims for conversion, unjust enrichment, and money had and received. The Court permitted Cachet to file a second amended complaint. On September 20, 2023, Cachet filed a motion for reconsideration of the Court's Order. The Pioneer Parties filed their opposition on October 26, 2023, and Cachet filed its reply on November 2, 2023. On November 16, 2023, the Court entered an order granting the motion to the extent of clarifying certain rulings in the September 6, 2023 order relating to the denial of the motion to dismiss as to Cachet's conversion claim and the dismissal of Cachet's RICO claim. Cachet initially filed its second amended complaint on February 5, 2024, but pursuant to a stipulation and order entered on February 29, 2024, Cachet withdrew that version of the second amended complaint and filed a revised second amended complaint on April 8, 2024. The second amended complaint asserts claims for conversion, unjust enrichment, money had and received, violations of RICO, and aiding and abetting conversion and fraud. On May 8, 2024, the Pioneer Parties filed a motion to dismiss the second amended complaint. Subject to the Court's approval, the parties have agreed that Cachet's deadline to file any opposition to the Pioneer Parties' motion will be June 13, 2024, and the Pioneer Parties' deadline to file any reply in further support of the motion will be June 27, 2024.

On February 4, 2020, Berkshire Hills Bancorp Inc.'s wholly owned subsidiary Berkshire Bank ("Berkshire Bank") filed a complaint against the Bank in the Supreme Court of the State of New York for Albany County resulting from Berkshire Bank's participation interest in the commercial loan relationship to the Mann Entities. The complaint alleges that the Bank breached the amended and restated loan participation agreement between the Bank and Berkshire Bank dated as of June 27, 2018, breached the amended and restated loan participation agreement between the Bank and Berkshire Bank dated as of August 12, 2019, engaged in constructive fraud, engaged in fraudulent inducement, engaged in fraudulent concealment, and negligently misrepresented certain material information. The complaint seeks to recover $15.6 million and additional damages. On November 30, 2022, Berkshire Bank filed an amended complaint asserting substantially similar claims to those asserted in the original complaint, except that it excised the claim for negligent misrepresentation that the Court previously had dismissed, and included claims for breach of the loan participation agreement between the Bank and Berkshire Bank dated as of June 29, 2017 and separate claims for fraudulent inducement with respect to each of the three loan participation agreements. On January 30, 2023, the Bank filed its answer to the amended complaint and asserted counterclaims against Berkshire Bank for breach of the amended and restated loan participation agreement between the Bank and Berkshire Bank dated as of August 12, 2019, as well as a claim for a declaratory judgment that Berkshire Bank ratified the agreement and may not contest its validity. This matter is currently in discovery.

On February 4, 2020, Chemung Financial Corporation's wholly owned subsidiary, Chemung Canal Trust Company ("Chemung"), filed a complaint against the Bank in the Supreme Court of the State of New York for Albany County resulting from Chemung's participation interest in the commercial loan relationship to the Mann Entities. The complaint alleges that the Bank breached the participation agreement between the Bank and Chemung dated as of August 12, 2019, engaged in fraudulent activities, engaged in constructive fraud, and negligently misrepresented and omitted certain material information. The complaint seeks to recover $4.2 million and additional damages. On July 21, 2023, Chemung filed an amended complaint that asserts the same causes of actions as the original complaint (except that it excised the claim for negligent misrepresentation previously dismissed by the Court), but includes additional factual allegations. On September 19, 2023, the Bank filed its answer to the amended complaint and asserted counterclaims against Chemung for breach of the loan participation agreement between the Bank and Chemung dated as of August 12, 2019, as well as a claim for a declaratory judgment that Chemung ratified the agreement and may not contest its validity. This matter is currently in discovery.

On April 30, 2020, the U.S. Department of Justice ("DOJ"), with the authorization of a delegate of the Secretary of the Treasury, filed a civil complaint against the Company and the Bank (and Cloud Payroll, LLC) in the United States District Court for the Northern District of New York. The complaint alleges, among other things, that the Pioneer Parties wrongfully set off approximately $7.3 million from an account held by Cloud Payroll to apply towards debts allegedly owed to the Bank by Cloud Payroll and other affiliates of Michael Mann. The complaint alleges that the funds in question were comprised of payroll taxes and thus subject to a statutory trust under 26 U.S.C. § 7501 that prohibited the Bank from setting off those funds to apply towards debts owed to the Bank. The complaint seeks return of any payroll taxes, plus interest. On October 21, 2020, the DOJ filed an amended complaint that dropped one of the DOJ's claims against the Pioneer Parties but continues to seek return of any payroll taxes, plus interest. The amended complaint relates to the same set of facts described above in "Mann Entities Related Fraudulent Activity", and the alleged payroll taxes, plus interest, sought in this proceeding may be part of the recovery sought in the Southwestern and NatPay complaints described above. On November 4, 2020, the Pioneer Parties filed their answer and affirmative defenses to the DOJ's amended complaint. On November 15, 2023, the Court entered an order staying discovery until January 16, 2024 to allow the parties to continue discussions about a potential resolution of the matter. On January 12, 2024, the parties filed a joint letter with the Court requesting an extension of the discovery stay until March 18, 2024 to enable the parties to finalize resolution of the matter. On January 16, 2024, the Court entered an order granting the requested extension. On March 15, 2024, after reaching a confidential settlement agreement, the parties filed a stipulation of dismissal of the action with prejudice, which the Court approved on March 18, 2024.

On August 31, 2020, AXH Air-Coolers, LLC ("AXH") filed a complaint against the Pioneer Parties, and unnamed employees of the Pioneer Parties in the United States District Court for the Northern District of New York. The complaint alleges that the Pioneer Parties wrongfully converted certain tax funds belonging to AXH, were unjustly enriched by the wrongful taking of tax funds belonging to AXH, and were grossly negligent in allowing AXH's tax funds to be misappropriated, offset, converted, or stolen. The prayer for relief in AXH's complaint seeks $336,000, plus penalties and interest, attorney's fees, and punitive damages. The complaint relates to the same set of facts as the DOJ complaint as described above, and the alleged taxes sought in the DOJ, Southwestern, and NatPay complaints. On August 12, 2022, AXH filed an amended complaint asserting gross negligence, unjust enrichment, and accounting claims against the Pioneer Parties. The amended complaint seeks the same relief as in the original complaint. On August 26, 2022, the Pioneer Parties filed their answer to the amended complaint. This matter is currently in discovery.

On December 1, 2020, the Bank filed a complaint in the Supreme Court of the State of New York against Teal, Becker & Chiaramonte, CPAs, P.C. ("TBC"), Mr. Pasquale M. Scisci and Mr. Vincent Commisso (collectively, with TBC, the "TBC Parties"), alleging professional malpractice by the TBC Parties in auditing the annual consolidated financial statements of Valuewise Corporation and its subsidiaries ("Valuewise Entities") for the fiscal years 2010 to 2018. The Bank asserts that the TBC Parties were aware that the primary, if not the exclusive, reason the Valuewise Entities engaged TBC to audit their financial statements was to provide the Bank with accurate financial information that the Bank would rely on in evaluating whether to provide loans to the Valuewise Entities. The Bank contends that, among other matters, Mr. Michael Mann used the Valuewise Entities to defraud the Bank because of the professional malpractice of the TBC Parties and that if the TBC Parties had not committed professional malpractice by issuing unqualified "clean" opinions on the financial statements of the Valuewise Entities for fiscal years 2010 to 2018, the Bank would never have continued loaning money to the Valuewise Entities. The Bank seeks to recover damages of at least $34.1 million (plus interest) sustained by it as a result of the professional malpractice of the TBC Parties. The TBC Parties filed their answer to the Bank's complaint on February 12, 2021. On February 28, 2022, the TBC Parties filed a motion to dismiss the complaint. On October 4, 2022, the Court entered a decision and order denying the motion in its entirety. On November 15, 2023, the Bank and the TBC Parties entered into a settlement agreement pursuant to which the parties agreed to resolve and settle all disputes and potential claims which exist or may exist among them, including without limitation those claims asserted in the action. Pursuant to the settlement agreement, the TBC Parties made a payment of $5.95 million to the Bank, in exchange for which the Bank caused the action to be dismissed with prejudice.

On May 14, 2021, the Bank filed a verified petition for a hearing, pursuant to 21 U.S.C. § 853(n)(2), to adjudicate the validity of the Bank's interest in approximately $14.9 million in cash and securities forfeited by Michael Mann pursuant to a preliminary order of forfeiture in *U.S. v. Mann* filed in United States District Court for the Northern District of New York. The Bank's petition alleges that it has a valid security interest in the forfeited property, and that the forfeited property should thus be turned over to the Bank. On June 28, 2021, the government filed a motion to dismiss the Bank's petition. On July 30, 2021, the Bank filed opposition to the government's motion to dismiss the Bank's petition. On August 13, 2021, the government filed a reply to the Bank's opposition to the government's motion to dismiss the Bank's petition. On October 14, 2022, the magistrate judge assigned to the case entered a report and recommendation recommending the motion to dismiss the Bank's petition be granted in part and denied in part. On October 28, 2022, the Bank filed an objection to the magistrate judge's report and recommendation. The government filed its opposition to the Bank's objection on November 21, 2022. On April 5, 2024, the district judge entered an order overruling the Bank's objection and affirming the magistrate judge's report and recommendation. The court ordered the matter to proceed to a hearing but has not yet set a date for the hearing.

On September 2, 2022, two substantially similar putative class action complaints were filed against the Pioneer Parties in the Supreme Court of the State of New York for Albany County. The first complaint was filed by Brandes & Yancy PLLC and Ricardo's Restaurant, Inc., two alleged clients of Southwestern which seek to assert claims on behalf of all current or former Southwestern clients based on the same set of facts as the DOJ, AXH, and Granite Solutions complaints as described above, and the alleged taxes sought in the DOJ, Southwestern, and NatPay complaints. The second complaint was filed by O'Malley's Oven LLC and Legat Architects, Inc., two alleged clients of MyPayrollHR.Com, LLC and ProData Payroll Services, Inc., affiliates of Cloud Payroll, LLC (collectively, "Cloud Payroll"). Similar to the first complaint described above, the two named plaintiffs in the second complaint seek to assert claims on behalf of all current or former Cloud Payroll clients based on the same set of facts as the DOJ, AXH, and Granite Solutions complaints as described above, and the alleged taxes sought in the DOJ, Southwestern, and NatPay complaints. Both complaints assert claims against the Pioneer Parties for conversion, gross negligence, unjust enrichment, money had and received, tortious interference with contract, aiding and abetting fraud, and a declaratory judgment. Both complaints also seek to recover compensatory and punitive damages, plus pre-judgment interest, costs, expenses, disbursements, and reasonable attorneys' fees. The Pioneer Parties acknowledged service of the complaints as of December 30, 2022. On February 28, 2023, the Pioneer Parties filed motions to dismiss the complaints. On April 7, 2023, the plaintiffs filed amended complaints that assert the same causes of action but include additional allegations. On April 27, 2023, the Pioneer Parties elected to withdraw their pending motions to dismiss and file renewed motions to dismiss the amended complaints. The Pioneer Parties filed renewed motions to dismiss on June 26, 2023. On August 25, 2023, plaintiffs in both putative class actions filed their responses to the renewed motions to dismiss filed by the Pioneer Parties. On October 6, 2023, the Pioneer Parties filed their reply to the response of the plaintiffs. On February 1, 2024, the court entered an order, on its own motion, staying both actions pending the outcome of the ongoing, earlier-filed federal litigation described above. The court instructed the parties to provide a joint written update as to the status of the federal litigation by July 31, 2024.

On December 6, 2023, Sidra Riggins filed a putative class action complaint against the Bank in the United States District Court for the Northern District of New York. The plaintiff is an alleged customer of the Bank who asserts claims for breach of contract, unjust enrichment, violation of New York General Business Law § 349, and violation of the Electronic Funds Transfer Act, 15 U.S.C. §§ 1693 *et seq.* The plaintiff's claims concern alleged practices of the Bank relating to fees that the Bank allegedly assessed in connection with certain types of overdrafts or transaction items returned for insufficient funds. The plaintiff seeks to assert her claims on behalf of the following individuals: (i) New York citizens who held checking accounts at the Bank and were assessed an overdraft fee on a debit card transaction that was authorized on sufficient funds and settled on negative funds in the same amount for which the debit card transaction was authorized; (ii) New York citizens who are assessed multiple fees on a transaction item in a checking account held at the Bank; and (iii); New York citizens who were assessed an overdraft fee on a transaction that did not overdraw the account. The Bank acknowledged service of the complaint on January 3, 2024. On March 4, 2024, the Bank moved to dismiss the complaint in its entirety. On March 22, 2024, the plaintiff filed an amended complaint in lieu of responding to the Bank's motion. On April 5, 2024, the Bank moved to dismiss the amended complaint in its entirety. The plaintiff's opposition to the motion is due to be filed on May 28, 2024, and the Bank's reply in further support of the motion is due to be filed on June 18, 2024. The Bank vigorously disputes the assertions and claims in this matter.

The Company and the Bank have received inquiries and requests for information from regulatory agencies relating to some of the entities and events that are the subjects of certain lawsuits described above. This has resulted in, or may in the future result in, regulatory agency investigations, litigation, subpoenas, enforcement actions, and related sanctions or costs. The Company and the Bank continue to cooperate with inquiries and respond to requests as appropriate.

The New York State Department of Financial Services (the "NYSDFS") has made requests for production of documents, conducted interviews with Bank employees, and taken other investigatory actions with respect to the Bank's practices associated with the Mann Parties. The Bank has complied with these requests, producing responsive, non-privileged documents to the NYSDFS. In Summer 2021, NYSDFS informed the Bank that if the parties could not reach a negotiated resolution related to NYSDFS's findings arising from the Bank's practices associated with the Mann Parties, NYSDFS would proceed to an administrative hearing on the issue. It is unknown whether the parties will be able to resolve the matter. A resolution could involve monetary penalties, injunctive relief, and other regulatory consequences. The monetary penalties could be up to $30.0 million, though, $15.0 million of these potential monetary penalties relate to and are not incremental to the damages sought by the plaintiffs in the Southwestern, NatPay, DOJ, Cachet, AXH, Granite Solutions, and putative class action proceedings described in this section.

10. FAIR VALUE

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

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

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

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

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

The fair value of interest rate swaps are based on valuation models using observable market data as of the measurement date (Level 2). The fair value of derivatives are classified as a component of other assets and other liabilities on the consolidated statements of condition.

The fair value of individually analyzed loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments result in a Level 3 classification of the inputs for determining fair value.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments result in a Level 3 classification of the inputs for determining fair value.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below (dollars in thousands):

	Fair Value	Fair Value Measurements at March 31, 2024 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S. Government and agency obligations	$ 271,785	$ 271,785	$ —	$ —
Municipal obligations	24,642	—	24,642	—
Other debt securities	466	—	466	
Total available for sale securities	296,893	271,785	25,108	—
Derivative assets	136	—	136	—
Total	$ 297,029	$ 271,785	$ 25,244	$ —
Liabilities:				
Derivative liabilities	$ 17,220	$ —	$ 17,220	$ —
Total	$ 17,220	$ —	$ 17,220	$ —

	Fair Value	Fair Value Measurements at June 30, 2023 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
U.S. Government and agency obligations	$ 377,729	$ 377,729	$ —	$ —
Municipal obligations	53,434	—	53,434	—
Other debt securities	504	—	504	
Total available for sale securities	431,667	377,729	53,938	—
Equity securities	2,413	2,413	—	—
Derivative assets	684	—	684	—
Total	$ 434,764	$ 380,142	$ 54,622	$ —
Liabilities:				
Derivative liabilities	$ 18,828	$ —	$ 18,828	$ —
Total	$ 18,828	$ —	$ 18,828	$ —

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below (dollars in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024				
Individually evaluated loans:				
Commercial loans	$ 539	$ —	$ —	$ 539
June 30, 2023				
Impaired loans:				
Commercial loans	$ 539	$ —	$ —	$ 539

Individually evaluated loans, which are assets measured at fair value on a non-recurring basis, using the fair value of collateral for collateral dependent loans, had a carrying amount of $764,000 with a valuation allowance of $ 225,000 resulting in an estimated fair value of $539,000 as of March 31, 2024. Individually evaluated loans had a carrying amount of $ 1.3 million with a valuation allowance of $792,000 resulting in an estimated fair value of $ 539,000 as of June 30, 2023.

The Company had no other real estate owned at March 31, 2024 or June 30, 2023.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands):

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Range (Weighted Average)
March 31, 2024				
Individually evaluated loans:				
Commercial loans	$ 539	Appraisal of collateral (1)	Liquidation expense (2)	11.0%
June 30, 2023				
Impaired loans:				
Commercial loans	$ 539	Appraisal of collateral (1)	Liquidation expense (2)	11.0%

(1) Fair value is generally determined through independent appraisals of the underlying collateral that generally include various level 3 inputs which are not identifiable.
(2) Estimated selling costs.

The carrying and estimated fair values of financial assets and liabilities were as follows (dollars in thousands):

	March 31, 2024				
			Fair Value Measurements Using		
	Carrying Amount	Estimated Fair Value	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 246,541	$ 246,541	$ 246,541	$ —	$ —
Securities available for sale	296,893	296,893	271,785	25,108	—
Securities held to maturity	23,317	20,793	—	20,793	—
FHLBNY stock	1,421	1,421	—	1,421	—
Net loans receivable	1,312,189	1,259,330	—	—	1,259,330
Accrued interest receivable	7,688	7,688	—	7,688	—
Derivative assets	136	136	—	136	—
Financial liabilities					
Deposits					
Savings, money market, and demand accounts	$ 1,505,866	$ 1,505,866	$ —	$ 1,505,866	$ —
Time deposits	142,144	140,824	—	140,824	—
Mortgagors’ escrow deposits	5,983	5,983	—	5,983	—
Accrued interest payable	105	105	—	105	—
Derivative liabilities	17,220	17,220	—	17,220	—

	June 30, 2023				
			Fair Value Measurements Using		
	Carrying Amount	Estimated Fair Value	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 150,478	$ 150,478	$ 150,478	$ —	$ —
Securities available for sale	431,667	431,667	377,729	53,938	—
Securities held to maturity	23,949	21,744	—	21,744	—
Equity securities	2,413	2,413	2,413	—	—
FHLBNY stock	1,196	1,196	—	1,196	—
Net loans receivable	1,144,169	1,095,366	—	—	1,095,366
Accrued interest receivable	7,194	7,194	—	7,194	—
Derivative assets	684	684	—	684	—
Financial liabilities					
Deposits					
Savings, money market, and demand accounts	$ 1,424,874	$ 1,424,874	$ —	$ 1,424,874	$ —
Time deposits	116,977	114,596	—	114,596	—
Mortgagors’ escrow deposits	7,888	7,888	—	7,888	—
Accrued interest payable	84	84	—	84	—
Derivative liabilities	18,828	18,828	—	18,828	—

Short-Term Financial Instruments

The fair value of certain financial instruments are estimated to approximate their carrying amounts because the remaining term to maturity or period to repricing of the financial instrument is less than ninety days. Such financial instruments include cash and cash equivalents, accrued interest receivable and payable, and mortgagor's escrow deposits.

Securities

Fair values of securities available for sale, securities held to maturity and equity securities are determined as outlined earlier in this footnote.

FHLBNY Stock

The fair value of FHLBNY stock approximates its carrying value due to transferability restrictions.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including residential real estate, commercial real estate, and consumer loans and whether the interest rates are fixed and/or variable.

The estimated fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the respective loan portfolio.

Estimated fair values for nonperforming loans are based on estimated cash flows discounted using a rate commensurate with the credit risk involved. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Derivatives

Fair values of derivative assets and liabilities are determined as outlined earlier in this footnote.

Deposits

The estimated fair value of deposits with no stated maturity, such as savings, money market and demand deposits, is regarded to be the amount payable on demand. The estimated fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using market rates for time deposits with similar maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposits as compared to the cost of borrowing funds in the market.

11. REVENUE RECOGNITION

In general, for revenue not associated with financial instruments, guarantees and lease contracts, we apply the following steps when recognizing revenue from contracts with customers: (i) identify the contract, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when performance obligation is satisfied. Our contracts with customers are generally short term in nature, typically due within one year or less or cancellable by us or our customer upon a short notice period. Performance obligations for our customer contracts are generally satisfied at a single point in time, typically when the transaction is complete. In some cases, we act in an agent capacity, deriving revenue through assisting other entities in transactions with our customers. In such transactions, we recognized revenue and the related costs to provide our services on a net basis in our financial statements. These transactions primarily relate to insurance and brokerage commissions, and fees derived from our customers' use of various interchange and ATM/debit card networks.

Revenue associated with financial instruments, including revenue from loans and securities is excluded from the scope of the accounting guidance for revenue from contracts with customers. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the accounting guidance for revenue from contracts with customers. The accounting guidance for revenue from contracts with customers is applicable to noninterest revenue streams such as deposit related fees, interchange fees, and insurance and wealth management services commissions.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of the accounting guidance for revenue from contracts with customers, for the three and nine months ended March 31, 2024 and 2023.

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023	For the Nine Months Ended March 31, 2024	For the Nine Months Ended March 31, 2023
	(Dollars in thousands)			
Non-interest Income				
In scope				
Insurance services	$ 671	$ 690	$ 2,404	$ 2,405
Wealth management services	1,627	1,025	4,631	3,231
Service charges on deposit accounts	588	590	1,837	1,852
Card services income	666	691	2,130	2,212
Other	86	238	292	393
Non-interest income in scope	3,638	3,234	11,294	10,093
Non-interest income out of scope	596	16	1,348	908
Total non-interest income	$ 4,234	$ 3,250	$ 12,642	$ 11,001

12. LEASES

The Company leases certain branches under various non-cancelable operating leases that may contain extension options. Reasonably certain extension options are included in the determination of lease term for accounting purposes. The Company has also entered into a long-term ground lease with a bargain purchase option and into office equipment leases which have been classified as finance leases. The leases may require additional payments for maintenance, taxes, insurance, service, and other costs which are not included in calculating the lease liability.

For all asset classes the Company made an accounting policy election to not separate lease components and non-lease components and treat both as a single lease component for lease accounting purposes. The right-of-use ("ROU") assets and lease liabilities are based on the stated lease consideration as identified in the underlying agreements.

When known or determinable, the Company uses the rate implicit in the lease in determining the present value of lease payments. Otherwise, the incremental borrowing rate is used which is based on information provided by FHLBNY for a secured borrowing arrangement of a comparable term.

The Company made an accounting policy election to not apply the lease accounting requirements to short-term lease arrangements with an initial term of 12 months or less.

The ROU assets are included in premises and equipment and lease liabilities are included in other liabilities in the Company's consolidated statements of condition.

The following tables include quantitative data related to the Company's operating and finance leases:

	As of March 31, 2024	As of June 30, 2023
	(In thousands, except weighted-average information)	
Right of use assets:		
Finance leases	$ 558	$ 608
Operating leases	5,332	5,448
	$ 5,890	$ 6,056
Lease liabilities:		
Finance leases	$ 653	$ 711
Operating leases	5,610	5,713
	$ 6,263	$ 6,424
Other information:		
Weighted-average remaining lease term for finance leases (in years)	68.8	64.9
Weighted-average remaining lease term for operating leases (in years)	13.4	14.2
Weighted-average discount rate for finance leases	5.73 %	5.62 %
Weighted-average discount rate for operating leases	3.90 %	3.87 %

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023	For the Nine Months Ended March 31, 2024	For the Nine Months Ended March 31, 2023
	(Dollars in thousands)			
Lease expense:				
Finance lease expense				
Amortization of ROU assets	$ 25	$ 25	$ 75	$ 74
Interest on lease liabilities	8	8	24	24
Operating lease expense	163	151	484	455
Variable lease expense	61	58	180	158
Total:	$ 257	$ 242	$ 763	$ 711
Other information:				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from finance leases (i.e. interest)	$ 30	$ 16	$ 31	$ 17
Finance cash flows from finance leases (i.e. principal portion)	$ 26	$ 40	$ 76	$ 89
Operating cash flows from operating leases	$ 158	$ 147	$ 468	$ 438
ROU assets obtained in exchange for new finance lease liabilities	$ 26	$ —	$ 26	$ —
ROU assets obtained in exchange for new operating lease liabilities	$ —	$ —	$ 199	$ —

Maturities of finance and operating lease liabilities are as follows:

	Finance leases	Operating leases
	(Dollars in thousands)	
Within the twelve months ended March 31,		
2025	$ 130	$ 639
2026	79	605
2027	36	582
2028	36	584
2029	34	527
Thereafter	2,550	4,341
Total undiscounted cash flows	2,865	7,278
Less: present value discount	(2,212)	(1,668)
Total lease liabilities	$ 653	$ 5,610

13. EARNINGS PER SHARE

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Unallocated ESOP shares are not deemed outstanding for earnings per share calculations. There were no potentially diluted common stock equivalents as of March 31, 2024 or March 31, 2023.

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023	For the Nine Months Ended March 31, 2024	For the Nine Months Ended March 31, 2023
	(Dollars in thousands, except share and per share amounts)			
Net income applicable to common stock	$ 4,719	6,024	$ 11,330	$ 17,441
Average number of common shares outstanding	25,977,679	25,977,679	25,977,679	25,977,679
Less: Average unallocated ESOP shares	757,380	808,297	763,745	814,661
Average number of common shares outstanding used to calculate basic and diluted earnings per common share	25,220,299	25,169,382	25,213,934	25,163,018
Net earnings per common share:				
Basic	$ 0.19	$ 0.24	$ 0.45	$ 0.69
Diluted	$ 0.19	$ 0.24	$ 0.45	$ 0.69

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

Statement Regarding Forward-Looking Statements

Certain statements contained herein are “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions, or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may.” The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. No assurance can be given that the future results covered by forward-looking statements will be achieved. Certain forward-looking statements are included in this Form 10-Q, principally in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In addition to the factors described in Item 1A – Risk Factors, factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to:

- inflation and changes in market interest rates that reduce our margins and yields, reduce the fair value of financial instruments or reduce our volume of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make, whether held in our portfolio or sold in the secondary market;
- risks related to the variety of litigation, investigations, and other proceedings described in the “Legal Proceedings” section of this report;
- general economic conditions, either nationally or in our market area, that are worse than expected;
- the failure of financial institutions in 2023 and 2024 which may adversely affect market sentiment toward regional banks, which may result in decreased deposits and increased regulatory costs that could adversely affect our liquidity, our business, and the market price of our common stock;
- competition within our market area that is stronger than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of our allowance for credit losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- changes in our partnership with a third-party mortgage banking company;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions, as well as other non-traditional competitors;

- risks associated with loan participations, including the risk of non-performing loans, disputes, or indemnification obligations with respect to other participants;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- the imposition of tariffs or other domestic or international governmental polices impacting the value of the products of our borrowers;
- our ability to successfully integrate into our operations any assets, liabilities or systems we may acquire, as well as new management personnel or customers, and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- our ability to maintain our reputation;
- our ability to prevent or mitigate fraudulent activity;
- changes in our costs of legal expenses, including defending against significant litigation;
- any future Federal Deposit Insurance Corporation ("FDIC") insurance premium increases, or special assessments may adversely affect our earnings;
- fluctuations in the stock market may have a significant adverse effect on transaction fees, client activity and client investment portfolio gains and losses related to our wealth management business;
- a breach in security of our information systems, including the occurrence of a cyber incident or a deficiency in cyber security;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board (the "FASB"), the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to attract and retain key employees;
- our ability to evaluate the amount and timing of recognition of future tax assets and liabilities;
- our compensation expense associated with equity benefits allocated or awarded to our employees in the future; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Additional factors that may affect our results are discussed in the annual report on Form 10-K for the fiscal year ended June 30, 2023, under the heading "Risk Factors" and this Form 10-Q, under the heading "Risk Factors." The Company disclaims any obligation to revise or update any forward-looking statements contained in this quarterly report on Form 10-Q to reflect future events or developments, except as required by applicable law.

Overview

Net Interest Income. Our primary source of income is net interest income. Net interest income is the difference between interest income, which is the income we earn on our loans and investments, and interest expense, which is the interest we pay on our deposits and borrowings.

Provision for Credit Losses. We charge provisions for credit losses to operations in order to maintain our allowance for credit losses on loans, securities held to maturity and unfunded commitments at a level that is considered reasonable and necessary to absorb expected credit losses inherent in the loan portfolio and securities held to maturity portfolio, as well as expected losses on commitments to grant loans that are expected to be advanced at the statements of condition date. Loans are charged against the allowance when management believes that the collectability of the principal loan amount is not probable. Recoveries on loans previously charged-off, if any, are credited to the allowance for credit losses when realized.

Non-interest Income. Our primary sources of non-interest income are banking fees and service charges, insurance and wealth management services income. Our non-interest income also includes net gains or losses on equity securities, net gains or losses on securities available for sale transactions, litigation-related income and other income.

Non-Interest Expense. Our non-interest expenses consist of salaries and employee benefits, net occupancy and equipment, data processing, advertising and marketing, insurance premiums, federal deposit insurance premiums, professional fees, and other general and administrative expenses.

Salaries and employee benefits consist primarily of salaries and wages paid to our employees, payroll taxes, and expenses for worker's compensation and disability insurance, health insurance, retirement plans and other employee benefits, as well as commissions and other incentives.

Occupancy and equipment expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, rental expenses, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using a straight-line method based on the estimated useful lives of the related assets or the expected lease terms, if shorter.

Data processing expenses are fees we pay to third parties for use of their software and for processing customer information, deposits and loans.

Advertising and marketing include most marketing expenses including multi-media advertising (public and in-store), promotional events and materials, civic and sales focused memberships, and community support.

Insurance premiums include expenses related to various insurance policies, excluding federal deposit insurance premiums.

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

Professional fees include legal and other consulting expenses.

Other expenses include expenses for office supplies, postage, telephone and other miscellaneous operating expenses.

Income Tax Expense. Our income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and the tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amounts expected to be realized.

Recent Developments

Charter Conversion

On April 1, 2024, the Bank completed its conversion to a national bank following approval of the conversion by the Office of the Comptroller of the Currency (the “OCC”), the regulator of national banks. Following the completion of the conversion, the Bank will operate under the name “Pioneer Bank, National Association” and be subject to the supervision, regulation and examination by the OCC. The Bank will continue to operate in the same mutual holding company structure as it did prior to the conversion, with the Company and Pioneer Bancorp, MHC as the Bank’s parent bank holding companies.

Balance Sheet Repositioning

On December 28, 2023, the Company completed a balance sheet repositioning, by selling $74.5 million of lower-yielding available for sale securities with an average book yield of approximately 0.83% and weighted average remaining life of 2.2 years, recognizing a pre-tax loss on the sale of $5.6 million. Proceeds from the sale were initially redeployed into interest-earning deposits with banks with an average book yield of 5.40% and ultimately the Company reinvested the proceeds into loans and securities available for sale yielding current market rates during the quarter ended March 31, 2024. The transaction had a neutral impact on shareholders’ equity and book value per share as of the date of the sale, as unrealized losses on securities available for sale are already accounted for as a deduction to shareholders’ equity. Beginning in the quarter ended March 31, 2024, this transaction began to have a favorable impact on the Company’s net income, net interest margin, return on average assets, and return on average equity.

Settlement Agreement

As previously disclosed, on December 1, 2020, the Bank filed a complaint in the Supreme Court of the State of New York (the “Action”) against Teal, Becker & Chiaramonte, CPAs, P.C. (“TBC”), Mr. Pasquale M. Scisci and Mr. Vincent Commisso (collectively, with TBC, the “TBC Parties”), alleging professional malpractice by the TBC Parties in auditing the annual consolidated financial statements of Valuewise Corporation and its subsidiaries (“Valuewise Entities”) for the fiscal years 2010 to 2018.

The Bank asserted that the TBC Parties were aware that the primary, if not the exclusive, reason the Valuewise Entities engaged TBC to audit their financial statements was to provide the Bank with accurate financial information that the Bank would rely on in evaluating whether to provide loans to the Valuewise Entities. The Bank contended that, among other matters, Mr. Michael Mann used the Valuewise Entities to defraud the Bank. This was because the Bank relied on the unqualified “clean” opinions on the financial statements of the Valuewise Entities for fiscal years 2010 to 2018 issued by the TBC Parties in continuing to loan money to the Valuewise Entities. The TBC Parties filed their answer to the Bank’s complaint on February 12, 2021. On February 28, 2022, the TBC Parties filed a motion to dismiss the complaint. On October 4, 2022, the Court entered a decision and order denying the motion in its entirety.

On November 15, 2023, the Bank, on the one hand, and the TBC Parties, on the other hand, entered into a settlement agreement (the “Settlement Agreement”), pursuant to which the parties agreed to resolve and settle all disputes and potential claims which exist or may exist among them, including without limitation those claims asserted in the Action, as more specifically set forth in, and subject to the terms and conditions of, the Settlement Agreement. Pursuant to the Settlement Agreement, the TBC Parties made a payment of $5.95 million to the Bank, in exchange for which the Bank caused the Action to be dismissed with prejudice.

Acquisition

On July 13, 2023, the Company, through its subsidiary, Pioneer Financial Services, Inc., completed the acquisition of certain assets of Hudson Financial LLC, a company engaged in the wealth management services business in the Hudson Valley Region of New York. The Company paid an aggregate of $2.0 million in cash and recorded $1.5 million in contingent consideration payable to acquire the assets and recorded a $1.4 million customer list intangible asset and goodwill in the amount of $2.1 million in conjunction with the acquisition. The effects of the acquired assets have been included in the consolidated financial statements since the acquisition date. This acquisition was made to expand the Company's wealth management services activities.

Mann Entities Related Fraudulent Activity

During the first fiscal quarter of 2020 (the quarter ended September 30, 2019), the Company became aware of potentially fraudulent activity associated with transactions by an established business customer of the Bank. The customer and various affiliated entities (collectively, the "Mann Entities") had numerous accounts with the Bank. The transactions in question related both to deposit and lending activity with the Mann Entities.

While the Bank has been reimbursed in the past by its insurer for certain legal fees and expenses associated with this matter, the Bank does not expect to recognize any such insurance recoveries in the future, as the applicable policy limits and deductibles have been exceeded. For additional details regarding legal, other proceedings and related matters see "Item 1 – Consolidated Financial Statements – Note 9 – Commitments and Contingent Liabilities – Legal Proceedings and Other Contingent Liabilities."

Critical Accounting Policies and Estimates

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies and estimates discussed below to be critical accounting policies and estimates. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to continue to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our critical accounting policies and estimates:

Allowance for Credit Losses. The allowance for credit losses consists of the allowance for credit losses on loans, securities held to maturity and unfunded commitments. Effective July 1, 2023, the measurement of Current Expected Credit Losses ("CECL") on financial instruments requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses under the CECL approach is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. The Company then considers whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period from which historical experience was used. Finally, the Company considers forecasts about future economic conditions that are reasonable and supportable. On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the estimated fair value of the collateral, as applicable. The allowance for credit losses on loans and securities held to maturity, as reported in our consolidated statements of condition, are adjusted by a provision for credit losses, which is recognized in earnings, and reduced by the charge-offs, net of recoveries. The allowance for credit losses on unfunded commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments unconditionally cancellable by the Company. The allowance for credit losses on unfunded commitments is determined by estimating future draws and applying the expected loss rates on those draws and is included in other liabilities on the Company's consolidated statements of condition. All loan information presented as of June 30, 2023 or a prior date is presented in accordance with previously applicable GAAP (the incurred loss method).

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management of the Company considers the accounting policy relating to the allowance for credit losses to be a critical accounting estimate given the uncertainty in evaluating the level of the allowance required to cover management's estimate of all expected credit losses over the expected contractual life of our loan portfolios. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolios, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. While management's current evaluation of the allowance for credit losses indicates that the allowance is appropriate, the allowance may need to be increased under adversely different conditions or assumptions. Going forward, the impact of utilizing the CECL approach to calculate the allowance for credit losses will be significantly influenced by the composition, characteristics and quality of our loan portfolios, as well as the prevailing economic conditions and forecasts utilized. Material changes to these and other relevant factors may result in greater volatility to the allowance for credit losses, and therefore, greater volatility to our reported earnings.

Actual loan losses may be significantly more than the allowance we have established which could have a material negative effect on our financial results.

Legal Proceedings and Other Contingent Liabilities. In the ordinary course of business, we are involved in a number of legal, regulatory, governmental and other proceedings, claims or investigations that could result in losses, including damages, fines and/or civil penalties, which could be significant concerning matters arising from the conduct of our business. In view of the inherent difficulty of predicting the outcome of such matters, particularly where the claimants seek large or indeterminate damages, we generally cannot predict the eventual outcome of the pending matters, timing of the ultimate resolution of these matters, or eventual loss, fines or penalties related to each pending matter. In accordance with applicable accounting guidance, we will establish an accrued liability when those matters present loss contingencies that are both probable and estimable. Our estimate of potential losses will change over time and the actual losses may vary significantly, and there may be an exposure to loss in excess of any amounts accrued. As a matter develops, management, in conjunction with any outside counsel handling the matter, evaluate on an ongoing basis whether such matter presents a loss contingency that is probable and estimable; or where a loss is reasonably possible, whether in excess of a related accrued liability or where there is no accrued liability, whether it is possible to estimate a range of possible loss. Once the loss contingency is deemed to be both probable and estimable, we establish an accrued liability and record a corresponding amount of litigation-related expense. We continue to monitor the matters for further developments, including our interactions with various regulatory agencies with supervisory authority over us, that could affect the amount of the accrued liability that has been previously established. These estimates are based upon currently available information and are subject to significant judgment, a variety of assumptions and known and unknown uncertainties. The matters underlying the accrued liability and estimated range of possible losses are unpredictable and may change from time to time, and actual losses may vary significantly from the current estimate and accrual which could have a material negative effect on our financial results. The estimated range of possible loss does not represent our maximum loss exposure.

Fair Value Measurements. The fair value of a financial instrument is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the particular asset or liability in an orderly transaction between market participants on the measurement date. We estimate the fair value of a financial instrument and any related asset impairment using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices as of the measurement date are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. These estimates are subjective in nature and imprecision in estimating these factors can impact the amount of revenue or loss recorded.

Pension Obligations. We maintain a non-contributory defined benefit pension plan covering substantially all of our full-time employees hired before September 1, 2019. The benefits are developed from actuarial valuations and are based on the employee's years of service and compensation. Actuarial assumptions such as interest rates, expected return on plan assets, turnover, mortality and rates of future compensation increases have a significant impact on the costs, assets and liabilities of the plan. Pension expense is the net of service cost, interest cost, return on plan assets and amortization of gains and losses not immediately recognized.

Income Taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for temporary differences between carrying amounts and the tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. We recognize interest and/or penalties related to income tax matters in other expense. 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 more than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Management determines the need for a deferred tax valuation allowance based upon the realizability of tax benefits from the reversal of temporary differences creating the deferred tax assets, as well as the amounts of available open tax carrybacks, if any.

We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets are inherently subjective and are reviewed on a regular basis as regulatory or business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance that results in additional income tax expense in the period in which it is recognized would negatively affect earnings.

Goodwill and Intangible Assets. The excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, is recorded as goodwill. Goodwill is carried at its acquired value and is reviewed annually for impairment, or when events or changes in circumstances indicate that carrying amounts may be impaired.

Acquired identifiable intangible assets that have finite lives are amortized over their useful economic life. Customer relationship intangibles are generally amortized over fifteen years based upon the projected discounted cash flows of the accounts acquired. Core deposit premium related to the Bank's assumption of certain deposit liabilities is being amortized over fifteen years. Acquired identifiable intangible assets that are amortized are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may be impaired.

Average Balances and Yields

The following tables set forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments have been made, as the effects would be immaterial. All average balances are daily average balances. Non-accrual loans were included in the computation of 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, as applicable.

	For the Three Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest	Average Yield/Cost (4)	Average Outstanding Balance	Interest	Average Yield/Cost (4)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 1,301,493	$ 18,740	5.92 %	$ 1,079,801	$ 14,658	5.62 %
Securities	337,408	2,341	2.82 %	531,222	2,624	2.02 %
Interest-earning deposits and other	148,493	2,034	5.62 %	130,280	1,497	4.74 %
Total interest-earning assets	1,787,394	23,115	5.30 %	1,741,303	18,779	4.45 %
Non-interest-earning assets	144,174			153,796		
Total assets	$ 1,931,568			$ 1,895,099		
Interest-bearing liabilities:						
Demand deposits	$ 188,082	$ 856	1.84 %	$ 179,275	$ 243	0.55 %
Savings deposits	268,911	43	0.06 %	312,959	31	0.04 %
Money market deposits	500,529	3,474	2.82 %	433,142	650	0.61 %
Certificates of deposit	129,029	1,163	3.67 %	65,234	125	0.78 %
Total interest-bearing deposits	1,086,551	5,536	2.07 %	990,610	1,049	0.43 %
Borrowings and other	22,077	248	4.60 %	22,763	214	3.87 %
Total interest-bearing liabilities	1,108,628	5,784	2.11 %	1,013,373	1,263	0.51 %
Non-interest-bearing deposits	494,909			588,574		
Other non-interest-bearing liabilities	41,728			39,929		
Total liabilities	1,645,265			1,641,876		
Total shareholders' equity	286,303			253,223		
Total liabilities and shareholders' equity	$ 1,931,568			$ 1,895,099		
Net interest income		$ 17,331			$ 17,516	
Net interest rate spread (1)			3.19 %			3.94 %
Net interest-earning assets (2)	$ 678,766			$ 727,930		
Net interest margin (3)			3.96 %			4.14 %
Average interest-earning assets to interest-bearing liabilities	161.23 %			171.83 %		

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

Table of Contents

	For the Nine Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest	Average Yield/Cost (4)	Average Outstanding Balance	Interest	Average Yield/Cost (4)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 1,237,833	$ 52,996	5.74 %	$ 1,039,462	$ 39,676	5.12 %
Securities	404,930	7,510	2.48 %	530,780	7,081	1.78 %
Interest-earning deposits and other	102,711	4,252	5.55 %	216,832	5,192	3.20 %
Total interest-earning assets	1,745,474	64,758	4.97 %	1,787,074	51,949	3.89 %
Non-interest-earning assets	149,154			150,372		
Total assets	$ 1,894,628			$ 1,937,446		
Interest-bearing liabilities:						
Demand deposits	$ 163,944	$ 2,253	1.83 %	$ 185,643	$ 555	0.40 %
Savings deposits	276,881	136	0.07 %	319,229	83	0.03 %
Money market deposits	480,798	9,132	2.54 %	448,675	1,151	0.34 %
Certificates of deposit	120,581	3,057	3.39 %	68,177	298	0.58 %
Total interest-bearing deposits	1,042,204	14,578	1.87 %	1,021,724	2,087	0.27 %
Borrowings and other	25,835	865	4.48 %	22,415	538	3.21 %
Total interest-bearing liabilities	1,068,039	15,443	1.93 %	1,044,139	2,625	0.34 %
Non-interest-bearing deposits	503,910			605,933		
Other non-interest-bearing liabilities	45,237			39,704		
Total liabilities	1,617,186			1,689,776		
Total shareholders' equity	277,442			247,670		
Total liabilities and shareholders' equity	$ 1,894,628			$ 1,937,446		
Net interest income		$ 49,315			$ 49,324	
Net interest rate spread (1)			3.04 %			3.56 %
Net interest-earning assets (2)	$ 677,435			$ 742,935		
Net interest margin (3)			3.78 %			3.69 %
Average interest-earning assets to interest-bearing liabilities	163.43 %			171.15 %		

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

Rate/Volume Analysis

The following table presents 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 two columns. For purposes of this table, 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.

	Three Months Ended March 31, 2024 vs. 2023			Nine Months Ended March 31, 2024 vs. 2023		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 3,245	$ 837	$ 4,082	$ 8,140	$ 5,180	$ 13,320
Securities	(1,155)	872	(283)	(1,929)	2,358	429
Interest-earning deposits and other	230	307	537	(3,582)	2,642	(940)
Total interest-earning assets	2,320	2,016	4,336	2,629	10,180	12,809
Interest-bearing liabilities:						
Demand deposits	13	600	613	(72)	1,770	1,698
Savings deposits	(5)	17	12	(12)	65	53
Money market deposits	116	2,708	2,824	88	7,893	7,981
Certificates of deposit	216	822	1,038	380	2,379	2,759
Total interest-bearing deposits	340	4,147	4,487	384	12,107	12,491
Borrowings and other	(7)	41	34	91	236	327
Total interest-bearing liabilities	333	4,188	4,521	475	12,343	12,818
Change in net interest income	$ 1,987	$ (2,172)	$ (185)	$ 2,154	$ (2,163)	$ (9)

Comparison of Financial Condition at March 31, 2024 and June 30, 2023

Total Assets. Total assets of $1.98 billion at March 31, 2024 increased $125.6 million, or 6.8%, from $1.86 billion at June 30, 2023. The increase was due primarily to an increase of $168.0 million, or 14.7%, in net loans receivable, and an increase of $96.1 million, or 63.8% in cash and cash equivalents, offset in part by a decrease of $134.8 million, or 31.2% in securities available for sale.

Cash and Cash Equivalents. Total cash and cash equivalents of $246.5 million at March 31, 2024, increased $96.1 million, or 63.8%, from $150.5 million at June 30, 2023. This increase was primarily a result of a net increase in deposits of $106.2 million, a decrease in securities available for sale of $134.8 million, offset by an increase in net loans receivable of $168.0 million, and during the nine months ended March 31, 2024.

Securities Available for Sale. Total securities available for sale of $296.9 million at March 31, 2024 decreased $134.8 million, or 31.2%, from $431.7 million at June 30, 2023. The decrease was primarily due to sales of $74.5 million and maturities of $100.0 million, offset in part by purchases of U.S. Government and agency obligations and municipal obligations of $30.3 million and a decrease in net unrealized losses of $13.6 million (including a $5.6 million decrease related to losses realized from the sale of securities available for sale described in “Recent Developments”) during the nine months ended March 31, 2024.

Net Loans Receivable. Net loans receivable of $1.31 billion at March 31, 2024 increased $168.0 million, or 14.7%, from $1.14 billion at June 30, 2023. By loan category, residential mortgage loans increased by $143.2 million, or 30.9%, to $606.4 million at March 31, 2024 from $463.2 million at June 30, 2023, commercial construction loans increased by $14.7 million, or 15.9%, to $107.4 million at March 31, 2024 from $92.7 million at June 30, 2023, commercial real estate loans increased by $4.0 million, or 1.0%, to $415.2 million at March 31, 2024 from $411.2 million at June 30, 2023, and home equity loans and lines of credit increased by $7.3 million, or 8.6%, to $92.8 million at March 31, 2024 from $85.5 million at June 30, 2023. These increases were partially offset by a decrease in consumer loans of $2.1 million, or 12.7%, to $14.7 million at March 31, 2024 from $16.8 million at June 30, 2023. Commercial and industrial loans were unchanged at $97.3 million at March 31, 2024 and June 30, 2023.

The increase in residential mortgage loans was primarily related to the Bank's asset allocation shift, using investment securities cash flow and cash to fund higher yielding assets. The Bank's relationship with a third-party mortgage banking company facilitated a significant increase in residential mortgage loan volume, despite the rising interest rate environment. The increase in commercial construction loans was due to funding of increased construction commitments. The increase in home equity loans and lines of credit was due to increased utilization rates of home equity lines of credit.

Deposits. Total deposits of $1.65 billion at March 31, 2024 increased $106.2 million, or 6.9%, from $1.54 billion at June 30, 2023. By deposit category, money market accounts increased by $73.0 million, or 15.8%, to $535.9 million at March 31, 2024 from $462.9 million at June 30, 2023, demand accounts increased by $69.3 million, or 49.9%, to $208.1 million at March 31, 2024 from $138.8 million at June 30, 2023, and certificates of deposit increased by $25.1 million, or 21.5%, to $142.1 million at March 31, 2024 from $117.0 million at June 30, 2023 (included in certificates of deposit were brokered deposits which decreased by $21.8 million to $14.7 million at March 31, 2024 from $36.5 million at June 30, 2023). These increases were partially offset by a decrease in non-interest-bearing demand accounts by $33.6 million, or 6.4%, to $492.5 million at March 31, 2024 from $526.1 million at June 30, 2023 and a decrease in savings accounts by $27.6 million, or 9.3%, to $269.4 million at March 31, 2024 from $297.0 million at June 30, 2023.

The increase in demand accounts and money market accounts was primarily related to growth in municipal deposits due to seasonality. The increase in certificates of deposit was primarily related to a migration of funds from non-interest-bearing demand, savings, and other lower rate interest-bearing accounts. The decrease in non-interest-bearing demand and savings accounts was primarily related to migration of funds to higher interest-bearing accounts. As of March 31, 2024 and June 30, 2023, estimated uninsured deposits, net of collateralized deposits, totaled $229.4 million and $228.4 million, or 13.9% and 14.8% of total deposits, respectively.

Total Shareholders' Equity. Total shareholders' equity of $289.0 million at March 31, 2024 increased $22.3 million, or 8.3%, from $266.7 million at June 30, 2023 primarily as a result of net income of $11.3 million, an increase in accumulated other comprehensive income of $10.1 million and the net increase of $507,000 related to the day-one CECL adjustment during the nine months ended March 31, 2024.

Comparison of Operating Results for the Three Months Ended March 31, 2024 and March 31, 2023

General. Net income decreased by $1.3 million to $4.7 million for the three months ended March 31, 2024 as compared to $6.0 million for the three months ended March 31, 2023. The decrease was primarily due to an increase in non-interest expense of $2.3 million, and a decrease in net interest income of $185,000, partially offset by an increase in non-interest income of $984,000 and a decrease in income tax expense of $307,000.

Interest and Dividend Income. Interest and dividend income increased $4.3 million, or 23.1%, to $23.1 million for the three months ended March 31, 2024, from $18.8 million for the three months ended March 31, 2023 due to increases in interest income on loans and interest-earning deposits with banks and other, offset in part by a decrease in interest income on securities. The increase was the result of an 85 basis points increase in the average yield on interest-earning assets to 5.30% for the three months ended March 31, 2024, from 4.45% for the three months ended March 31, 2023. The increase in the average yield on interest-earning assets was driven by an increase in variable rate loan yields and yields on interest-earning deposits with banks due to rising market interest rates, as well as due to market related increases in interest rates on new loans. Average interest-earning assets increased by $46.1 million from $1.74 billion for the three months ended March 31, 2023 to $1.79 billion for the three months ended March 31, 2024 due to the increase in the average balance of loans.

Interest income on loans increased $4.0 million, or 27.8%, to $18.7 million for the three months ended March 31, 2024 from $14.7 million for the three months ended March 31, 2023. Interest income on loans increased due to a $221.7 million increase in the average balance of loans to $1.30 billion for the three months ended March 31, 2024 from $1.08 billion for the three months ended March 31, 2023, coupled with a 30 basis points increase in the average yield on loans to 5.92% for the three months ended March 31, 2024 from 5.62% for the three months ended March 31, 2023. The increase in the average balance of loans was principally due to purchases of residential mortgage loans. The increase in average yield on loans was primarily due to loans tied to variable short-term rates which increased during the three months ended March 31, 2024 and market related increases in interest rates on new loans as compared to the same period in the prior year.

Interest income on securities decreased $283,000, or 10.8%, to $2.3 million for the three months ended March 31, 2024 from $2.6 million for the three months ended March 31, 2023. Interest income on securities decreased due to a $193.8 million decrease in the average balance of securities to $337.4 million for the three months ended March 31, 2024 from $531.2 million for the three months ended March 31, 2023, offset in part by a 80 basis points increase in the average yield on securities to 2.82% for the three months ended March 31, 2024 from 2.02% for the three months ended March 31, 2023. The decrease in the average balance of securities was due to the sales of U.S. government and agency securities, and maturities of U.S. government and agency and municipal obligation securities, outpacing purchases during the three months ended March 31, 2024, in conjunction with an asset allocation shift, using investment securirties cash flow to fund higher yielding assets. The increase in average yield on securities was due to higher market rates of interest for new securities that were purchased during the three and nine months ended March 31, 2024 partially replacing scheduled maturities of lower yielding U.S. government and agency and municipal obligation securities.

Interest income on interest-earning deposits with banks and other increased $537,000 to $2.0 million for the three months ended March 31, 2024 from $1.5 million for the three months ended March 31, 2023. Interest income on interest-earning deposits with banks and other increased due to a $18.2 million increase in average balances on interest-earning deposits with banks and other to $148.5 million for the three months ended March 31, 2024 from $130.3 million for the three months ended March 31, 2023 primarily due to a net increase in deposits, as well as a 88 basis points increase in the average yield on interest-earning deposits with banks and other to 5.62% for the three months ended March 31, 2024 from 4.74% for the three months ended March 31, 2023 primarily due to an increase in yields on interest-earning deposits with banks due to rising market interest rates.

Interest Expense. Interest expense increased $4.5 million to $5.8 million for the three months ended March 31, 2024 from $1.3 million for the three months ended March 31, 2023 as a result of increases in interest expense on deposits and on borrowings and other. The increase was primarily due to a 160 basis points increase in the average cost of interest-bearing liabilities to 2.11% for the three months ended March 31, 2024 from 0.51% for the three months ended March 31, 2023, as well as a shift in the mix of interest-bearing liabilities to higher interest rate liability accounts.

Interest expense on interest-bearing deposits increased $4.5 million to $5.5 million for the three months ended March 31, 2024 from $1.0 million for the three months ended March 31, 2023. Interest expense on interest-bearing deposits increased primarily due to a 164 basis points increase in the average cost of interest-bearing deposits to 2.07% for the three months ended March 31, 2024 from 0.43% for the three months ended March 31, 2023, as well as a shift in the mix of interest-bearing deposits to higher interest rate deposit accounts and an increase in average interest-bearing deposits of $96.0 million to $1.09 billion for the three months ended March 31, 2024 from $990.6 million for the three months ended March 31, 2023. The increase in the average cost of interest-bearing deposits was primarily due to the increase in market interest rates and a shift in the mix of deposits to higher-cost money market deposits and certificates of deposit. The increase in the average balance of interest-bearing deposits was due to higher average certificates of deposit balances (included in certificates of deposit were brokered deposits which increased by $4.7 million, on average, for the three months ended March 31, 2024 as compared to the same period in the prior year).

Interest expense on borrowings and other liabilities increased $34,000 to $248,000 for the three months ended March 31, 2024 from $214,000 for the three months ended March 31, 2023 due primarily to the increase in average cost of borrowings and other liabilities of 73 basis points to 4.60% for the three months ended March 31, 2024 from 3.87% for the three months ended March 31, 2023, as a result of the increase in the Federal Funds target rate throughout calendar year 2022 and continued in the first half of calendar year 2023, offset in part by a decrease in average borrowings and other liabilities of $686,000 to $22.1 million for the three months ended March 31, 2024 from $22.8 million for the three months ended March 31, 2023.

We continue to monitor the effects the increase in market rates are having on deposit rates and we anticipate the impact will lead to a continued increase in rates on deposits and other interest-bearing liabilities. The expected increase in rates on deposits is reflective of our strategy to maintain a strong core deposit base and continue to provide competitive offerings to customers. We have been and will be proactive in managing customer relationships with depositors, particularly larger consumer, commercial and municipal customers, as an important component of this strategy. In addition, we expect the increase in funding costs due to higher deposit costs, potentially an increase in use of brokered deposits and potentially an increase in the use of higher cost wholesale borrowings may result in continued pressure on net interest margin over the next quarter.

Net Interest Income. Net interest income of $17.3 million for the three months ended March 31, 2024 decreased $185,000, or 1.1%, compared to $17.5 million for the three months ended March 31, 2023 as net interest margin decreased 18 basis points to 3.96% for the three months ended March 31, 2024 from 4.14% for the three months ended March 31, 2023. Additionally, net interest-earning assets decreased by $49.1 million to $678.8 million for the three months ended March 31, 2024 from $727.9 million for the three months ended March 31, 2023 as a result of a shift in deposit mix which increased interest-bearing deposits, as well as a decrease in securities. Net interest rate spread decreased 75 basis points to 3.19% for the three months ended March 31, 2024 from 3.94% for the three months ended March 31, 2023.

Provision for Credit Losses. The provision for credit losses was $80,000 for the three months ended March 31, 2024 as compared to no provision for the three months ended March 31, 2023. The provision for credit losses for the three months ended March 31, 2024 was primarily due to growth in the loan portfolio offset in part by improvements in asset quality. Non-performing assets were $8.7 million, or 0.44% of total assets, at March 31, 2024, compared to $17.7 million, or 0.96% of total assets, at June 30, 2023 and $10.1 million, or 0.54% of total assets, at March 31, 2023. The allowance for credit losses on loans was $21.6 million at March 31, 2024 and $22.2 million at March 31, 2023, representing 1.62% and 2.00% of total loans outstanding, respectively. Net charge-offs were $20,000, or an annualized 0.01% of average loans, for the three months ended March 31, 2024 compared to net recoveries of $22,000, or an annualized (0.01%) of average loans, for the three months ended March 31, 2023.

Non-Interest Income. Non-interest income increased $984,000, or 30.3%, to $4.2 million for the three months ended March 31, 2024 as compared to $3.3 million for the three months ended March 31, 2023. Noninterest income increased primarily from a $583,000 increase in insurance and wealth management services income and a $445,000 increase in net gain on equity securities. The increase in insurance and wealth management services income was primarily due to the acquisition of Hudson Financial LLC which expanded our wealth management business into the Hudson Valley Region of New York. The net gain on equity securities was primarily related to the Bank's sale of its entire equity securities portfolio in March 2024, which was done in conjunction with the previously announced conversion to a national bank.

Non-Interest Expense. Non-interest expense increased $2.3 million, or 17.8%, to $15.4 million for the three months ended March 31, 2024 as compared to $13.1 million for the three months ended March 31, 2023. The increase was primarily due to an increase in professional fees of $1.9 million, and an increase in salaries and employee benefits expense of $319,000. Professional fees increased due to increased legal fees and expenses. Salaries and employee benefits expense increased due to compensation expense from annual merit increases.

Income Tax Expense. Income tax expense decreased $307,000 to $1.3 million for the three months ended March 31, 2024 as compared to $1.6 million for the three months ended March 31, 2023 primarily due to a decrease in income before income taxes. Our effective tax rate was 22.1% for the three months ended March 31, 2024 compared to 21.4% for the three months ended March 31, 2023.

Comparison of Operating Results for the Nine Months Ended March 31, 2024 and March 31, 2023

General. Net income decreased by $6.1 million to $11.3 million for the nine months ended March 31, 2024 as compared to $17.4 million for the nine months ended March 31, 2023. The decrease was primarily due to an increase in non-interest expense of $7.2 million and an increase in provision for credit losses of $2.2 million, partially offset by a decrease in income tax expense of $1.6 million, and an increase in non-interest income of $1.6 million.

Interest and Dividend Income. Interest and dividend income increased $12.9 million, or 24.7%, to $64.8 million for the nine months ended March 31, 2024, from $51.9 million for the nine months ended March 31, 2023 due to increases in interest income on loans and securities, offset in part by a decrease in interest income on interest-earning deposits with banks and other. The increase was the result of a 108 basis points increase in the average yield on interest-earning assets to 4.97% for the nine months ended March 31, 2024, from 3.89% for the nine months ended March 31, 2023. The increase in the average yield on interest-earning assets was driven by an increase in variable rate loan yields and yields on interest-earning deposits with banks due to rising market interest rates, as well as due to market related increases in interest rates on new loans and securities. Average interest-earning assets decreased by $41.6 million from $1.79 billion for the nine months ended March 31, 2023 to $1.75 billion for the nine months ended March 31, 2024 due to decreases in the average balances of securities and interest-earning deposits and other.

Interest income on loans increased $13.3 million, or 33.6%, to $53.0 million for the nine months ended March 31, 2024 from $39.7 million for the nine months ended March 31, 2023. Interest income on loans increased due to a $198.3 million increase in the average balance of loans to $1.24 billion for the nine months ended March 31, 2024 from $1.04 billion for the nine months ended March 31, 2023, coupled with a 62 basis points increase in the average yield on loans to 5.74% for the nine months ended March 31, 2024 from 5.12% for the nine months ended March 31, 2023. The increase in the average balance of loans was principally due to purchases of residential mortgage loans. The increase in average yield on loans was primarily due to loans tied to variable short-term rates which increased during the nine months ended March 31, 2024 and market related increases in interest rates on new loans as compared to the same period in the prior year.

Interest income on securities increased $429,000, or 6.1%, to $7.5 million for the nine months ended March 31, 2024 from $7.1 million for the nine months ended March 31, 2023. Interest income on securities increased due to a 70 basis points increase in the average yield on securities to 2.48% for the nine months ended March 31, 2024 from 1.78% for the nine months ended March 31, 2023, offset in part by a $125.9 million decrease in the average balance of securities to $404.9 million for the nine months ended March 31, 2024 from $530.8 million for the nine months ended March 31, 2023. The increase in average yield on securities was due to higher market rates of interest for new securities that were purchased during the nine months ended March 31, 2024 replacing scheduled maturities of lower yielding U.S. government and agency and municipal obligation securities. The decrease in the average balance of securities was due to sales of U.S. government and agency securities, including the balance sheet repositioning transaction discussed in “Recent Developments” and maturities of U.S. government and agency and municipal obligation securities outpacing purchases throughout the later part of fiscal year 2023 and continuing during the nine months ended March 31, 2024, in conjunction with an asset allocation shift, using investment securities cash flow to fund higher yielding assets.

Interest income on interest-earning deposits with banks and other decreased $940,000 to $4.3 million for the nine months ended March 31, 2024 from $5.2 million for the nine months ended March 31, 2023. Interest income on interest-earning deposits with banks and other decreased due to a $114.1 million decrease in average balances on interest-earning deposits with banks and other to $102.7 million for the nine months ended March 31, 2024 from $216.8 million for the nine months ended March 31, 2023 primarily due to the funding of loans, offset in part by a 235 basis points increase in the average yield on interest-earning deposits with banks and other to 5.55% for the nine months ended March 31, 2024 from 3.20% for the nine months ended March 31, 2023 primarily as a result of the increase in the Federal Funds target rate during calendar year 2022 and continuing in the first half of calendar year 2023.

Interest Expense. Interest expense increased $12.8 million to $15.4 million for the nine months ended March 31, 2024 from $2.6 million for the nine months ended March 31, 2023 as a result of increases in interest expense on deposits and on borrowings and other. The increase was primarily due to a 159 basis points increase in the average cost of interest-bearing liabilities to 1.93% for the nine months ended March 31, 2024 from 0.34% for the nine months ended March 31, 2023, as well as a shift in the mix of interest-bearing liabilities to higher interest rate liability accounts.

Interest expense on interest-bearing deposits increased $12.5 million to $14.6 million for the nine months ended March 31, 2024 from $2.1 million for the nine months ended March 31, 2023. Interest expense on interest-bearing deposits increased primarily due to a 160 basis points increase in the average cost of interest-bearing deposits to 1.87% for the nine months ended March 31, 2024 from 0.27% for the nine months ended March 31, 2023, as well as a shift in interest-bearing deposit mix to higher interest rate deposit accounts, and an increase in average interest-bearing deposits of $20.5 million to $1.04 billion for the nine months ended March 31, 2024 from $1.02 billion for the nine months ended March 31, 2023. The increase in the average cost of interest-bearing deposits was primarily due to the increase in market interest rates and a shift in the mix of deposits to higher costing money market deposits and certificates of deposit. The increase in average balance of interest-bearing deposits was due to higher average certificates of deposit balances (included in certificates of deposit were brokered deposits which increased by $8.8 million, on average, for the nine months ended March 31, 2024 as compared to the same period in the prior year).

Interest expense on borrowings and other liabilities increased $327,000 to $865,000 for the nine months ended March 31, 2024 from $538,000 for the nine months ended March 31, 2023 due primarily to the increase in average cost of borrowings and other liabilities of 127 basis points to 4.48% for the nine months ended March 31, 2024 from 3.21% for the nine months ended March 31, 2023, as a result of the increase in the Federal Funds target rate throughout calendar year 2022 and continued in the first half of calendar year 2023, coupled with an increase in average borrowings and other liabilities of $3.4 million to $25.8 million for the nine months ended March 31, 2024 from $22.4 million for the nine months ended March 31, 2023.

We continue to monitor the effects the increase in market rates are having on deposit rates and we anticipate the impact will lead to a continued increase in rates on deposits and other interest-bearing liabilities. The expected increase in rates on deposits is reflective of our strategy to maintain a strong core deposit base and continue to provide competitive offerings to customers. We have been and will be proactive in managing customer relationships with depositors, particularly larger consumer, commercial and municipal customers, as an important component of this strategy. In addition, we expect the increase in funding costs due to higher deposit costs, potentially an increase in use of brokered deposits and potentially an increase in the use of higher cost wholesale borrowings may result in continued pressure on net interest margin over the next quarter.

Net Interest Income. Net interest income was flat at $49.3 million for the nine months ended March 31, 2024 and for the nine months ended March 31, 2023 as net interest margin increased nine basis points to 3.78% for the nine months ended March 31, 2024 from 3.69% for the nine months ended March 31, 2023. Net interest-earning assets decreased by $65.5 million to $677.4 million for the nine months ended March 31, 2024 from $742.9 million for the nine months ended March 31, 2023 as a result of a shift in deposit mix which increased interest-bearing deposits, as well as a decrease in the average balances of securities and interest-earning deposits. Net interest rate spread decreased 52 basis points to 3.04% for the nine months ended March 31, 2024 from 3.56% for the nine months ended March 31, 2023.

Provision for Credit Losses. The provision for credit losses was $2.0 million for the nine months ended March 31, 2024 as compared to a credit to the provision of $280,000 for the nine months ended March 31, 2023. The provision for credit losses for the nine months ended March 31, 2024 was primarily due to growth in the loan portfolio. Non-performing assets were $8.7 million, or 0.44% of total assets, at March 31, 2024, compared to $17.7 million, or 0.96% of total assets, at June 30, 2023 and $10.1 million, or 0.54% of total assets, at March 31, 2023. The allowance for credit losses on loans was $21.6 million at March 31, 2024 and $22.2 million at March 31, 2023, representing 1.62% and 2.00% of total loans outstanding, respectively. Net charge-offs were $391,000, or an annualized 0.04% of average loans, for the nine months ended March 31, 2024 compared to $30,000, or an annualized 0.00% of average loans, for the nine months ended March 31, 2023.

Non-Interest Income. Non-interest income increased $1.6 million, or 14.9%, to $12.6 million for the nine months ended March 31, 2024 as compared to $11.0 million for the nine months ended March 31, 2023. Noninterest income increased primarily as a result of $6.0 million of income from the previously announced settlement of litigation as described in “Recent Developments” and also from a $1.4 million increase in insurance and wealth management services income, offset in part by a $5.6 million loss on sale of securities available for sale from the balance sheet repositioning transaction as described in “Recent Developments”. The increase in insurance and wealth management services income was primarily due to the acquisition of Hudson Financial LLC which expanded our wealth management business into the Hudson Valley Region of New York.

Non-Interest Expense. Non-interest expense increased $7.1 million, or 18.6%, to $45.6 million for the nine months ended March 31, 2024 as compared to $38.5 million for the nine months ended March 31, 2023. The increase was primarily due to an increase in professional fees of $5.5 million, an increase in salaries and employee benefits expense of $887,000 and an increase in data processing of $313,000. Professional fees increased due to increased legal fees and expenses. Salaries and employee benefits expense increased due to compensation expense from annual merit increases. Data processing expense increased due to an increase in online, mobile and other banking transaction volumes.

Income Tax Expense. Income tax expense decreased $1.7 million to $3.0 million for the nine months ended March 31, 2024 as compared to $4.7 million for the nine months ended March 31, 2023 primarily due to a decrease in income before income taxes. Our effective tax rate was 21.2% for the nine months ended March 31, 2024 and 2023.

Asset Quality and Allowance for Credit Losses

Asset Quality. Loans are reviewed on a regular basis. Management determines that a loan is non-performing when it is probable that at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower or the value of the underlying collateral if the loan is collateral dependent. When a loan is individually analyzed, the measurement of the loan in the allowance for credit losses is based on the present value of expected future cash flows, except that all collateral-dependent loans are measured based on the fair value of the collateral. Non-accrual loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and is in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received on a cash basis or cost recovery method.

When we acquire real estate as a result of foreclosure, the real estate is classified as real estate owned. The real estate owned is recorded at the lower of carrying amount or fair market value, less estimated costs to sell. Any excess of the recorded value of the loan over the fair market value of the property is charged against the allowance for credit losses, or, if the existing allowance is inadequate, charged to expense in the current period. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

We may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that we would not otherwise consider resulting in a modified loan. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months.

The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At March 31, 2024	At June 30, 2023
	(Dollars in thousands)	
Non-accrual loans:		
Commercial real estate	$ 3,413	$ 8,025
Commercial and industrial	96	650
Commercial construction	—	—
Residential mortgages	3,480	4,000
Home equity loans and lines of credit	1,696	1,560
Consumer	—	—
Total non-accrual loans	8,685	14,235
Accruing loans past due 90 days or more:		
Commercial real estate	4	174
Commercial and industrial	—	—
Commercial construction	—	3,237
Residential mortgages	—	120
Home equity loans and lines of credit	—	—
Consumer	—	—
Total accruing loans past due 90 days or more	4	3,531
Real estate owned:		
Commercial real estate	—	—
Commercial and industrial	—	—
Commercial construction	—	—
Residential mortgages	—	—
Home equity loans and lines of credit	—	—
Consumer	—	—
Total real estate owned	—	—
Total non-performing assets	$ 8,689	$ 17,766
Total non-performing loans to total loans	0.65 %	1.52 %
Total non-performing assets to total assets	0.44 %	0.96 %

Non-accrual loans decreased $5.5 million to $8.7 million at March 31, 2024 from $14.2 million at June 30, 2023 primarily due to $4.3 million in paydowns on one commercial real estate loan relationship secured by various multi-family properties, as well as the payoff of two other commercial real estate loans and one commercial and industrial loan, and the charge-off of one commercial and industrial loan. Accruing loans past due 90 days or more decreased $3.5 million to $4,000 at March 31, 2024 from $3.5 million at June 30, 2023 primarily due to one commercial construction loan relationship that was made current during the first fiscal quarter of 2024.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered to be of lesser quality, as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as “special mention.”

The following table sets forth our amounts of all classified loans and loans designated as special mention as of March 31, 2024 and June 30, 2023.

	At March 31, 2024	At June 30, 2023
	(In thousands)	
Classification of Loans:		
Substandard	$ 21,760	$ 69,233
Doubtful	790	118
Loss	—	—
Total Classified Loans	$ 22,550	$ 69,351
Special Mention	$ 26,470	$ 3,591

Total substandard loans decreased $47.4 million to $21.8 million at March 31, 2024 from $69.2 million at June 30, 2023 primarily due to the upgrades of several commercial real estate loan relationships out of the substandard category and payoffs/paydowns on several commercial real estate loan relationships. The upgrades were primarily related to the upgrade to the special mention category of two commercial real estate loan relationships, a $16.5 million loan secured by a hotel and a $4.9 million loan secured by a senior housing facility, as well as the upgrade to the pass category of two commercial real estate loan relationships, a $5.0 million loan relationship secured by a hotel/banquet facility, and a $3.1 million loan secured by a senior housing facility. The payoffs/paydowns were primarily related to the partial payoff/refinance and upgrade of a $8.1 million commercial real estate loan relationship, the payoff of a $1.8 million commercial real estate loan and $4.3 million in paydowns on a commercial real estate loan relationship secured by various multi-family properties.

Total special mention loans increased by $22.9 million to $26.5 million at March 31, 2024 from $3.6 million at June 30, 2023 primarily due to the migration from the substandard category to the special mention category of two commercial real estate loan relationships, a $16.5 million loan secured by a hotel, and a $4.9 million loan secured by a senior housing facility.

Allowance for Credit Losses on Loans. Effective July 1, 2023, the measurement of CECL on loans requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses under the CECL approach is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. The Company then considers whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the period from which historical experience was used. Finally, the Company considers forecasts about future economic conditions that are reasonable and supportable. On a case-by-case basis, the Company may conclude that a loan should be evaluated on an individual basis based on its disparate risk characteristics. When the Company determines that a loan no longer shares similar risk characteristics with other loans in the portfolio, the allowance will be determined on an individual basis using the present value of expected cash flows or, for collateral-dependent loans, the estimated fair value of the collateral, as applicable. The allowance for credit losses on loans, as reported in our consolidated statements of condition, are adjusted by a provision for credit losses, which is recognized in earnings, and reduced by the charge-off of loans, net of recoveries. All loan information presented as of June 30, 2023 or a prior date is presented in accordance with previously applicable GAAP (the incurred loss method).

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolios, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods. While management's current evaluation of the allowance for credit losses indicates that the allowance is appropriate, the allowance may need to be increased under adversely different conditions or assumptions. Going forward, the impact of utilizing the CECL approach to calculate the allowance for credit losses will be significantly influenced by the composition, characteristics and quality of our loan portfolios, as well as the prevailing economic conditions and forecasts utilized. Material changes to these and other relevant factors may result in greater volatility to the allowance for credit losses, and therefore, greater volatility to our reported earnings.

In addition, bank regulators periodically review our allowance for credit losses on loans and as a result of such reviews, we may have to materially adjust our allowance for credit losses on loans or recognize further loan charge-offs.

The following table sets forth activity in our allowance for credit losses on loans for the periods indicated.

	At or for the Nine Months Ended March 31, 2024	2023
	(Dollars in thousands)	
Allowance at beginning of period	$ 22,469	$ 22,524
Cumulative effect adjustment for the adoption of ASU 2016-13	(2,311)	—
Provision for credit losses	1,833	(280)
Charge offs:		
Commercial real estate	—	31
Commercial and industrial	345	11
Commercial construction	—	—
Residential mortgages	6	26
Home equity loans and lines of credit	12	—
Consumer	93	130
Total charge-offs	456	198
Recoveries:		
Commercial real estate	—	—
Commercial and industrial	50	71
Commercial construction	—	—
Residential mortgages	—	66
Home equity loans and lines of credit	2	14
Consumer	13	17
Total recoveries	65	168
Net charge-offs	391	30
Allowance at end of period	$ 21,600	$ 22,214
Allowance to non-performing loans	248.56 %	220.49 %
Allowance to total loans outstanding at the end of the period	1.62 %	2.00 %
Net charge-offs to average loans outstanding during the period (1)	0.04 %	0.00 %

(1) Annualized.

Liquidity and Capital Resources

Liquidity. Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, and proceeds from calls, maturities and sales of securities. We also have the ability to borrow from the Federal Home Loan Bank of New York. At March 31, 2024, we had the ability to borrow up to $497.5 million from the Federal Home Loan Bank of New York, of which none was utilized for borrowings and $270.0 million was utilized as collateral for letters of credit issued to secure municipal deposits. At March 31, 2024, we also had a $20.0 million unsecured line of credit with a correspondent bank with no outstanding balance, as well as the ability to borrow from the Federal Reserve Bank of New York through the discount window lending program, and access to the reciprocal and brokered deposit markets. We cannot predict what the impact of the events described in “Recent Developments – Mann Entities Related Fraudulent Activity” above may have on our Liquidity and Capital Resources beyond the third quarter of fiscal 2024.

The board of directors 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 believe that we had enough sources of liquidity to satisfy our short and long-term liquidity needs as of March 31, 2024.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any period. At March 31, 2024, cash and cash equivalents totaled $246.5 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $296.9 million at March 31, 2024.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Certificates of deposit due within one year of March 31, 2024 totaled $115.6 million, or 7.01%, of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and Federal Home Loan Bank of New York advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. 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.

Capital Resources. We are subject to various regulatory capital requirements administered by the OCC, NYSDFS and the FDIC. At March 31, 2024, we exceeded all applicable regulatory capital requirements, and were considered “well capitalized” under regulatory guidelines.

The Bank and Pioneer Commercial Bank are subject to various 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 Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of the bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Pioneer Commercial Bank to maintain minimum capital amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to average assets (as defined), and common equity Tier 1, Tier 1 and total capital (as defined) to risk-weighted assets (as defined). Under Basel III rules, banks must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios in order to avoid limitations on distributions and certain discretionary bonus payments to executive officers. The required capital conservation buffer is 2.50%.

As a result of the Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies developed a "Community Bank Leverage Ratio" (the ratio of a bank's tier 1 capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies have set the Community Bank Leverage Ratio at 9%. A financial institution can elect to be subject to this new definition. The Bank and Pioneer Commercial Bank did not elect to become subject to the Community Bank Leverage Ratio as of March 31, 2024.

As of March 31, 2024, the Bank and Pioneer Commercial Bank met all capital adequacy requirements to which they were subject. Further, the most recent FDIC notification categorized the Bank and Pioneer Commercial Bank as well capitalized institutions under the prompt corrective action regulations. There have been no conditions or events since the notification that management believes have changed the Bank's or Pioneer Commercial Bank's capital classification.

The actual capital amounts and ratios for the Bank and Pioneer Commercial Bank are presented in the following tables (dollars in thousands):

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes with Capital Buffer		To be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Pioneer Bank:								
As of March 31, 2024								
Tier 1 (leverage) capital	$ 217,471	11.39 %	$ 76,349	4.00 %	N/A	N/A	$ 95,436	5.00 %
Risk-based capital								
Common Tier 1	$ 217,471	18.56 %	$ 52,722	4.50 %	$ 82,012	7.00 %	$ 76,154	6.50 %
Tier 1	$ 217,471	18.56 %	$ 70,296	6.00 %	$ 99,585	8.50 %	$ 93,728	8.00 %
Total	$ 232,223	19.82 %	$ 93,728	8.00 %	$ 123,017	10.50 %	$ 117,159	10.00 %
As of June 30, 2023								
Tier 1 (leverage) capital	$ 208,576	11.47 %	$ 72,733	4.00 %	N/A	N/A	$ 90,916	5.00 %
Risk-based capital								
Common Tier 1	$ 208,576	18.85 %	$ 49,795	4.50 %	$ 77,459	7.00 %	$ 71,926	6.50 %
Tier 1	$ 208,576	18.85 %	$ 66,393	6.00 %	$ 94,057	8.50 %	$ 88,524	8.00 %
Total	$ 222,513	20.11 %	$ 88,524	8.00 %	$ 116,188	10.50 %	$ 110,655	10.00 %

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes with Capital Buffer		To be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Pioneer Commercial Bank:								
As of March 31, 2024								
Tier 1 (leverage) capital	$ 51,291	9.10 %	$ 22,550	4.00 %	N/A	N/A	$ 28,188	5.00 %
Risk-based capital								
Common Tier 1	$ 51,291	47.11 %	$ 4,899	4.50 %	$ 7,621	7.00 %	$ 7,077	6.50 %
Tier 1	$ 51,291	47.11 %	$ 6,533	6.00 %	$ 9,254	8.50 %	$ 8,710	8.00 %
Total	$ 51,291	47.11 %	$ 8,710	8.00 %	$ 11,432	10.50 %	$ 10,888	10.00 %
As of June 30, 2023								
Tier 1 (leverage) capital	$ 46,284	9.39 %	$ 19,709	4.00 %	N/A	N/A	$ 24,636	5.00 %
Risk-based capital								
Common Tier 1	$ 46,284	54.81 %	$ 3,800	4.50 %	$ 5,911	7.00 %	$ 5,489	6.50 %
Tier 1	$ 46,284	54.81 %	$ 5,067	6.00 %	$ 7,178	8.50 %	$ 6,756	8.00 %
Total	$ 46,284	54.81 %	$ 6,756	8.00 %	$ 8,867	10.50 %	$ 8,444	10.00 %

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

At March 31, 2024, we had $265.0 million of commitments to originate or purchase loans, comprised of $153.2 million of commitments under commercial loans and lines of credit (including $32.8 million of unadvanced portions of commercial construction loans), $70.2 million of commitments under home equity loans and lines of credit,

$34.5 million of commitments to purchase residential mortgage loans and $7.1 million of unfunded commitments under consumer lines of credit. In addition, at March 31, 2024, we had $20.8 million in standby letters of credit outstanding.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with 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 performance than the effects of inflation.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

A smaller reporting company is not required to provide the information relating to this item.

Item 4 – Controls and Procedures

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. As of March 31, 2024, the Company’s management, including the Company’s Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), has evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a-15 and 15d-15(e) under the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

There were no changes in the Company’s internal control over financial reporting that occurred during the third quarter of the fiscal year ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

Certain legal proceedings in which we are involved are discussed in “Part I, Item 1 – Consolidated Financial Statements – Note 9 – Commitments and Contingent Liabilities – Legal Proceedings and Other Contingent Liabilities.”

Item 1A – Risk Factors

In addition to the other information contained in this Quarterly Report on Form 10-Q, the following risk factor represents material updates and additions to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2023 (the “Form 10-K”). Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factors set forth below and in the Form 10-K also are a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

We are subject to fraud and compliance risk.

We are susceptible to fraudulent activity committed against us or our clients, which has in the past and may continue to result in negative impacts to the Company which may include, but are not limited to, financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, governmental and regulatory sanctions and penalties, or damage to our reputation. We have experienced fraudulent activities that are adversely impacting our current financial performance and results of operations. See “Part I, Item 1 – Consolidated Financial Statements – unaudited – Note 9 – Commitments and Contingent Liabilities – Legal Proceedings and Other Contingent Liabilities,” for details. We expect these activities to continue to negatively impact our financial performance and results of operations. We are involved in numerous legal and other proceedings due to, among other reasons, the Mann Entities related fraudulent activity. See “Part II, Item 1 – Legal Proceedings,” for details. See “We are subject to sanctions and other negative actions if regulatory agencies with supervisory authority over us determine that we failed to comply with applicable laws and regulations” in our Annual Report on Form 10 K for the fiscal year ended June 30, 2023.

We are also subject to fraud and compliance risk, and have experienced fraudulent activities, in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, checking transactions, and debit cards that we have issued to our customers and through our online banking portals. There can be no assurance that such incidents or losses will not occur again or that such acts will be detected in a timely manner.

We maintain a system of internal controls and other measures to mitigate against such risks, including data processing system failures and errors, and customer fraud. If we fail to prevent or detect any such occurrence, or if any resulting loss is not insured, exceeds applicable insurance limits or if the insurance companies dispute or deny coverage, it could have a material adverse effect on our business, financial condition and results of operations. With respect to the fraud described in “Part I, Item 1 – Consolidated Financial Statements – unaudited – Note 9 – Commitments and Contingent Liabilities – Legal Proceedings and Other Contingent Liabilities,” and the proceedings described in “Part II, Item 1 – Legal Proceedings,” our insurance carriers have (a) denied coverage with respect to some of the claims, (b) accepted coverage, subject to certain conditions, with respect to some of the claims, and (c) sought additional information from the Company in order to further evaluate coverage. Costs related to the proceedings described in these two sections have exceeded the applicable limits and deductibles of our insurance policies. Further, though certain legal fees and expenses associated with these proceedings have been borne by our insurance carriers, up to applicable coverage limits and deductibles, such limits and deductibles have been met and/or exceeded, and we do not expect to recognize any additional insurance recoveries related to these claims. Because the amounts and timing of such legal fees and litigation-related expenses are inherently difficult to predict, there can be no assurance that legal fees and litigation-related expenses incurred by us in these proceedings will not continue to materially exceed the applicable insurance coverage limits and deductibles.

Item 2 – Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

During the third fiscal quarter of 2024, none of our directors or officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement," as that term is used in SEC regulations.

Item 6 – Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
32	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer
101	The following materials from Pioneer Bancorp, Inc. Form 10-Q for the three and nine months ended March 31, 2024, formatted in Extensible Business Reporting Language (Inline XBRL): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes.
104	Cover Page Interactive Data File (embedded in the cover page formatted in Inline XBRL)

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.

PIONEER BANCORP, INC.
(registrant)

May 13, 2024	/s/ Thomas L. Amell Thomas L. Amell President and Chief Executive Officer
May 13, 2024	/s/ Patrick J. Hughes Patrick J. Hughes Executive Vice President and Chief Financial Officer

EXHIBIT 31.1: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas L. Amell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pioneer 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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 13, 2024

/s/ Thomas L. Amell
Thomas L. Amell
President and Chief Executive Officer

EXHIBIT 31.2: Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer

Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Patrick J. Hughes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pioneer 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 consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 13, 2024

/s/ Patrick J. Hughes
Patrick J. Hughes
Executive Vice President and Chief Financial Officer

EXHIBIT 32: Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Pioneer Bancorp, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2024 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby 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 Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

May 13, 2024	/s/ Thomas L. Amell Thomas L. Amell President and Chief Executive Officer
May 13, 2024	/s/ Patrick J. Hughes Patrick J. Hughes Executive Vice President and Chief Financial Officer