

**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 September 30, 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
(State of Other Jurisdiction of
Incorporation)

001-38991
(Commission File No.)

83-4274253
(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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 November 8, 2024 there were 25,973,904 shares outstanding of the registrant's common stock.

**PIONEER BANCORP, INC.
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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)

	September 30, 2024	June 30, 2024
Assets		
Cash and due from banks	\$ 78,097	\$ 36,937
Federal funds sold	2,411	13,638
Interest-earning deposits with banks	144,466	114,615
Cash and cash equivalents	224,974	165,190
Securities available for sale, at fair value	262,533	257,409
Securities held to maturity, net of allowance for credit losses of \$216 at September 30, 2024 and \$262 at June 30, 2024 (fair value of \$22,863 at September 30, 2024; and \$22,437 at June 30, 2024)	24,589	25,090
Federal Reserve Bank of New York and Federal Home Loan Bank of New York stock	3,646	3,546
Loans receivable	1,420,963	1,365,870
Allowance for credit losses	(21,238)	(21,801)
Net loans receivable	1,399,725	1,344,069
Accrued interest receivable	7,667	7,559
Premises and equipment, net	39,718	40,105
Bank-owned life insurance	15,972	16,009
Goodwill	10,879	10,879
Other intangible assets, net	2,828	2,951
Other assets	22,071	22,597
Total assets	<u>\$ 2,014,602</u>	<u>\$ 1,895,404</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing deposits	\$ 537,933	\$ 445,328
Interest bearing deposits	1,137,347	1,104,924
Total deposits	1,675,280	1,550,252
Mortgagors' escrow deposits	3,854	9,701
Other liabilities	31,667	38,923
Total liabilities	<u>1,710,801</u>	<u>1,598,876</u>
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 September 30, 2024 and June 30, 2024)	—	—
Common stock (\$0.01 par value, 75,000,000 shares authorized, 26,146,904 and 26,261,293 shares issued and outstanding as of September 30, 2024 and June 30, 2024, respectively)	261	263
Additional paid in capital	113,795	113,484
Retained earnings	192,826	187,731
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(9,721)	(9,892)
Accumulated other comprehensive income	6,640	4,942
Total shareholders' equity	<u>303,801</u>	<u>296,528</u>
Total liabilities and shareholders' equity	<u>\$ 2,014,602</u>	<u>\$ 1,895,404</u>

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 September 30,	
	2024	2023
Interest and dividend income:		
Loans	\$ 20,930	\$ 16,533
Securities	2,165	2,568
Interest-earning deposits with banks and other	1,284	1,055
Total interest and dividend income	24,379	20,156
Interest expense:		
Deposits	6,270	3,954
Borrowings and other	212	312
Total interest expense	6,482	4,266
Net interest income	17,897	15,890
Provision for credit losses	(870)	750
Net interest income after provision for credit losses	18,767	15,140
Noninterest income:		
Bank fees and service charges	1,466	1,446
Insurance and wealth management services	2,171	1,981
Net gain on equity securities	—	80
Net gain on securities available for sale transactions	165	—
Other	316	67
Total noninterest income	4,118	3,574
Noninterest expense:		
Salaries and employee benefits	7,666	6,923
Net occupancy and equipment	1,833	1,831
Data processing	981	1,189
Advertising and marketing	224	141
Insurance premiums	248	239
Federal Deposit Insurance Corporation insurance premiums	263	262
Professional fees	1,953	2,587
Other	1,521	1,233
Total noninterest expense	14,689	14,405
Income before income taxes	8,196	4,309
Income tax expense	1,888	890
Net income	\$ 6,308	\$ 3,419
Net earnings per common share:		
Basic	\$ 0.25	\$ 0.14
Diluted	\$ 0.25	\$ 0.14
Weighted average shares outstanding – basic	25,081,864	25,194,841
Weighted average shares outstanding – diluted	25,150,650	25,194,841

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended September 30,	
	2024	2023
Net income	\$ 6,308	\$ 3,419
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized holding gains arising during the period	2,465	1,391
Reclassification adjustment for gains included in net income	(165)	—
	2,300	1,391
Tax expense	602	363
	1,698	1,028
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	1,698	1,028
Comprehensive income	\$ 8,006	\$ 4,447

See accompanying notes to unaudited consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unallocated</u>	<u>Accumulated Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Common</u>	<u>Comprehensive</u>	<u>Shareholders'</u>
			<u>Capital</u>		<u>Stock of ESOP</u>	<u>Loss</u>	<u>Equity</u>
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	<u>25,977,679</u>	<u>\$ 260</u>	<u>\$ 113,491</u>	<u>\$ 176,964</u>	<u>\$ (10,404)</u>	<u>\$ (8,540)</u>	<u>\$ 271,771</u>
	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unallocated</u>	<u>Accumulated Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Common</u>	<u>Comprehensive</u>	<u>Shareholders'</u>
			<u>Capital</u>		<u>Stock of ESOP</u>	<u>Income</u>	<u>Equity</u>
Balance as of July 1, 2024	26,261,293	\$ 263	\$ 113,484	\$ 187,731	\$ (9,892)	\$ 4,942	\$ 296,528
Net income	—	—	—	6,308	—	—	6,308
Other comprehensive income	—	—	—	—	—	1,698	1,698
ESOP shares committed to be released (12,729 shares)	—	—	(32)	—	171	—	139
Stock-based compensation expense	—	—	343	—	—	—	343
Repurchases of common stock	(114,389)	(2)	—	(1,213)	—	—	(1,215)
Balance as of September 30, 2024	<u>26,146,904</u>	<u>\$ 261</u>	<u>\$ 113,795</u>	<u>\$ 192,826</u>	<u>\$ (9,721)</u>	<u>\$ 6,640</u>	<u>\$ 303,801</u>

(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 Three Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 6,308	\$ 3,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	629	671
Provision for credit losses	(870)	750
Net accretion on securities	(582)	(370)
ESOP compensation	138	117
Loss on bank-owned life insurance	37	56
Net gain on sale or write-down of other real estate owned	(35)	—
Proceeds from sale of loans	2,823	—
Net gain on sale of loans	(29)	—
Loss on sale, disposal or write-down of premise and equipment, net	3	—
Net gain on equity securities	—	(80)
Net gain on securities available for sale transactions	(165)	—
Stock-based compensation expense	343	—
Deferred tax expense	834	37
(Increase) decrease in accrued interest receivable	(108)	70
Increase in other assets	(1,062)	(156)
(Decrease) increase in other liabilities	(6,356)	7,920
Changes in operating leases	3	8
Net cash provided by operating activities	1,911	12,442
Cash flows from investing activities:		
Proceeds from maturities, paydowns and calls of securities available for sale	34,745	45,077
Proceeds from sales of securities available for sale	350	—
Purchases of securities available for sale	(37,174)	(23,924)
Proceeds from maturities and paydowns of securities held to maturity	2,343	1,617
Purchases of securities held to maturity	(1,796)	(1,576)
Net purchases of FHLBNY and FRBNY stock	(100)	(38)
Net increase in loans receivable	(57,753)	(57,774)
Purchases of premises and equipment	(120)	(373)
Proceeds from sale of other real estate owned	188	—
Cash paid for acquisitions	—	(1,980)
Net cash used in investing activities	(59,317)	(38,971)
Cash flows from financing activities:		
Net increase in deposits	125,028	96,984
Net decreases in mortgagors' escrow deposits	(5,847)	(4,364)
Payments on acquisition contingent consideration	(750)	—
Repurchase of common stock	(1,215)	—
Repayment of finance lease liability	(26)	(25)
Net cash provided by financing activities	117,190	92,595
Net increase in cash and cash equivalents	59,784	66,066
Cash and cash equivalents at beginning of period	165,190	150,478
Cash and cash equivalents at end of period	\$ 224,974	\$ 216,544
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 6,503	\$ 4,280
Income taxes	\$ 1,000	\$ 1,000
Non-cash investing and financing activity:		
Acquisition contingent consideration payable	\$ —	\$ 1,499

See accompanying notes to unaudited consolidated financial statements.

PIONEER BANCORP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2024

1. NATURE OF OPERATIONS

Pioneer Bancorp, Inc. (the “Company”) is a mid-tier stock holding company whose wholly owned subsidiary is Pioneer Bank, National Association (the “Bank”). The Bank’s wholly owned subsidiaries are Pioneer Commercial Bank, Pioneer Insurance Agency, Inc. and Pioneer Financial Services, Inc. On September 16, 2024, the Office of the Comptroller of the Currency (the “OCC”) approved the merger of Pioneer Commercial Bank with and into the Bank with the Bank as the resulting entity (the “Commercial Bank Merger”). The Commercial Bank Merger closed on October 1, 2024. Following the completion of the Commercial Bank Merger, the Bank now directly offers full municipal deposit banking services which were previously provided through Pioneer Commercial Bank.

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 September 30, 2024 and for the three months ended September 30, 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”). On October 18, 2024, the Company announced it would change its fiscal year end from June 30 to December 31 of each calendar year. The results of operations for the three months ended September 30, 2024 are not necessarily indicative of the results to be achieved for the remainder of the six month transition period ending December 31, 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, 2024.

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.

Impact of Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“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 does not expect this new standard will have a material impact on the consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07 – Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures, to improve the reportable segment disclosures by requiring disclosure of incremental segment information on an annual and interim basis. In addition, the amendments will enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment and contain other disclosure requirements. The ASU does not change how a public entity identifies its operating segments or determines its reportable segments, or applies the quantitative thresholds to determine its reportable segments. The amendments in this ASU are effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company does not expect this new standard will have a material impact 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. The goodwill from the acquisition is expected to be deductible for tax purposes. During the three months ended September 30, 2024, contingent consideration of \$750,000 was paid. 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
September 30, 2024				
U.S. Treasury	\$ 218,050	\$ 281	\$ (1,571)	\$ 216,760
Mortgage-backed securities:				
U.S. Government agency securities	10,021	—	(220)	9,801
Collateralized mortgage obligations:				
U.S. Government agency securities	4,830	85	—	4,915
Government-sponsored enterprises	15,350	—	(66)	15,284
Municipal obligations	15,683	90	—	15,773
Total available for sale securities	<u>\$ 263,934</u>	<u>\$ 456</u>	<u>\$ (1,857)</u>	<u>\$ 262,533</u>
June 30, 2024				
U.S. Treasury	\$ 247,479	\$ 1	\$ (3,931)	\$ 243,549
Municipal obligations	13,419	5	(8)	13,416
Other debt securities	212	305	(73)	444
Total available for sale securities	<u>\$ 261,110</u>	<u>\$ 311</u>	<u>\$ (4,012)</u>	<u>\$ 257,409</u>

The Company elected to exclude accrued interest receivable from the amortized cost basis of debt securities. Accrued interest receivable on available for sale debt securities totaled \$1.3 million and \$1.4 million at September 30, 2024 and June 30, 2024, respectively, and is excluded from the estimate of credit losses and reported in accrued interest receivable in the consolidated statement of condition.

There was no allowance for credit losses for securities available for sale as of September 30, 2024 and June 30, 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
September 30, 2024						
Corporate debt securities	\$ 22,000	27	(1,931)	\$ 20,096	\$ 216	\$ 21,784
Municipal obligations	2,805	—	(38)	2,767	—	2,805
Total held to maturity securities	<u>\$ 24,805</u>	<u>\$ 27</u>	<u>\$ (1,969)</u>	<u>\$ 22,863</u>	<u>\$ 216</u>	<u>\$ 24,589</u>
June 30, 2024						
Corporate debt securities	\$ 22,000	\$ 55	\$ (2,898)	\$ 19,157	\$ 262	\$ 21,738
Municipal obligations	3,352	—	(72)	3,280	—	3,352
Total held to maturity securities	<u>\$ 25,352</u>	<u>\$ 55</u>	<u>\$ (2,970)</u>	<u>\$ 22,437</u>	<u>\$ 262</u>	<u>\$ 25,090</u>

Accrued interest receivable on held to maturity debt securities totaled \$232,000 and \$220,000 at September 30, 2024 and June 30, 2024, respectively, and is excluded from the estimate of credit losses and is reported in accrued interest receivable in the consolidated statement of condition.

There were no held to maturity securities that were 30 days or more past due or classified as non-accrual as of September 30, 2024 and June 30, 2024.

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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 September 30, 2024				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Corporate debt securities	\$ 262	\$ (46)	\$ —	\$ —	\$ 216
Municipal obligations	—	—	—	—	—
Total allowance for credit losses on securities held to maturity	\$ 262	\$ (46)	\$ —	\$ —	\$ 216

	For the Three Months Ended September 30, 2023				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Corporate debt securities	\$ —	\$ —	\$ —	\$ —	\$ —
Municipal obligations	—	—	—	—	—
Total allowance for credit losses on securities held to maturity	\$ —	\$ —	\$ —	\$ —	\$ —

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):

	September 30, 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. Treasury	\$ —	\$ —	\$ 162,314	\$ (1,571)	\$ 162,314	\$ (1,571)
Mortgage-backed securities:						
U.S. Government agency securities	9,801	(220)	—	—	9,801	(220)
Collateralized mortgage obligations:						
U.S. Government agency securities	—	—	—	—	—	—
Government-sponsored enterprises	15,273	(65)	11	(1)	15,284	(66)
Municipal obligations	—	—	—	—	—	—
	<u>\$ 25,074</u>	<u>\$ (285)</u>	<u>\$ 162,325</u>	<u>\$ (1,572)</u>	<u>\$ 187,399</u>	<u>\$ (1,857)</u>

Securities held to maturity:						
Corporate debt securities	\$ —	\$ —	\$ 18,070	\$ (1,931)	\$ 18,070	\$ (1,931)
Municipal obligations	—	—	2,767	(38)	2,767	(38)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20,837</u>	<u>\$ (1,969)</u>	<u>\$ 20,837</u>	<u>\$ (1,969)</u>

	June 30, 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. Treasury	\$ 19,580	\$ (12)	\$ 219,059	\$ (3,919)	\$ 238,639	\$ (3,931)
Municipal obligations	3,723	(8)	—	—	3,723	(8)
Other debt securities	—	—	90	(73)	90	(73)
	<u>\$ 23,303</u>	<u>\$ (20)</u>	<u>\$ 219,149</u>	<u>\$ (3,992)</u>	<u>\$ 242,452</u>	<u>\$ (4,012)</u>

Securities held to maturity:						
Corporate debt securities	\$ —	\$ —	\$ 17,102	\$ (2,898)	\$ 17,102	\$ (2,898)
Municipal obligations	—	—	3,280	(72)	3,280	(72)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20,382</u>	<u>\$ (2,970)</u>	<u>\$ 20,382</u>	<u>\$ (2,970)</u>

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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.

The Company does not believe the available for sale securities that were in an unrealized loss position as of September 30, 2024 and June 30, 2024, which consisted of 42 and 104 individual securities, respectively, represented a credit loss impairment. Available for sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. As of September 30, 2024 and June 30, 2024, the majority of the available for sale securities in an unrealized loss position consisted of debt securities issued by U.S. government agencies or U.S. government-sponsored enterprises that carry the explicit and/or implicit guarantee of the U.S. government, which are widely recognized as "risk-free" and have a long history of zero credit losses. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Company does not intend to sell, nor is it more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, which may be at maturity.

None of the Company's held to maturity debt securities were past due or on nonaccrual status as of September 30, 2024 and June 30, 2024. There was no accrued interest reversed against interest income for the three months ended September 30, 2024 and 2023, as all securities remained on accrual status. In addition, there were no collateral dependent held to maturity debt securities as of September 30, 2024 and June 30, 2024. An allowance for credit losses on held to maturity debt securities is recorded to account for expected lifetime credit losses.

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.

	September 30, 2024	
	Amortized Cost	Estimated Fair Value
Securities available for sale:		
Due in one year or less	\$ 204,516	\$ 203,361
Due after one to five years	33,241	33,183
Due after five to ten years	11,315	11,262
Due after ten years	14,862	14,727
	<u>\$ 263,934</u>	<u>\$ 262,533</u>
Securities held to maturity:		
Due in one year or less	\$ 1,774	\$ 1,736
Due after one to five years	1,031	1,031
Due after five to ten years	22,000	20,096
	<u>\$ 24,805</u>	<u>\$ 22,863</u>

Maturities of mortgage-backed securities and collateralized mortgage obligations are included based on their contractual lives. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

During the three months ended September 30, 2024, the Company received \$350,000 in proceeds from the sale of securities available for sale, realizing net gains of \$165,000. There were no sales of securities available for sale for the three months ended September 30, 2023.

There were no sales of securities held to maturity for the three months ended September 30, 2024 and 2023.

There were no sales of equity securities for the three months ended September 30, 2023.

At September 30, 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 September 30, 2024 and June 30, 2024, the carrying value of available for sale securities pledged to secure Federal Home Loan Bank of New York ("FHLBNY") advances and municipal deposits was \$259.4 million and \$254.1 million, respectively.

5. NET LOANS RECEIVABLE

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

	September 30, 2024	June 30, 2024
Commercial:		
Real estate	\$ 421,374	\$ 406,201
Commercial and industrial	109,387	101,207
Construction	113,227	118,373
Total commercial	643,988	625,781
Residential mortgages	665,027	633,779
Home equity loans and lines	93,840	92,765
Consumer	18,108	13,545
	1,420,963	1,365,870
Allowance for credit losses	(21,238)	(21,801)
Net loans receivable	\$ 1,399,725	\$ 1,344,069

Accrued interest receivable on loans totaled \$6.1 million and \$5.9 million at September 30, 2024 and June 30, 2024, respectively. Accrued interest receivable on loans is included in accrued interest receivable on the consolidated statement of condition, and is excluded from the estimate of credit losses.

Net deferred loan costs totaled \$9.5 million at September 30, 2024 and June 30, 2024, and are included in net loans receivable.

The allowance for credit losses on loans estimate 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. gross domestic product ("GDP") growth. The forecast will revert to long-term economic conditions over a four quarter reversion period on a straight-line basis. 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 following tables present the activity in the allowance for credit losses by portfolio segment (dollars in thousands):

	For the Three Months Ended September 30, 2024				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Commercial	\$ 12,504	\$ (1,009)	\$ (24)	\$ 207	\$ 11,678
Residential mortgages	7,706	95	(14)	—	7,787
Home equity loans and lines of credit	1,244	(73)	—	—	1,171
Consumer	347	290	(36)	1	602
Allowance for credit losses - loans	21,801	(697)	(74)	208	21,238
Allowance for credit losses - off-balance sheet credit exposures	1,899	(127)	—	—	1,772
Total	\$ 23,700	\$ (824)	\$ (74)	\$ 208	\$ 23,010

For the Three Months Ended September 30, 2023						
	Beginning Balance	Cumulative Effect Adjustment for the Adoption of ASU 2016-13	Provisions	Charge-offs	Recoveries	Ending Balance
Commercial	\$ 14,288	\$ (1,307)	\$ 173	\$ —	\$ 27	\$ 13,181
Residential mortgages	6,222	(670)	639	—	—	6,191
Home equity loans and lines of credit	1,470	(265)	89	(12)	—	1,282
Consumer	489	(69)	15	(23)	3	415
Allowance for credit losses - loans	22,469	(2,311)	916	(35)	30	21,069
Allowance for credit losses - off-balance sheet credit exposures	—	1,624	(166)	—	—	1,458
Total	\$ 22,469	\$ (687)	\$ 750	\$ (35)	\$ 30	\$ 22,527

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

September 30, 2024					
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for credit losses:					
Related to loans individually evaluated	\$ —	\$ —	\$ —	\$ —	\$ —
Related to loans collectively evaluated	11,678	7,787	1,171	602	21,238
Ending balance	\$ 11,678	\$ 7,787	\$ 1,171	\$ 602	\$ 21,238
Loans:					
Individually evaluated	\$ —	\$ 1,597	\$ —	\$ —	\$ 1,597
Loans collectively evaluated	643,988	663,430	93,840	18,108	1,419,366
Ending balance	\$ 643,988	\$ 665,027	\$ 93,840	\$ 18,108	\$ 1,420,963
June 30, 2024					
	Commercial	Residential Mortgages	Home Equity	Consumer	Total
Allowance for credit losses:					
Related to loans individually evaluated	\$ 134	\$ —	\$ —	\$ —	\$ 134
Related to loans collectively evaluated	12,370	7,706	1,244	347	21,667
Ending balance	\$ 12,504	\$ 7,706	\$ 1,244	\$ 347	\$ 21,801
Loans:					
Individually evaluated	\$ 3,853	\$ 1,625	\$ —	\$ —	\$ 5,478
Loans collectively evaluated	621,928	632,154	92,765	13,545	1,360,392
Ending balance	\$ 625,781	\$ 633,779	\$ 92,765	\$ 13,545	\$ 1,365,870

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 three months ended September 30, 2024 and 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.

The Company may occasionally make modifications to loans where the borrower is considered to be experiencing financial difficulty. Types of modifications considered include principal reductions, interest rate reductions, term

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extensions, or a combination. There were no modifications to loans where the borrower is considered to be experiencing financial difficulty for the three months ended September 30, 2024.

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):

	September 30, 2024			
	Nonaccrual	Nonaccrual Loans With No Related Allowance	Past Due 90 Days Still on Accrual	Recognized Interest Income
Commercial:				
Real estate	\$ —	\$ —	\$ 1	\$ —
Commercial and industrial	23	—	—	—
Construction	—	—	—	—
Residential mortgages	4,085	1,597	—	—
Home equity loans and lines	1,257	—	—	—
Consumer	—	—	—	—
	<u>\$ 5,365</u>	<u>\$ 1,597</u>	<u>\$ 1</u>	<u>\$ —</u>

	June 30, 2024			
	Nonaccrual	Nonaccrual Loans With No Related Allowance	Past Due 90 Days Still on Accrual	Recognized Interest Income
Commercial:				
Real estate	\$ 3,180	\$ 3,180	\$ 4	\$ —
Commercial and industrial	9	—	—	—
Construction	—	—	—	—
Residential mortgages	4,208	1,625	—	—
Home equity loans and lines	1,648	—	—	—
Consumer	—	—	—	—
	<u>\$ 9,045</u>	<u>\$ 4,805</u>	<u>\$ 4</u>	<u>\$ —</u>

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):

	September 30, 2024	
	Amortized Cost	Collateral Type
Commercial:		
Real estate	\$ —	
Commercial and industrial	—	
Construction	—	
Residential mortgages	1,597	Residential real estate property
Home equity loans and lines	—	
Consumer	—	
	<u>\$ 1,597</u>	

June 30, 2024		
	Amortized Cost	Collateral Type
Commercial:		
Real estate	\$ 3,844	Commercial real estate property
Commercial and industrial	9	Business assets
Construction	—	
Residential mortgages	1,625	Residential real estate property
Home equity loans and lines	—	
Consumer	—	
	<u>\$ 5,478</u>	

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

September 30, 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	\$ —	\$ 3	\$ 1	\$ 4	\$ 421,370	\$ 421,374
Commercial and industrial	—	13	23	36	109,351	109,387
Construction	—	—	—	—	113,227	113,227
Residential mortgages	—	929	991	1,920	663,107	665,027
Home equity loans and lines	308	211	468	987	92,853	93,840
Consumer	5	44	—	49	18,059	18,108
Total	<u>\$ 313</u>	<u>\$ 1,200</u>	<u>\$ 1,483</u>	<u>\$ 2,996</u>	<u>\$ 1,417,967</u>	<u>\$ 1,420,963</u>

June 30, 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	\$ 2	\$ 3	\$ 4	\$ 9	\$ 406,192	\$ 406,201
Commercial and industrial	15	—	—	15	101,192	101,207
Construction	—	—	—	—	118,373	118,373
Residential mortgages	872	481	794	2,147	631,632	633,779
Home equity loans and lines	722	78	654	1,454	91,311	92,765
Consumer	14	8	—	22	13,523	13,545
Total	<u>\$ 1,625</u>	<u>\$ 570</u>	<u>\$ 1,452</u>	<u>\$ 3,647</u>	<u>\$ 1,362,223</u>	<u>\$ 1,365,870</u>

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.

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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	Revolving Loans Converted	
	2024							Cost Basis	to Term	Total
September 30, 2024	Transition Period	2024	2023	2022	2021	Prior				
Commercial real estate										
Risk Rating										
Pass	\$	6,412	\$ 33,471	\$ 47,521	\$ 55,433	\$ 22,726	\$ 231,160	\$ 714	\$ —	\$ 397,437
Special mention		—	—	—	—	—	6,471	—	—	6,471
Substandard		—	—	—	2,217	—	14,152	1,097	—	17,466
Doubtful		—	—	—	—	—	—	—	—	—
Total commercial real estate	\$	6,412	\$ 33,471	\$ 47,521	\$ 57,650	\$ 22,726	\$ 251,783	\$ 1,811	\$ —	\$ 421,374
Current period gross charge-offs	\$	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial										
Risk Rating										
Pass	\$	6,810	\$ 13,858	\$ 5,870	\$ 4,582	\$ 2,760	\$ 9,540	\$ 61,346	\$ —	\$ 104,766
Special mention		—	—	—	1,068	—	200	750	—	2,018
Substandard		—	—	—	15	—	2,391	177	—	2,583
Doubtful		—	—	—	—	—	20	—	—	20
Total commercial and industrial	\$	6,810	\$ 13,858	\$ 5,870	\$ 5,665	\$ 2,760	\$ 12,151	\$ 62,273	\$ —	\$ 109,387
Current period gross charge-offs	\$	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 24	\$ —	\$ 24
Commercial construction										
Risk Rating										
Pass	\$	6,705	\$ 42,722	\$ 9,882	\$ 32,259	\$ 18,520	\$ 2,307	\$ 832	\$ —	\$ 113,227
Special mention		—	—	—	—	—	—	—	—	—
Substandard		—	—	—	—	—	—	—	—	—
Doubtful		—	—	—	—	—	—	—	—	—
Total commercial construction	\$	6,705	\$ 42,722	\$ 9,882	\$ 32,259	\$ 18,520	\$ 2,307	\$ 832	\$ —	\$ 113,227
Current period gross charge-offs	\$	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential mortgages										
Performing	\$	29,453	\$ 191,326	\$ 203,353	\$ 41,999	\$ 54,561	\$ 139,059	\$ 114	\$ —	\$ 659,865
Non-performing		—	—	952	528	716	2,966	—	—	5,162
Total residential mortgages	\$	29,453	\$ 191,326	\$ 204,305	\$ 42,527	\$ 55,277	\$ 142,025	\$ 114	\$ —	\$ 665,027
Current period gross charge-offs	\$	—	\$ —	\$ —	\$ 10	\$ —	\$ 4	\$ —	\$ —	\$ 14
Home equity loans and lines of credit										
Performing	\$	1,207	\$ 6,356	\$ 6,141	\$ 9,133	\$ 3,347	\$ 14,161	\$ 52,238	\$ —	\$ 92,583
Non-performing		—	—	—	97	—	253	907	—	1,257
Total home equity loans and lines of credit	\$	1,207	\$ 6,356	\$ 6,141	\$ 9,230	\$ 3,347	\$ 14,414	\$ 53,145	\$ —	\$ 93,840
Current period gross charge-offs	\$	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer										
Performing	\$	1,343	\$ 5,565	\$ 642	\$ 87	\$ 54	\$ 3,378	\$ 7,039	\$ —	\$ 18,108
Non-performing		—	—	—	—	—	—	—	—	—
Total consumer	\$	1,343	\$ 5,565	\$ 642	\$ 87	\$ 54	\$ 3,378	\$ 7,039	\$ —	\$ 18,108
Current period gross charge-offs	\$	28	\$ 1	\$ —	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ 36

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	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized	Revolving Loans Converted	
June 30, 2024	2024	2023	2022	2021	2020	Prior	Cost Basis	to Term	Total
Commercial real estate									
Risk Rating									
Pass	\$ 29,592	\$ 47,818	\$ 43,324	\$ 23,191	\$ 67,757	\$ 168,333	\$ 679	\$ —	\$ 380,694
Special mention	—	—	2,234	—	—	8,003	1,090	—	11,327
Substandard	—	—	—	—	756	13,424	—	—	14,180
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial real estate	\$ 29,592	\$ 47,818	\$ 45,558	\$ 23,191	\$ 68,513	\$ 189,760	\$ 1,769	\$ —	\$ 406,201
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial									
Risk Rating									
Pass	\$ 13,945	\$ 6,381	\$ 4,868	\$ 3,066	\$ 4,127	\$ 6,259	\$ 56,628	\$ —	\$ 95,274
Special mention	—	—	1,118	—	1,250	221	750	—	3,339
Substandard	—	—	17	—	53	2,350	141	—	2,561
Doubtful	—	—	—	—	—	24	9	—	33
Total commercial and industrial	\$ 13,945	\$ 6,381	\$ 6,003	\$ 3,066	\$ 5,430	\$ 8,854	\$ 57,528	\$ —	\$ 101,207
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 345	\$ —	\$ —	\$ 345
Commercial construction									
Risk Rating									
Pass	\$ 38,626	\$ 9,589	\$ 45,073	\$ 19,740	\$ —	\$ 3,794	\$ 1,551	\$ —	\$ 118,373
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial construction	\$ 38,626	\$ 9,589	\$ 45,073	\$ 19,740	\$ —	\$ 3,794	\$ 1,551	\$ —	\$ 118,373
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential mortgages									
Performing	\$ 180,784	\$ 206,815	\$ 42,279	\$ 56,059	\$ 33,286	\$ 110,234	\$ 114	\$ —	\$ 629,571
Non-performing	—	962	540	—	581	2,125	—	—	4,208
Total residential mortgages	\$ 180,784	\$ 207,777	\$ 42,819	\$ 56,059	\$ 33,867	\$ 112,359	\$ 114	\$ —	\$ 633,779
Current period gross charge-offs	\$ —	\$ —	\$ 112	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 118
Home equity loans and lines of credit									
Performing	\$ 6,308	\$ 6,525	\$ 9,475	\$ 3,454	\$ 1,369	\$ 13,375	\$ 50,611	\$ —	\$ 91,117
Non-performing	—	—	99	—	—	643	906	—	1,648
Total home equity loans and lines of credit	\$ 6,308	\$ 6,525	\$ 9,574	\$ 3,454	\$ 1,369	\$ 14,018	\$ 51,517	\$ —	\$ 92,765
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 12	\$ —	\$ 12
Consumer									
Performing	\$ 1,517	\$ 1,533	\$ 100	\$ 67	\$ 6	\$ 3,272	\$ 7,050	\$ —	\$ 13,545
Non-performing	—	—	—	—	—	—	—	—	—
Total consumer	\$ 1,517	\$ 1,533	\$ 100	\$ 67	\$ 6	\$ 3,272	\$ 7,050	\$ —	\$ 13,545
Current period gross charge-offs	\$ 100	\$ 6	\$ 23	\$ 4	\$ 1	\$ 1	\$ —	\$ —	\$ 135

As of September 30, 2024 and June 30, 2024, the Company had pledged \$645.8 million and \$605.8 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 September 30, 2024, the Company held derivatives not designated as hedging instruments, comprised of back-to-back interest rate swaps, with a total notional amount of \$382.8 million, consisting of \$191.4 million of interest rate swaps with commercial borrowers and \$191.4 million of offsetting interest rate swaps with third-party counterparties on substantially the same terms. At June 30, 2024, the Company held derivatives not designated as hedging instruments, comprised of back-to-back interest rate swaps, with a total notional amount of \$406.8 million, consisting of \$203.4 million of interest rate swaps with commercial borrowers and \$203.4 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):

	September 30, 2024	
	Derivative Assets	Derivative Liabilities
Gross interest rate swaps	\$ 9,745	\$ 9,745
Less: cash collateral applied	(9,370)	(16)
Net amount	<u>\$ 375</u>	<u>\$ 9,729</u>

	June 30, 2024	
	Derivative Assets	Derivative Liabilities
Gross interest rate swaps	\$ 16,781	\$ 16,781
Less: cash collateral applied	(16,620)	(16)
Net amount	<u>\$ 161</u>	<u>\$ 16,765</u>

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 September 30, 2024, the Company had received \$9.4 million and deposited \$16,000 as collateral for swap agreements with third-party counterparties. At June 30, 2024, the Company had received \$16.6 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 (Loss) Components	Three Months Ended September 30,		Affected Line Item in the Statement Where Net Income is Presented
	2024	2023	
Unrealized gains/losses on securities (before tax):			
Net gains included in net income	\$ (165)	\$ —	Net gains on securities transactions
Tax expense	43	—	Income tax expense
Net of tax	(122)	—	
Amortization of defined benefit plan items (before tax):			
Net actuarial gain	—	—	
Tax benefit	—	—	Income tax expense
Net of tax	—	—	
Total reclassification for the period, net of tax	<u>\$ (122)</u>	<u>\$ —</u>	

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 September 30,		
	Unrealized Gains/Losses on Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
2024:			
Accumulated other comprehensive income (loss) as of July 1, 2024	\$ (2,734)	\$ 7,676	\$ 4,942
Other comprehensive income before reclassifications	1,820	—	1,820
Amounts reclassified from accumulated other comprehensive income	(122)	—	(122)
Accumulated other comprehensive income (loss) as of September 30, 2024	<u>\$ (1,036)</u>	<u>\$ 7,676</u>	<u>\$ 6,640</u>
2023:			
Accumulated other comprehensive loss as of July 1, 2023	\$ (13,702)	\$ 4,134	\$ (9,568)
Other comprehensive income before reclassifications	1,028	—	1,028
Accumulated other comprehensive loss as of September 30, 2023	<u>\$ (12,674)</u>	<u>\$ 4,134</u>	<u>\$ (8,540)</u>

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 September 30,	
	2024	2023
Unrealized gains on securities:		
Unrealized holdings gains arising during the period	\$ 645	\$ 363
Reclassification adjustment for gains included in net income	(43)	—
	<u>602</u>	<u>363</u>
Defined benefit plans:		
Change in funded status	—	—
Reclassification adjustment for amortization of net actuarial loss	—	—
	<u>—</u>	<u>—</u>
	<u>\$ 602</u>	<u>\$ 363</u>

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 (income) 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 September 30,	
	2024	2023
Service cost	\$ 277	\$ 389
Interest cost	481	553
Expected return on plan assets	(710)	(789)
Amortization of net actuarial gain	(105)	—
Net periodic pension (income) cost	<u>\$ (57)</u>	<u>\$ 153</u>

Contributions

For the three months ended September 30, 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.

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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 September 30,	
	2024	2023
Service cost	\$ 5	\$ 6
Interest cost	18	19
Amortization of net actuarial gain	(12)	(10)
Net periodic post-retirement benefit cost	<u>\$ 11</u>	<u>\$ 15</u>

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 September 30, 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 September 30,	
	2024	2023
Allocated	254,580	203,664
Committed to be allocated	38,187	38,187
Unallocated	725,558	776,474
Total shares	<u>1,018,325</u>	<u>1,018,325</u>

Total compensation expense recognized in connection with the ESOP for the three months ended September 30, 2024 and 2023 was \$138,000 and \$117,000, 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.

	September 30, 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	\$ 34,138	\$ 251,623	\$ 285,761
Standby letters of credit	—	21,391	21,391
	<u>\$ 34,138</u>	<u>\$ 273,014</u>	<u>\$ 307,152</u>
	June 30, 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	\$ 30,007	\$ 273,932	\$ 303,939
Standby letters of credit	—	21,943	21,943
	<u>\$ 30,007</u>	<u>\$ 295,875</u>	<u>\$ 325,882</u>

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 September 30, 2024, approximately \$302.7 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 September 30, 2024, approximately \$432,000 of the adjustable rate mortgage loans had conversion options.

The Company periodically sells residential mortgage loans to the Federal National Mortgage Association (“FNMA”). At September 30, 2024 and June 30, 2024, the Bank had no loans held for sale. In addition, the Bank had no loan commitments with borrowers at September 30, 2024 and June 30, 2024 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 September 30, 2024 and June 30, 2024, 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 months ended September 30, 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 September 30, 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 September 30, 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 September 30, 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 have asserted 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 three months ended September 30, 2024 and 2023, the Bank recognized insurance recoveries in the amount of \$0 and \$576,000, 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. 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 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. On June 3, 2024, the Pioneer Parties filed a motion for summary judgment on all claims asserted in the third amended complaint. On the same day, the plaintiffs filed a motion for partial summary judgment as to one of the Pioneer Parties’ affirmative defenses and on the counterclaims against Southwestern for violations of RICO. On June 14, 2024, the Pioneer Parties filed a separate motion to dismiss certain claims asserted in the third amended complaint for lack of subject-matter jurisdiction. Briefing on the various motions was completed on August 28, 2024, and the motions are now pending before the court for decision.

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. On June 3, 2024, the Pioneer Parties filed a motion for summary judgment on all claims asserted in the amended complaint, as well as a separate motion to dismiss the amended complaint in its entirety for lack of subject-matter jurisdiction. On the same day, NatPay filed a motion for partial summary judgment as to one of the Pioneer Parties’ affirmative defenses and on the counterclaims against NatPay for violations of RICO. Briefing on the various motions was completed on August 28, 2024, and the motions are now pending before the court for decision.

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. Briefing on the motion was completed on June 27, 2024. A hearing on the motion was held by the Court on July 11, 2024. On August 28, 2024, the Court entered an order granting in part and denying in part the Pioneer Parties’ motion. In particular, the court dismissed with prejudice Cachet’s claims for aiding and abetting conversion and fraud and dismissed without prejudice Cachet’s RICO claims. The court denied the Pioneer Parties’ motion to dismiss the claims for conversion, unjust enrichment, and money had and received. On October 10, 2024, the Pioneer Parties filed an answer to the second amended complaint, as well as a motion to strike certain allegations in the second amended complaint relating to the dismissed claims. Briefing on the motion to strike was completed on November 7, 2024, and a hearing on the motion is scheduled for November 14, 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. Thereafter, discovery on the matter proceeded until the Court issued a stay of the action on June 30, 2024. The stay is expected to be in effect until at least December 20, 2024.

On December 1, 2020, the Bank filed a complaint in the Supreme Court of the State of New York against Teal, Becker & Chiamonte, 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. This matter is currently in discovery.

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. On July 31, 2024, the parties submitted a joint written update to the court concerning the status of the federal litigation. These actions remain stayed pending the outcome of that litigation.

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. On July 5, 2024, after reaching a confidential settlement agreement, the parties filed a stipulation of dismissal of the action with prejudice. On July 8, 2024 the Court entered a Joint Stipulation and Order of Voluntary Dismissal of the action with prejudice.

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") made requests for production of documents, conducted interviews with Bank employees, and took 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. NYSDFS did not further pursue negotiations of the matter in or around the second part of 2023. Thereafter, the Bank converted from a New York chartered savings bank to a national bank, with the approval of the OCC, as of April 1, 2024. As a result of the conversion, OCC has now assumed the regulatory oversight responsibilities previously held by NYSDFS.

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 evaluated loans are valued at the lower of cost or fair value. Individually evaluated loans carried at fair value have been partially charged-off or receive a specific allocation of the allowance for credit losses on loans. For collateral dependent loans, fair value 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 Measurements at September 30, 2024 Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
Assets:					
Available for sale securities:					
U.S. Treasury	\$ 216,760	\$ 216,760	\$ —	\$ —	
Mortgage-backed securities:					
U.S. Government agency securities	9,801	—	9,801	—	
Collateralized mortgage obligations:					
U.S. Government agency securities	4,915	—	4,915	—	
Government-sponsored enterprises	15,284	—	15,284	—	
Municipal obligations	15,773	—	15,773	—	
Total available for sale securities	262,533	216,760	45,773	—	
Derivative assets ⁽¹⁾	9,745	—	9,745	—	
Total	\$ 272,278	\$ 216,760	\$ 55,518	\$ —	
Liabilities:					
Derivative liabilities ⁽¹⁾	\$ 9,745	\$ —	\$ 9,745	\$ —	
Total	\$ 9,745	\$ —	\$ 9,745	\$ —	
		Fair Value Measurements at June 30, 2024 Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
Assets:					
Available for sale securities:					
U.S. Treasury	\$ 243,549	\$ 243,549	\$ —	\$ —	
Municipal obligations	13,416	—	13,416	—	
Other debt securities	444	—	444	—	
Total available for sale securities	257,409	243,549	13,860	—	
Derivative assets ⁽¹⁾	16,781	—	16,781	—	
Total	\$ 274,190	\$ 243,549	\$ 30,641	\$ —	
Liabilities:					
Derivative liabilities ⁽¹⁾	\$ 16,781	\$ —	\$ 16,781	\$ —	
Total	\$ 16,781	\$ —	\$ 16,781	\$ —	

(1) Additional information regarding the impact of offsetting cash collateral can be found in Note 6 – Derivatives.

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				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Fair Value						
September 30, 2024						
Individually evaluated loans:						
Commercial loans	\$	—	\$	—	\$	—
OREO		—		—		—
June 30, 2024						
Individually evaluated loans:						
Commercial loans	\$	539	\$	—	\$	539
OREO		153		—		153

There were no loans individually evaluated for credit losses where the amortized cost was adjusted to fair value as of September 30, 2024. Loans individually evaluated for credit losses where the amortized cost was adjusted to fair value had a carrying amount of \$673,000 with a valuation allowance of \$134,000 resulting in an estimated fair value of \$539,000 as of June 30, 2024.

The Company had no OREO at September 30, 2024 and \$153,000 of OREO at June 30, 2024.

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)
September 30, 2024				
Individually evaluated loans:				
Commercial loans	\$ —			
OREO	—			
June 30, 2024				
Individually evaluated loans:				
Commercial loans	\$ 539	Appraisal of collateral (1)	Liquidation expense (2)	11.0%
OREO	153	Appraisal of collateral (1)	Liquidation expense (2)	10.0%

- (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):

	September 30, 2024				
			Fair Value Measurements Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	\$ 224,974	\$ 224,974	\$ 224,974	\$ —	\$ —
Securities available for sale	262,533	262,533	216,760	45,773	—
Securities held to maturity	24,589	22,863	—	22,863	—
FHLBNY and FRBNY stock	3,646	3,646	—	3,646	—
Net loans receivable	1,399,725	1,385,112	—	—	1,385,112
Accrued interest receivable	7,667	7,667	—	7,667	—
Derivative assets ⁽¹⁾	9,745	9,745	—	9,745	—
Financial liabilities					
Deposits					
Savings, money market, and demand accounts	\$ 1,518,927	\$ 1,518,927	\$ —	\$ 1,518,927	\$ —
Time deposits	156,353	155,409	—	155,409	—
Mortgagors' escrow deposits	3,854	3,854	—	3,854	—
Accrued interest payable	116	116	—	116	—
Derivative liabilities ⁽¹⁾	9,745	9,745	—	9,745	—
	June 30, 2024				
			Fair Value Measurements Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	\$ 165,190	\$ 165,190	\$ 165,190	\$ —	\$ —
Securities available for sale	257,409	257,409	243,549	13,860	—
Securities held to maturity	25,090	22,437	—	22,437	—
FHLBNY and FRBNY stock	3,546	3,546	—	3,546	—
Net loans receivable	1,344,069	1,293,472	—	—	1,293,472
Accrued interest receivable	7,559	7,559	—	7,559	—
Derivative assets ⁽¹⁾	16,781	16,781	—	16,781	—
Financial liabilities					
Deposits					
Savings, money market, and demand accounts	\$ 1,383,222	\$ 1,383,222	\$ —	\$ 1,383,222	\$ —
Time deposits	167,030	165,420	—	165,420	—
Mortgagors' escrow deposits	9,701	9,701	—	9,701	—
Accrued interest payable	137	137	—	137	—
Derivative liabilities ⁽¹⁾	16,781	16,781	—	16,781	—

(1) Additional information regarding the impact of offsetting cash collateral can be found in Note 6 – Derivatives.

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 and FRBNY Stock

The fair value of FHLBNY and FRBNY 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 months ended September 30, 2024 and 2023.

	For the Three Months Ended September 30,	
	2024	2023
Noninterest Income		
<i>In scope</i>		
Insurance services	\$ 472	\$ 595
Wealth management services	1,699	1,386
Service charges on deposit accounts	646	627
Card services income	716	748
Other	287	123
Noninterest income in scope	3,820	3,479
Noninterest income out of scope	298	95
Total noninterest income	<u>\$ 4,118</u>	<u>\$ 3,574</u>

12. EARNINGS PER SHARE

The following table summarizes the calculation of basic and diluted earnings per common share (in thousands, except for share and per share amounts):

	For the Three Months Ended September 30,	
	2024	2023
Net income applicable to common stock	\$ 6,308	\$ 3,419
Average number of common shares outstanding	25,813,787	25,977,679
Less: Average unallocated ESOP shares	731,923	782,838
Weighted-average number of common shares outstanding - basic	25,081,864	25,194,841
Add: Effect of dilutive stock options and restricted stock	68,786	—
Weighted-average number of common shares outstanding - diluted	25,150,650	25,194,841
Net earnings per common share:		
Basic	\$ 0.25	\$ 0.14
Diluted	\$ 0.25	\$ 0.14

Potential common shares from stock options that were not included in the computation of diluted earnings per common share, because they were anti-dilutive under the treasury stock method, were 830,000 for the three months ended September 30, 2024. There were no anti-dilutive shares for the three months ended September 30, 2023.

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;
- certain events in the recent past involving the failure of financial institutions which have adversely affected 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;
- 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 policies 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 FDIC insurance premium increases, or special assessments, which may adversely affect our earnings;
- fluctuations in the stock market, which 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;
- political instability or civil unrest;
- acts of war or terrorism or pandemics such as the recent COVID-19 pandemic;
- 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 (the “SEC”) 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; 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, 2024, 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 (credit) 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, and insurance and wealth management services income. Our non-interest income also includes net gain or losses on equity securities, net gain or losses on sales and calls of available for sale securities, and miscellaneous 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.

Net 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 includes 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 expense 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 general and administrative expenses include expenses for office supplies, postage, telephone, insurance 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

Change in Fiscal Year End

On October 15, 2024, the board of directors of the Company approved an amendment to Article VI, Section 5 of its Bylaws to change its fiscal year from June 30 to December 31. As a result of this change the three months ended September 30, 2024 is the first three months of the Company's six month transition period ending December 31, 2024. The Company will file a transition report for the six months ending December 31, 2024 on Form 10-K.

Completion of Pioneer Commercial Bank Merger

On September 16, 2024, the Office of the Comptroller of the Currency (the "OCC") approved the merger of Pioneer Commercial Bank with and into Pioneer Bank with Pioneer Bank as the resulting entity (the "Commercial Bank Merger"). The Commercial Bank Merger closed on October 1, 2024. Following the completion of the Commercial Bank Merger, Pioneer Bank now directly offers full municipal deposit banking services which were previously provided through Pioneer Commercial Bank.

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 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. 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, macroeconomic variables (e.g., civilian unemployment and U.S. gross domestic product ("GDP")), and reasonable and supportable forecasts from the Federal Open Market Committee ("FOMC") 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.

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, including making significant estimates of current credit risks and trends using existing quantitative and qualitative information, and reasonable and supportable forecasts of future economic conditions, which may undergo frequent and material changes. Subsequent evaluations of the then-existing loan portfolios, in light of changes in economic conditions, new information regarding existing loans and other factors, may result in significant changes in the allowance for credit losses in those future periods. For example, changes to the FOMC's forecasted civilian unemployment rate and year-over-year U.S. GDP growth could have a material impact on the model's estimation of the allowance for credit losses on loans. An immediate increase of 100 basis points in the FOMC's projected rate of civilian unemployment and a decrease of 100 basis points in the FOMC's projected rate of U.S. GDP growth would increase the model's total calculated allowance for credit losses on loans by \$1.2 million, or 5.6%, assuming qualitative adjustments are kept at current levels. 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. Additionally, changes in those factors and inputs may not occur at the same rate and inputs may be directionally inconsistent, such that improvements in one factor may offset deterioration in others. 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 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 exceed

these estimates, 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.

Average Balances and Yields

The following table sets 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 September 30,					
	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	\$ 1,379,122	\$ 20,930	6.16 %	\$ 1,175,279	\$ 16,533	5.70 %
Securities	280,753	2,165	3.09 %	446,152	2,568	2.30 %
Interest-earning deposits and other	90,691	1,284	5.74 %	76,581	1,055	5.58 %
Total interest-earning assets	1,750,566	24,379	5.64 %	1,698,012	20,156	4.79 %
Non-interest-earning assets	149,409			153,684		
Total assets	\$ 1,899,975			\$ 1,851,696		
Interest-bearing liabilities:						
Demand deposits	\$ 145,349	\$ 715	1.97 %	\$ 140,526	\$ 507	1.44 %
Savings deposits	263,559	68	0.10 %	286,139	39	0.05 %
Money market deposits	530,250	4,075	3.08 %	466,276	2,627	2.25 %
Certificates of deposit	142,742	1,412	3.98 %	105,764	781	2.96 %
Total interest-bearing deposits	1,081,900	6,270	2.32 %	998,705	3,954	1.58 %
Borrowings and other	23,408	212	3.64 %	27,890	312	4.51 %
Total interest-bearing liabilities	1,105,308	6,482	2.35 %	1,026,595	4,266	1.66 %
Non-interest-bearing deposits	454,168			508,862		
Other non-interest-bearing liabilities	41,494			46,464		
Total liabilities	1,600,970			1,581,921		
Total shareholders' equity	299,005			269,775		
Total liabilities and shareholders' equity	\$ 1,899,975			\$ 1,851,696		
Net interest income		\$ 17,897			\$ 15,890	
Net interest rate spread (1)			3.29 %			3.13 %
Net interest-earning assets (2)	\$ 645,258			\$ 671,417		
Net interest margin (3)			4.12 %			3.76 %
Average interest-earning assets to interest-bearing liabilities	158.38 %			165.40 %		

- (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 September 30, 2024 vs. 2023		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	\$ 3,002	\$ 1,395	\$ 4,397
Securities	(1,125)	722	(403)
Interest-earning deposits and other	199	30	229
Total interest-earning assets	2,076	2,147	4,223
Interest-bearing liabilities:			
Demand deposits	18	190	208
Savings deposits	(3)	32	29
Money market deposits	393	1,055	1,448
Certificates of deposit	318	313	631
Total interest-bearing deposits	726	1,590	2,316
Borrowings and other	(45)	(55)	(100)
Total interest-bearing liabilities	681	1,535	2,216
Change in net interest income	\$ 1,395	\$ 612	\$ 2,007

Comparison of Financial Condition at September 30, 2024 and June 30, 2024

Total Assets. Total assets of \$2.01 billion at September 30, 2024 increased \$119.2 million, or 6.3%, from \$1.90 billion at June 30, 2024. The increase was due primarily to an increase of \$55.7 million, or 4.1%, in net loans receivable, an increase of \$59.8 million, or 36.2% in cash and cash equivalents, and an increase of \$5.1 million, or 2.0% in securities available for sale.

Cash and Cash Equivalents. Total cash and cash equivalents of \$225.0 million at September 30, 2024, increased \$59.8 million, or 36.2%, from \$165.2 million at June 30, 2024.

Securities Available for Sale. Total securities available for sale of \$262.5 million at September 30, 2024 increased \$5.1 million, or 2.0%, from \$257.4 million at June 30, 2024. The increase was primarily due to purchases of \$37.2 million, offset in part by maturities, paydowns, calls and sales of \$35.1 million during the three months ended September 30, 2024.

Net Loans Receivable. Net loans receivable of \$1.40 billion at September 30, 2024 increased \$55.7 million, or 4.1%, from \$1.34 billion at June 30, 2024. By loan category, residential mortgage loans increased by \$31.2 million, or 4.9%, to \$665.0 million at September 30, 2024 from \$633.8 million at June 30, 2024, commercial real estate loans increased by \$15.2 million, or 3.7%, to \$421.4 million at September 30, 2024 from \$406.2 million at June 30, 2024, commercial and industrial loans increased by \$8.2 million, or 8.1%, to \$109.4 million at September 30, 2024 from \$101.2 million at June 30, 2024, consumer loans increased by \$4.6 million, or 33.7%, to \$18.1 million at September 30, 2024 from \$13.5 million at June 30, 2024, and home equity loans and lines of credit increased by \$1.0 million, or 1.2%, to \$93.8 million at September 30, 2024 from \$92.8 million at June 30, 2024. These increases were partially offset by a decrease in commercial construction loans of \$5.1 million, or 4.3%, to \$113.3 million at September 30, 2024 from \$118.4 million at June 30, 2024.

The increase in residential mortgage loans was primarily related to the Bank's relationship with a third-party mortgage banking company which facilitated an increase in residential mortgage loan volume, despite the higher interest rate environment. The increase in commercial real estate loans and commercial and industrial loans was due to loan funding

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outpacing loan payoffs. The increase in consumer loans was due to the purchase of \$5.0 million in unsecured consumer loans during the quarter. The decrease in commercial construction loans was related to the conversion of loans to permanent financing.

The following table presents our commercial real estate loan portfolio by industry sector at September 30, 2024.

	At September 30, 2024	
	Amount	Percent
	(Dollars in thousands)	
Commercial real estate loans		
Multi-family	\$ 119,418	28.3 %
Owner occupied real estate		
Retail	36,847	8.7 %
Office	20,219	4.8 %
Warehouse	10,024	2.4 %
Accommodation and food service	8,817	2.1 %
Mixed use	8,270	2.0 %
Other real estate	3,495	0.8 %
Total owner occupied real estate	87,672	20.8 %
Non-owner occupied real estate		
Retail	76,689	18.2 %
Accommodation and food service	53,657	12.7 %
Warehouse	36,253	8.6 %
Office	34,130	8.1 %
Mixed use	7,040	1.7 %
Other real estate	6,515	1.6 %
Total non-owner occupied real estate	214,284	50.9 %
Total commercial real estate loans	\$ 421,374	100.0 %

Our commercial real estate loans are secured primarily by multi-family properties, office buildings, industrial facilities, retail facilities and other commercial properties, substantially all of which are located in our primary market area.

Deposits. Total deposits of \$1.68 billion at September 30, 2024 increased \$125.0 million, or 8.1%, from \$1.55 billion at June 30, 2024. By deposit category, non-interest-bearing demand deposits increased by \$92.6 million, or 20.8%, to \$537.9 million at September 30, 2024 from \$445.3 million at June 30, 2024, money market accounts increased by \$37.6 million, or 7.3%, to \$551.3 million at September 30, 2024 from \$513.7 million at June 30, 2024, and demand accounts increased by \$12.0 million, or 7.6%, to \$170.0 million at September 30, 2024 from \$158.0 million at June 30, 2024. These increases were partially offset by a decrease in certificates of deposit by \$10.6 million, or 6.4%, to \$156.4 million at September 30, 2024 from \$167.0 million at June 30, 2024 (included in certificates of deposit were brokered deposits which decreased by \$19.5 million to \$19.8 million at September 30, 2024 from \$39.3 million at June 30, 2024) and a decrease in savings accounts by \$6.6 million, or 2.5%, to \$259.7 million at September 30, 2024 from \$266.3 million at June 30, 2024.

The increase in non-interest-bearing demand accounts and demand accounts was primarily related to growth in municipal deposits due to seasonality. The increase in money market accounts was primarily due to growth in municipal and commercial deposits and migration of funds from non-interest-bearing demand, savings and other lower rate interest-bearing accounts. The decrease in certificates of deposit was primarily due to a decrease in brokered deposits, partially offset by a migration of funds from non-interest-bearing demand, savings and other lower rate interest-bearing accounts. The decrease in savings accounts was primarily related to migration of funds to higher interest-bearing accounts.

The following table sets forth the distribution of total deposits by depositor type as of the dates indicated.

	September 30, 2024		June 30, 2024	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Retail deposits	\$ 766,181	45.7 %	\$ 768,396	49.6 %
Business deposits	320,164	19.1 %	302,251	19.5 %
Municipal deposits	569,166	34.0 %	440,277	28.4 %
Brokered deposits	19,769	1.2 %	39,328	2.5 %
Total	<u>\$ 1,675,280</u>	<u>100.0 %</u>	<u>\$ 1,550,252</u>	<u>100.0 %</u>

Uninsured deposits represents the portion of deposit accounts that exceed FDIC insurance limits. The Company calculates its uninsured deposit balances based on the same methodologies and assumptions used for regulatory reporting requirements, which includes collateralized deposits.

The following table estimates uninsured deposits after certain exclusions:

	September 30, 2024	June 30, 2024
Uninsured deposits, per regulatory requirements	\$ 844,588	\$ 695,526
Less: Affiliate deposits	44,131	44,699
Collateralized deposits	551,659	423,470
Uninsured deposits, after exclusions	<u>\$ 248,798</u>	<u>\$ 227,357</u>

Uninsured deposits after exclusions represents 14.9% and 14.7% of total deposits as of September 30, 2024 and June 30, 2024, respectively. The Company believes that this presentation of uninsured deposits provides a more accurate view of deposits at risk as affiliate deposits are not customer facing and therefore are eliminated upon consolidation, and collateralized deposits are fully secured by investments and municipal letters of credits.

Total Shareholders' Equity. Total shareholders' equity of \$303.8 million at September 30, 2024 increased \$7.3 million, or 2.5%, from \$296.5 million at June 30, 2024 primarily as a result of net income of \$6.3 million and an increase in accumulated other comprehensive income of \$1.7 million, partially offset by the repurchase of common stock of \$1.2 million.

Comparison of Operating Results for the Three Months Ended September 30, 2024 and September 30, 2023

General. Net income increased by \$2.9 million to \$6.3 million for the three months ended September 30, 2024 as compared to \$3.4 million for the three months ended September 30, 2023. The increase was primarily due to an increase in net interest income of \$2.0 million, a decrease in the provision for credit losses of \$1.6 million, and an increase in non-interest income of \$544,000, offset in part by an increase in income tax expense of \$998,000 and an increase in non-interest expense of \$284,000.

Interest and Dividend Income. Interest and dividend income increased \$4.2 million, or 21.0%, to \$24.4 million for the three months ended September 30, 2024, from \$20.2 million for the three months ended September 30, 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 5.64% for the three months ended September 30, 2024, from 4.79% for the three months ended September 30, 2023. The increase in the average yield on interest-earning assets was driven by an increase in variable rate loan yields, as well as due to market related increases in interest rates on new loans and an asset allocation shift, using investment securities' cash flow to fund higher yielding assets. Average interest-earning assets increased by \$52.6 million from \$1.70 billion for the three months ended September 30, 2023 to \$1.75 billion for the three months ended September 30, 2024 primarily due to the increase in the average balance of loans.

Interest income on loans increased \$4.4 million, or 26.6%, to \$20.9 million for the three months ended September 30, 2024 from \$16.5 million for the three months ended September 30, 2023. Interest income on loans increased due to a \$203.8 million increase in the average balance of loans to \$1.38 billion for the three months ended September 30, 2024 from \$1.18 billion for the three months ended September 30, 2023, coupled with a 46 basis points increase in the average

yield on loans to 6.16% for the three months ended September 30, 2024 from 5.70% for the three months ended September 30, 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 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 \$403,000, or 15.7%, to \$2.2 million for the three months ended September 30, 2024 from \$2.6 million for the three months ended September 30, 2023. Interest income on securities decreased due to a \$165.4 million decrease in the average balance of securities to \$280.8 million for the three months ended September 30, 2024 from \$446.2 million for the three months ended September 30, 2023, offset in part by a 79 basis points increase in the average yield on securities to 3.09% for the three months ended September 30, 2024 from 2.30% for the three months ended September 30, 2023. The decrease in the average balance of securities was primarily due to the sales of U.S. government and agency securities during the three months ended December 31, 2023 as part of a balance sheet repositioning in which the Company sold \$74.5 million of lower-yielding available for sale securities with an average book yield of approximately 0.83%, and maturities of U.S. government and agency and municipal obligation securities, in conjunction with an asset allocation shift, using investment securities' 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 replacing lower yielding available for sale securities.

Interest income on interest-earning deposits with banks and other increased \$229,000 to \$1.3 million for the three months ended September 30, 2024 from \$1.1 million for the three months ended September 30, 2023. Interest income on interest-earning deposits with banks and other increased due to a \$14.1 million increase in the average balances on interest-earning deposits with banks and other to \$90.7 million for the three months ended September 30, 2024 from \$76.6 million for the three months ended September 30, 2023 primarily due to a net increase in deposits, as well as a 16 basis points increase in the average yield on interest-earning deposits with banks and other to 5.74% for the three months ended September 30, 2024 from 5.58% for the three months ended September 30, 2023 primarily due to the purchase of Federal Reserve Bank of New York stock during the three months ended June 30, 2024.

Interest Expense. Interest expense increased \$2.2 million to \$6.5 million for the three months ended September 30, 2024 from \$4.3 million for the three months ended September 30, 2023 as a result of increases in interest expense on deposits. The increase was primarily due to a 69 basis points increase in the average cost of interest-bearing liabilities to 2.35% for the three months ended September 30, 2024 from 1.66% for the three months ended September 30, 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 \$2.3 million to \$6.3 million for the three months ended September 30, 2024 from \$4.0 million for the three months ended September 30, 2023. Interest expense on interest-bearing deposits increased primarily due to a 74 basis points increase in the average cost of interest-bearing deposits to 2.32% for the three months ended September 30, 2024 from 1.58% for the three months ended September 30, 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 \$83.2 million to \$1.08 billion for the three months ended September 30, 2024 from \$1.00 billion for the three months ended September 30, 2023. The increase in the average cost of interest-bearing deposits was primarily due to the repricing of certain interest-bearing deposit accounts in response to changes in market interest rates and the higher interest rate environment, as well as a shift in the mix of deposits towards higher cost interest-bearing accounts. The increase in the average balance of interest-bearing deposits was due to higher average money market and certificates of deposit balances.

Interest expense on borrowings and other liabilities decreased \$100,000 to \$212,000 for the three months ended September 30, 2024 from \$312,000 for the three months ended September 30, 2023 due primarily to the decrease in the average borrowings and other liabilities of \$4.5 million to \$23.4 million for the three months ended September 30, 2024 from \$27.9 million for the three months ended September 30, 2023, and by a decrease in the average cost of borrowings and other liabilities of 87 basis points to 3.64% for the three months ended September 30, 2024 from 4.51% for the three months ended September 30, 2023.

Net Interest Income. Net interest income of \$17.9 million for the three months ended September 30, 2024 increased \$2.0 million, or 12.6%, compared to \$15.9 million for the three months ended September 30, 2023 as net interest margin increased 36 basis points to 4.12% for the three months ended September 30, 2024 from 3.76% for the three months

ended September 30, 2023. The increase in the net interest margin was partially offset by a decrease in net interest-earning assets by \$26.1 million to \$645.3 million for the three months ended September 30, 2024 from \$671.4 million for the three months ended September 30, 2023 as a result of a shift in deposit mix which increased interest-bearing deposits. The effect on net interest income of the decrease in the average balance of net interest-earning assets for the three months ended September 30, 2024 was offset by the asset allocation shift to higher yielding assets. Net interest rate spread increased 16 basis points to 3.29% for the three months ended September 30, 2024 from 3.13% for the three months ended September 30, 2023.

Provision for Credit Losses. A credit to the provision for credit losses of \$870,000 was recorded for the three months ended September 30, 2024, as compared to a provision for credit losses of \$750,000 for the three months ended September 30, 2023. The credit to the provision for credit losses for the three months ended September 30, 2024 was primarily due to improvements in asset quality, economic conditions, and net recoveries, offset in part by growth in the loan portfolio. Non-performing assets were \$5.4 million, or 0.27% of total assets, at September 30, 2024, compared to \$9.2 million, or 0.49% of total assets, at June 30, 2024 and \$14.4 million, or 0.73% of total assets, at September 30, 2023. The allowance for credit losses on loans was \$21.2 million at September 30, 2024 and \$21.1 million at September 30, 2023, representing 1.49% and 1.72% of total loans outstanding, respectively. Net recoveries were \$134,000 or an annualized (0.04)% of average loans, for the three months ended September 30, 2024 compared to net charge-offs of \$5,000, or an annualized 0.00% of average loans, for the three months ended September 30, 2023.

Non-Interest Income. Non-interest income increased \$544,000, or 15.2%, to \$4.1 million for the three months ended September 30, 2024 as compared to \$3.6 million for the three months ended September 30, 2023. Noninterest income increased primarily due to a \$190,000 increase in insurance and wealth management services income, and a \$165,000 net gain on the sale of securities available for sale. The increase in insurance and wealth management services income was primarily as a result of organic growth and positive market performance related to our wealth management services.

Non-Interest Expense. Non-interest expense increased \$284,000, or 2.0%, to \$14.7 million for the three months ended September 30, 2024 as compared to \$14.4 million for the three months ended September 30, 2023. The increase was primarily due to an increase in salaries and employee benefits of \$743,000, offset in part by a decrease in professional fees of \$634,000. Salaries and employee benefits increased due to compensation expense from annual merit increases, hiring talent to fill open positions, as well as due to share-based compensation costs recognized during the three months ended September 30, 2024 for the stock awards granted during the three months ended June 30, 2024. Professional fees decreased due to lower legal fees and expenses as compared to the prior-year period.

Income Tax Expense. Income tax expense increased \$998,000 to \$1.9 million for the three months ended September 30, 2024 as compared to \$890,000 for the three months ended September 30, 2023 primarily due to an increase in income before income taxes. Our effective tax rate was 23.0% for the three months ended September 30, 2024 compared to 20.7% for the three months ended September 30, 2023. The increase in our effective tax rate was primarily due to the decrease in tax-exempt income for the three months ended September 30, 2024 as compared to the prior-year period.

Asset Quality and Allowance for Credit Losses

Asset Quality. 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 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.

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

	At September 30, 2024	At June 30, 2024
	(Dollars in thousands)	
Non-accrual loans:		
Commercial real estate	\$ —	\$ 3,180
Commercial and industrial	23	9
Commercial construction	—	—
Residential mortgages	4,085	4,208
Home equity loans and lines of credit	1,257	1,648
Consumer	—	—
Total non-accrual loans	5,365	9,045
Accruing loans past due 90 days or more:		
Commercial real estate	1	4
Commercial and industrial	—	—
Commercial construction	—	—
Residential mortgages	—	—
Home equity loans and lines of credit	—	—
Consumer	—	—
Total accruing loans past due 90 days or more	1	4
Real estate owned:		
Commercial real estate	—	—
Commercial and industrial	—	—
Commercial construction	—	—
Residential mortgages	—	153
Home equity loans and lines of credit	—	—
Consumer	—	—
Total real estate owned	—	153
Total non-performing assets	\$ 5,366	\$ 9,202
Total non-performing loans to total loans	0.38 %	0.66 %
Total non-performing assets to total assets	0.27 %	0.49 %

Non-accrual loans decreased \$3.6 million to \$5.4 million at September 30, 2024 from \$9.0 million at June 30, 2024 primarily due to one commercial real estate loan relationship secured by various multi-family properties totaling \$3.2 million at June 30, 2024, that as a result of various payments received from the borrower returned to accrual status during the three months ended September 30, 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.”

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

	September 30, 2024	June 30, 2024
	(In thousands)	
Classification of Loans:		
Substandard	\$ 26,468	\$ 22,597
Doubtful	20	33
Loss	—	—
Total Classified Loans	<u>\$ 26,488</u>	<u>\$ 22,630</u>
Special Mention	<u>\$ 8,489</u>	<u>\$ 14,666</u>

Total substandard loans increased \$3.9 million to \$26.5 million at September 30, 2024 from \$22.6 million at June 30, 2024 primarily due to the migration from the special mention category to the substandard category of a \$4.7 million commercial real estate loan relationship consisting of four loans secured by multiple office, warehouse and industrial properties. The increase was partially offset by the upgrade to the pass category of a commercial real estate relationship and paydowns on a commercial real estate loan relationship secured by various multi-family properties.

Total special mention loans decreased by \$6.2 million to \$8.5 million at September 30, 2024 from \$14.7 million at June 30, 2024 primarily due to the migration to the substandard category from the special mention category of a \$4.7 million commercial real estate loan relationship consisting of four loans secured by multiple office, warehouse and industrial properties, and the payoff of a \$1.3 million loan relationship.

Allowance for Credit Losses on Loans. The measurement of Current Expected Credit Losses (“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, is adjusted by a provision for credit losses, which is recognized in earnings, and reduced by the charge-off of loans, net of recoveries.

Determining the appropriateness of the allowance is complex and requires judgments by our 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. The impact of utilizing the CECL approach to calculate the allowance for credit losses is 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 Three Months Ended September 30,	
	2024	2023
	(Dollars in thousands)	
Allowance at beginning of period	\$ 21,801	\$ 22,469
Cumulative effect adjustment for the adoption of ASU 2016-13	—	(2,311)
Provision for credit losses	(697)	916
Charge offs:		
Commercial real estate	—	—
Commercial and industrial	24	—
Commercial construction	—	—
Residential mortgages	14	—
Home equity loans and lines of credit	—	12
Consumer	36	23
Total charge-offs	74	35
Recoveries:		
Commercial real estate	—	—
Commercial and industrial	207	27
Commercial construction	—	—
Residential mortgages	—	—
Home equity loans and lines of credit	—	—
Consumer	1	3
Total recoveries	208	30
Net (recoveries) charge-offs	(134)	5
Allowance at end of period	\$ 21,238	\$ 21,069
Allowance to non-performing loans	395.79 %	146.10 %
Allowance to total loans outstanding at the end of the period	1.49 %	1.72 %
Net (recoveries) charge-offs to average loans outstanding during the period		
(1)		
Commercial real estate	— %	— %
Commercial and industrial	(0.75)%	(0.12)%
Commercial construction	— %	— %
Residential mortgages	0.01 %	— %
Home equity loans and lines of credit	— %	0.05 %
Consumer	0.59 %	0.32 %
Total	(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 September 30, 2024, we had the ability to borrow up to \$514.5 million from the Federal Home Loan Bank of New York, of which none was utilized for borrowings and \$280.0 million was utilized as collateral for letters of credit issued to secure municipal deposits. At September 30, 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 quarter ended September 30, 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 September 30, 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 September 30, 2024, cash and cash equivalents totaled \$225.0 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$262.5 million at September 30, 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 September 30, 2024 totaled \$146.1 million, or 8.72%, 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. At September 30, 2024, we exceeded all applicable regulatory capital requirements, and were considered “well capitalized” under regulatory guidelines.

The Bank and Pioneer Commercial Bank was 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%.

The federal banking agencies, including the OCC, issued a rule pursuant to The Economic Growth Regulatory Relief and Consumer Protection Act of 2018 (the “Regulatory Relief Act”) to establish for institutions with assets of less than \$10 billion a “community bank leverage ratio” (the ratio of a bank’s tier 1 capital to average total consolidated assets) of 9% that qualifying institutions may elect to use in lieu of the generally applicable leverage and risk-based capital requirements under Basel III. If an election to use the community bank leverage ratio capital framework is made, a qualifying bank with less than \$10 billion in assets with capital exceeding the specified community bank leverage ratio is considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be “well capitalized.” As of September 30, 2024 the Bank had not elected to be subject to the alternative community bank leverage ratio framework.

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As of September 30, 2024, the Bank and Pioneer Commercial Bank met all capital adequacy requirements to which they were subject. Further, the most recent OCC and FDIC notifications 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 capital classification including the completion of the Commerical Bank Merger.

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

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>For Capital Adequacy Purposes with Capital Buffer</u>		<u>To be Well Capitalized Under Prompt Corrective Action</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Pioneer Bank, National Association:								
As of September 30, 2024								
Tier 1 (leverage) capital	\$ 227,910	12.13 %	\$ 75,153	4.00 %	N/A	N/A	\$ 93,942	5.00 %
Risk-based capital								
Common Tier 1	\$ 227,910	18.19 %	\$ 56,384	4.50 %	\$ 87,708	7.00 %	\$ 81,443	6.50 %
Tier 1	\$ 227,910	18.19 %	\$ 75,178	6.00 %	\$ 106,502	8.50 %	\$ 100,238	8.00 %
Total	\$ 243,665	19.45 %	\$ 100,238	8.00 %	\$ 131,562	10.50 %	\$ 125,297	10.00 %
As of June 30, 2024								
Tier 1 (leverage) capital	\$ 221,549	11.65 %	\$ 76,051	4.00 %	N/A	N/A	\$ 95,064	5.00 %
Risk-based capital								
Common Tier 1	\$ 221,549	18.40 %	\$ 54,171	4.50 %	\$ 84,265	7.00 %	\$ 78,246	6.50 %
Tier 1	\$ 221,549	18.40 %	\$ 72,227	6.00 %	\$ 102,322	8.50 %	\$ 96,303	8.00 %
Total	\$ 236,706	19.66 %	\$ 96,303	8.00 %	\$ 126,398	10.50 %	\$ 120,379	10.00 %
Pioneer Commercial Bank:								
As of September 30, 2024								
Tier 1 (leverage) capital	\$ 53,854	10.64 %	\$ 20,251	4.00 %	N/A	N/A	\$ 25,314	5.00 %
Risk-based capital								
Common Tier 1	\$ 53,854	48.05 %	\$ 5,043	4.50 %	\$ 7,845	7.00 %	\$ 7,284	6.50 %
Tier 1	\$ 53,854	48.05 %	\$ 6,724	6.00 %	\$ 9,526	8.50 %	\$ 8,965	8.00 %
Total	\$ 53,854	48.05 %	\$ 8,965	8.00 %	\$ 11,767	10.50 %	\$ 11,207	10.00 %
As of June 30, 2024								
Tier 1 (leverage) capital	\$ 52,658	9.56 %	\$ 22,039	4.00 %	N/A	N/A	\$ 27,549	5.00 %
Risk-based capital								
Common Tier 1	\$ 52,658	56.09 %	\$ 4,224	4.50 %	\$ 6,571	7.00 %	\$ 6,102	6.50 %
Tier 1	\$ 52,658	56.09 %	\$ 5,633	6.00 %	\$ 7,979	8.50 %	\$ 7,510	8.00 %
Total	\$ 52,658	56.09 %	\$ 7,510	8.00 %	\$ 9,857	10.50 %	\$ 9,388	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 September 30, 2024, we had \$285.8 million of commitments to originate or purchase loans, comprised of \$177.2 million of commitments under commercial loans and lines of credit (including \$59.4 million of unadvanced portions of commercial construction loans), \$70.3 million of commitments under home equity loans and lines of credit, \$31.2 million of commitments to purchase residential mortgage loans and \$7.1 million of unfunded commitments under consumer lines of credit. In addition, at September 30, 2024, we had \$21.4 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 September 30, 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 quarter ended September 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

There have been no material changes to the risk factors set forth under Item 1.A. Risk Factors as set forth in the Company’s Annual Report on Form 10-K for the year ended June 30, 2024 (“Form 10-K”). 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 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.

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

There were no sales of unregistered securities during the three months ended September 30, 2024.

The following table reports information regarding repurchases by the Company of its common stock in each month of the quarter ended September 30, 2024:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs (1)
July 1 through July 31, 2024	66,800	\$ 10.23	66,800	1,125,697
August 1 through August 31, 2024	20,589	10.42	20,589	1,105,108
September 1 through September 30, 2024	27,000	11.05	27,000	1,078,108
Total	114,389	\$ 10.46	114,389	1,078,108

- (1) On May 21, 2024, the Company announced it adopted a stock repurchase program. The stock repurchase program authorizes the Company to repurchase up to an aggregate of 1,298,883 shares, or approximately 5% of its then outstanding shares. The repurchase program permits shares to be repurchased in open market or private transactions, through block trades, and pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase program has no expiration date.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

During the three months ended September 30, 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 months ended September 30, 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)

November 12, 2024

/s/ Thomas L. Amell

Thomas L. Amell

President and Chief Executive Officer

November 12, 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 13a-15(f) and 15d-15(f)) for the registrant have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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.

November 12, 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 13a-15(f) and 15d-15(f)) for the registrant have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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.

November 12, 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 September 30, 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.

November 12, 2024

/s/ Thomas L. Amell

Thomas L. Amell

President and Chief Executive Officer

November 12, 2024

/s/ Patrick J. Hughes

Patrick J. Hughes

Executive Vice President and Chief Financial Officer
