FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Division of Risk Management Supervision

February 10, 2017

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Board of Trustees
PCSB Bank
2651 Strang Boulevard, Suite 100
Yorktown Heights, New York 10598

RE: Plan of Conversion

Dear Members of the Board:

The Federal Deposit Insurance Corporation (FDIC) reviewed the Notice of Intent to Convert from mutual to stock form (Notice) filed on behalf of PCSB Bank, Brewster, New York (Bank), pursuant to the FDIC's regulations at 12 C.F.R. sections 303.160 – 303.163 and 333.4. The Notice was filed in connection with the Bank's Plan of Conversion whereby the Bank proposes to convert to a New York-chartered stock savings bank, and a holding company, PCSB Financial Corporation (PFC), would own 100 percent of the common stock of the stock bank. Concurrently with the conversion, PFC intends to offer for sale common stock on a priority basis in a subscription offering to qualifying eligible depositors; the Bank's tax-qualified employee stock ownership plan and 401(k) plan; supplemental eligible depositors; and, to the extent applicable, to the general public in a community offering (conversion offering). PFC also intends to establish PCSB Bank Charitable Foundation and contribute to it shares of common stock equal to 1.9 percent of the shares sold in the offering plus an amount of cash so that the total contribution will equal $5 million.

Based on the information provided and representations made, the FDIC poses no objection to the conversion as described in the Notice, subject to the following conditions (certain of which must be met on an ongoing basis).

1. The Bank must provide written evidence that the Plan of Conversion was approved by the affirmative vote of at least a majority of the votes eligible to be cast at a meeting of the Bank's depositors, except to the extent such vote requirement is waived by the FDIC.

2. The Bank must submit copies of all final disclosure materials to the FDIC's Division of Risk Management Supervision, Accounting & Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429.

3. The Bank must advise the FDIC of the results of the conversion offering, and deliver an updated appraisal that:

    a. Takes the results of the conversion offering into account,
    b. Discusses any material events or changes during the subscription period, and
    c. Explains any securities purchase orders that may have been rejected.

4. The Bank must provide written evidence that all necessary final approvals regarding the conversion and conversion offering have been obtained from the appropriate Federal and state authorities.

5. During the three-year period after the close of the conversion offering, the Bank must operate within the parameters set forth in the Business Plan submitted with the Notice (Business Plan), including the financial projections therein, and must notify and receive prior approval from the FDIC Regional Director of any proposed material deviation or material change from the Business Plan (including, but not limited to, any merger, acquisition or business combination involving the Bank) at least 60 days before consummating such change.

6. During the three-year period after the close of the conversion offering, the Bank must not make any distributions of capital to PFC, including cash dividends or any other retirement or return of capital, except in accordance with applicable FDIC laws and regulations, and as provided for in the Business Plan, without the prior approval of the FDIC Regional Director, if such action would cause the Bank's leverage and total capital ratios to fall below 8.0 percent and 12.0 percent, respectively.

7. During the twelve-month period after the close of the conversion offering, PFC must not declare any distributions of capital to shareholders, including cash dividends or any other retirement or return of capital, except with the written approval of the Federal Reserve Bank of New York.

8. Prior to a repurchase of shares by PFC within the first year after the close of the conversion offering, the Bank shall provide written notification to the FDIC New York Regional Office and provide copies of all documents filed with other regulators.

9. During the three-year period after the close of the conversion offering, shares issued to directors and executive officers (insiders) in the offering are restricted from resale without the prior approval of the FDIC Regional Director, except that: (1) in the event of the death of an insider, the successor in interest may sell the shares without such prior approval; (2) if the insider is no longer employed by or a trustee or director of the Bank or PFC, he or she may sell the shares without such prior approval; and (3) the insider may transfer the shares to his or her lineal descendant(s) or spouse, or into a trust or retirement vehicle for the benefit of the insider or such descendants and spouse without such prior approval.

10. The Bank and PFC must ensure that any stock option or recognition and retention plan (collectively, Stock Benefit Plans) established or maintained during the three-year period

after the close of the conversion offering will include provisions that comport with the following:

a. The duration of rights granted under the Stock Benefit Plans must be limited, and in no event shall the exercise period exceed ten years;
b. In accordance with applicable regulations, if the Stock Benefit Plans are adopted by shareholders within the first year after the close of the conversion offering, the rights must vest on an equal basis over a period of not less than five years. If the Stock Benefit Plans are adopted more than one year but less than three years after the close of the conversion offering, the rights must vest on an equal basis over a period of not less than three years following establishment of the Stock Benefit Plans in order to encourage the recipient to remain involved in the Bank;
c. Rights granted must not be transferable by the participant;
d. The exercise price of stock rights must not be less than the fair market value of the stock at the time that the rights are granted;
e. Rights under the Stock Benefit Plans must be exercised or expire within a reasonable time after termination or separation as an active officer, employee, or director; and
f. The Stock Benefit Plans must contain a provision allowing the primary federal regulator to direct the institution to require plan participants to exercise or forfeit their stock rights.

11. The PCSB Bank Charitable Foundation's Board of Directors commits to the following oversight provisions:

a. PFC common stock held by PCSB Bank Charitable Foundation must be voted in the same ratio as the shares voted on each proposal considered by the shareholders;
b. PCSB Bank Charitable Foundation will be subject to examination by the FDIC and must comply with all supervisory directives imposed by the FDIC;
c. PCSB Bank Charitable Foundation must operate in accordance with written policies adopted by its Board of Directors, including the adoption of a conflict of interest policy acceptable to the FDIC;
d. PCSB Bank Charitable Foundation must not engage in self-dealing, and must comply with all laws necessary to maintain its tax-exempt status under the Internal Revenue Code;
e. PCSB Bank Charitable Foundation must provide to the FDIC New York Regional Office a proposed operating plan prior to completion of the conversion offering, and within six months immediately following the date of the conversion offering, a three-year operating plan for PCSB Charitable Foundation that contains pro forma financial statements, including a balance sheet and income statement; and
f. Following completion of the conversion offering, PCSB Bank Charitable Foundation must provide to the FDIC New York Regional Office annual reports describing grants made and grant recipients.

12. The Bank acknowledges that this letter of non-objection is based on the facts and circumstances as currently known to the FDIC, and the Bank must notify the FDIC New

York Regional Office as soon as the Bank becomes aware of any material changes in the facts and circumstances prior to the close of the conversion offering.

13. Until the conversion is consummated, the FDIC has the right to alter, suspend, or withdraw its non-objection should any interim development warrant such action.

14. The conversion shall not be consummated later than six months after the date of the FDIC's non-objection unless such period is extended for good cause by the FDIC.

Please provide documentation to support satisfaction of the conditions to the FDIC New York Regional Office. Also, please notify the FDIC New York Regional Office in writing when the proposed transaction has been consummated. Should you have any questions, please contact Case Manager

Sincerely,

/S/

Doreen R. Eberley
Director

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