

GREENE COUNTY BANCORP INC
Form 10-Q
May 14, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

OR

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

GREENE COUNTY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Commission file number 0-25165

United States 14-1809721
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

302 Main Street, Catskill, New York 12414
(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (518) 943-2600

Check 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging Growth Company

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of May 14, 2018, the registrant had 8,526,614 shares of common stock outstanding at \$ 0.10 par value per share.

GREENE COUNTY BANCORP, INC.

INDEX

PART I.	FINANCIAL INFORMATION	Page
Item 1.	Financial Statements (unaudited)	
	<u>* Consolidated Statements of Financial Condition</u>	3
	<u>* Consolidated Statements of Income</u>	4
	<u>* Consolidated Statements of Comprehensive Income</u>	5
	<u>* Consolidated Statements of Changes in Shareholders' Equity</u>	6
	<u>* Consolidated Statements of Cash Flows</u>	7
	<u>* Notes to Consolidated Financial Statements</u>	8-29
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30-44
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4.	<u>Controls and Procedures</u>	44
PART II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	45
Item 1A.	<u>Risk Factors</u>	45
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 3.	<u>Defaults Upon Senior Securities</u>	45
Item 4.	<u>Mine Safety Disclosures</u>	45
Item 5.	<u>Other Information</u>	45
Item 6.	<u>Exhibits</u>	45
	<u>Signatures</u>	46
	Exhibit 31.1 302 Certification of Chief Executive Officer	
	Exhibit 31.2 302 Certification of Chief Financial Officer	

Exhibit 32.1 906 Statement of Chief
Executive Officer
Exhibit 32.2 906 Statement of Chief
Financial Officer
Exhibit 101 Extensible Business
Reporting Language (XBRL)

Index

Greene County Bancorp, Inc.
 Consolidated Statements of Financial Condition
 At March 31, 2018 and June 30, 2017
 (Unaudited)
 (In thousands, except share and per share amounts)

ASSETS	March 31, 2018	June 30, 2017
Total cash and cash equivalents	\$ 74,604	\$ 16,277
Long term certificate of deposit	2,385	2,145
Securities available-for-sale, at fair value	117,627	91,483
Securities held-to-maturity, at amortized cost (fair value \$277,799 at March 31, 2018; \$228,452 at June 30, 2017)	277,432	223,830
Federal Home Loan Bank stock, at cost	1,485	2,131
Loans	689,370	634,331
Allowance for loan losses	(11,622)	(11,022)
Unearned origination fees and costs, net	747	878
Net loans receivable	678,495	624,187
Premises and equipment	13,361	13,615
Accrued interest receivable	5,079	4,033
Foreclosed real estate	208	799
Prepaid expenses and other assets	3,112	3,791
Total assets	\$ 1,173,788	\$ 982,291
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 100,729	\$ 95,929
Interest-bearing deposits	951,518	763,606
Total deposits	1,052,247	859,535
Borrowings from Federal Home Loan Bank, short-term	-	6,900
Borrowings from Federal Home Loan Bank, long-term	18,150	22,650
Accrued expenses and other liabilities	10,724	9,685
Total liabilities	1,081,121	898,770
SHAREHOLDERS' EQUITY		
Preferred stock, Authorized - 1,000,000 shares; Issued - None	-	-
Common stock, par value \$.10 per share; Authorized - 12,000,000 shares; Issued - 8,611,340 shares; Outstanding - 8,526,614 shares at March 31, 2018, and 8,502,614 shares at June 30, 2017	861	861
Additional paid-in capital	11,050	10,990
Retained earnings	82,975	73,072
Accumulated other comprehensive loss	(1,899)	(992)
Treasury stock, at cost 84,726 shares at March 31, 2018, and 108,726 shares at June 30, 2017	(320)	(410)
Total shareholders' equity	92,667	83,521
Total liabilities and shareholders' equity	\$ 1,173,788	\$ 982,291

See notes to consolidated financial statements

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Index

Greene County Bancorp, Inc.

Consolidated Statements of Income

For the Three and Nine Months Ended March 31, 2018 and 2017

(Unaudited)

(In thousands, except share and per share amounts)

	For the three months ended March 31,		For the nine months ended March 31,	
	2018	2017	2018	2017
Interest income:				
Loans	\$ 7,454	\$ 6,598	\$ 21,800	\$ 19,033
Investment securities - taxable	185	156	513	452
Mortgage-backed securities	929	751	2,537	2,634
Investment securities - tax exempt	1,147	898	3,275	2,574
Interest-bearing deposits and federal funds sold	161	8	260	16
Total interest income	9,876	8,411	28,385	24,709
Interest expense:				
Interest on deposits	939	657	2,615	1,911
Interest on borrowings	77	127	280	353
Total interest expense	1,016	784	2,895	2,264
Net interest income	8,860	7,627	25,490	22,445
Provision for loan losses	345	343	1,044	1,472
Net interest income after provision for loan losses	8,515	7,284	24,446	20,973
Noninterest income:				
Service charges on deposit accounts	932	746	2,717	2,339
Debit card fees	566	490	1,723	1,491
Investment services	138	100	332	237
E-commerce fees	31	31	104	94
Other operating income	192	215	610	582
Total noninterest income	1,859	1,582	5,486	4,743
Noninterest expense:				
Salaries and employee benefits	3,485	2,992	9,522	8,447
Occupancy expense	448	442	1,159	1,161
Equipment and furniture expense	159	104	430	356
Service and data processing fees	539	508	1,566	1,455
Computer software, supplies and support	175	162	480	456
Advertising and promotion	74	79	241	287
FDIC insurance premiums	115	86	301	293
Legal and professional fees	223	207	683	625
Other	564	443	1,605	1,485
Total noninterest expense	5,782	5,023	15,987	14,565
Income before provision for income taxes	4,592	3,843	13,945	11,151
Provision for income taxes	915	946	3,156	2,821
Net income	\$ 3,677	\$ 2,897	\$ 10,789	\$ 8,330

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Basic earnings per share	\$ 0.43	\$ 0.34	\$ 1.27	\$ 0.98
Basic average shares outstanding	8,517,614	8,502,614	8,508,103	8,492,501
Diluted earnings per share	\$ 0.43	\$ 0.34	\$ 1.26	\$ 0.98
Diluted average shares outstanding	8,536,407	8,519,376	8,533,850	8,509,752
Dividends per share	\$ 0.0975	\$ 0.0950	\$ 0.2925	\$ 0.2850

See notes to consolidated financial statements

4

Index

Greene County Bancorp, Inc.
 Consolidated Statements of Comprehensive Income
 For the Three and Nine Months Ended March 31, 2018 and 2017
 (Unaudited)
 (In thousands)

	For the three months ended March 31,		For the nine months ended March 31,	
	2018	2017	2018	2017
Net Income	\$ 3,677	\$ 2,897	\$ 10,789	\$ 8,330
Other comprehensive (loss) income:				
Unrealized holding (losses) gains on available-for-sale securities, net of income tax (benefit) expense of (\$58) and \$27, for the three months, and (\$316) and (\$503), for the nine months ended March 31, 2018 and 2017 respectively	(384)	41	(648)	(793)
Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of \$- and \$- for the three months, and \$- and \$1 for the nine months ended March 31, 2018 and 2017, respectively	-	1	-	2
Total other comprehensive (loss) income, net of taxes	(384)	42	(648)	(791)
Comprehensive income	\$ 3,293	\$ 2,939	\$ 10,141	\$ 7,539

See notes to consolidated financial statements.

Index

Greene County Bancorp, Inc.
 Consolidated Statements of Changes in Shareholders' Equity
 For the Nine Months Ended March 31, 2018 and 2017
 (Unaudited)
 (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2016	\$ 861	\$ 10,872	\$ 63,805	\$ (725)	\$ (512)	\$ 74,301
Options exercised		67			102	169
Tax benefit of stock based compensation		51				51
Dividends declared			(1,112)			(1,112)
Net income			8,330			8,330
Other comprehensive loss, net of taxes				(791)		(791)
Balance at March 31, 2017	\$ 861	\$ 10,990	\$ 71,023	\$ (1,516)	\$ (410)	\$ 80,948

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2017	\$ 861	\$ 10,990	\$ 73,072	\$ (992)	\$ (410)	\$ 83,521
Options exercised		60			90	150
Dividends declared			(1,145)			(1,145)
Net income			10,789			10,789
Reclassification adjustment ¹			259	(259)		-
Other comprehensive loss, net of taxes				(648)		(648)
Balance at March 31, 2018	\$ 861	\$ 11,050	\$ 82,975	\$ (1,899)	\$ (320)	\$ 92,667

Adoption of Accounting Standard Update 2018-02, reclassification from accumulated other comprehensive loss to (1)retained earnings for stranded tax effects resulting from the newly enacted Federal corporate income tax rate from 34% to 21%.

See notes to consolidated financial statements.

Index

Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended March 31, 2018 and 2017
(Unaudited)
(In thousands)

	2018	2017
Cash flows from operating activities:		
Net Income	\$10,789	\$8,330
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	478	479
Deferred income tax benefit	(1,349)	(962)
Net amortization of premiums and discounts	519	614
Net amortization of deferred loan costs and fees	380	358
Provision for loan losses	1,044	1,472
(Gains) losses on sale of foreclosed real estate	(33)	73
Excess tax benefit from share based compensation	-	(51)
Net increase in accrued income taxes	3,125	753
Net increase in accrued interest receivable	(1,046)	(433)
Net increase in prepaid and other assets	(782)	(156)
Net increase (decrease) in other liabilities	1,039	(185)
Net cash provided by operating activities	14,164	10,292
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	42,817	55,945
Purchases of securities	(72,299)	(40,243)
Principal payments on securities	2,335	6,034
Securities held-to-maturity:		
Proceeds from maturities	10,021	7,358
Purchases of securities	(73,951)	(24,835)
Principal payments on securities	9,849	7,551
Net redemption of Federal Home Loan Bank Stock	646	1,069
Purchases of long term certificates of deposit	(240)	-
Maturity of long term certificate of deposit	-	65
Net increase in loans receivable	(55,980)	(85,840)
Proceeds from sale of foreclosed real estate	872	212
Purchases of premises and equipment	(224)	(76)
Net cash used by investing activities	(136,154)	(72,760)
Cash flows from financing activities		
Net decrease in short-term advances	(6,900)	(25,600)
Proceeds from long-term FHLB advances	-	4,850
Repayment of long-term FHLB advances	(4,500)	(2,500)
Payment of cash dividends	(1,145)	(1,112)
Proceeds from issuance of stock options	150	169
Excess tax benefit from share based compensation	-	51
Net increase in deposits	192,712	106,302
Net cash provided by financing activities	180,317	82,160
Net increase in cash and cash equivalents	58,327	19,692

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Cash and cash equivalents at beginning of period	16,277	15,895
Cash and cash equivalents at end of period	\$74,604	\$35,587
Non-cash investing activities:		
Foreclosed loans transferred to foreclosed real estate	\$240	\$123
Cash paid during period for:		
Interest	\$2,902	\$2,253
Income taxes	\$1,500	\$3,030

See notes to consolidated financial statements

7

Index

Greene County Bancorp, Inc.

Notes to Consolidated Financial Statements

At and for the Three and Nine Months Ended March 31, 2018 and 2017

(1) Basis of Presentation

Within the accompanying unaudited consolidated statement of financial condition, and related notes to the consolidated financial statements, June 30, 2017 data was derived from the audited consolidated financial statements of Greene County Bancorp, Inc. (the “Company”) and its wholly owned subsidiaries, The Bank of Greene County (the “Bank”) and Greene Risk Management, Inc., and the Bank’s wholly owned subsidiaries, Greene County Commercial Bank and Greene Property Holdings, Ltd. The consolidated financial statements at and for the three and nine months ended March 31, 2018 and 2017 are unaudited.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. To the extent that information and notes required by GAAP for complete financial statements are contained in or are consistent with the audited financial statements incorporated by reference to Greene County Bancorp, Inc.’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017, such information and notes have not been duplicated herein. In the opinion of management, all adjustments (consisting of only normal recurring items) necessary for a fair presentation of the financial position and results of operations and cash flows at and for the periods presented have been included. Amounts in the prior year’s consolidated financial statements have been reclassified whenever necessary to conform to the current year’s presentation. These reclassifications, if any, had no effect on net income or retained earnings as previously reported. All material inter-company accounts and transactions have been eliminated in the consolidation. The results of operations and other data for the three and nine months ended March 31, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018. These consolidated financial statements consider events that occurred through the date the consolidated financial statements were issued.

CRITICAL ACCOUNTING POLICIES

Greene County Bancorp, Inc.’s critical accounting policies relate to the allowance for loan losses and the evaluation of securities for other-than-temporary impairment. The allowance for loan losses is based on management’s estimation of an amount that is intended to absorb losses in the existing portfolio. The allowance for loan losses is established through a provision for loan losses based on management’s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans for which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management’s estimate of probable credit losses and other factors that warrant recognition in providing for the allowance of loan losses. However, this evaluation involves a high degree of complexity and requires management to make subjective judgments that often require assumptions or estimates about highly uncertain matters. This critical accounting policy and its application are periodically reviewed with the Audit Committee and the Board of Directors. There have been no significant changes in the application of this critical accounting policy during the three and nine months ended March 31, 2018.

Securities are evaluated for other-than-temporary impairment by performing periodic reviews of individual securities in the investment portfolio. Greene County Bancorp, Inc. makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security, on which there is an unrealized loss, is impaired on an other-than-temporary basis. The Company considers many factors, including the severity and duration of the impairment; the intent and ability of the Company to hold the equity security for a period of time sufficient for a

recovery in value; recent events specific to the issuer or industry; and for debt securities, the intent to sell the security, the likelihood to be required to sell the security before it recovers the entire amortized cost, external credit ratings and recent downgrades. The Company is required to record other-than-temporary impairment charges through earnings, if it has the intent to sell, or will more likely than not be required to sell an impaired debt security before a recovery of its amortized cost basis. In addition, the Company is required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit related write-downs to fair value must be recorded as decreases to accumulated other comprehensive income as long as the Company has no intent or requirement to sell an impaired security before a recovery of amortized cost basis.

(2) Nature of Operations

Greene County Bancorp, Inc.'s primary business is the ownership and operation of its subsidiaries, The Bank of Greene County and Greene Risk Management, Inc. The Bank of Greene County has 14 full-service offices, an operations center and lending center located in its market area within the Hudson Valley Region of New York State. The Bank of Greene County is primarily engaged in the business of attracting deposits from the general public in The Bank of Greene County's market area, and investing such deposits, together with other sources of funds, in loans and investment securities. Greene Risk Management, Inc. is a pooled captive insurance company, which provides additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible. The Bank of Greene County also owns and operates two subsidiaries, Greene County Commercial Bank and Greene Property Holdings, Ltd. Greene County Commercial Bank's primary business is to attract deposits from and provide banking services to local municipalities. Greene Property Holdings, Ltd. is a real estate investment trust, which holds mortgages and notes which were originated through and serviced by The Bank of Greene County.

Index

(3) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the assessment of other-than-temporary security impairment.

While management uses available information to recognize losses on loans, future additions to the allowance for loan losses (the "Allowance") may be necessary, based on changes in economic conditions, asset quality or other factors. In addition, various regulatory authorities, as an integral part of their examination process, periodically review the Allowance. Such authorities may require the Company to recognize additions to the Allowance based on their judgments of information available to them at the time of their examination.

Greene County Bancorp, Inc. makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. The Company considers many factors including the severity and duration of the impairment; the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value; recent events specific to the issuer or industry; and for debt securities, intent to sell the security, whether it is more likely than not we will be required to sell the security before recovery, whether loss is expected, external credit ratings and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value through earnings.

(4) Securities

Securities at March 31, 2018 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government sponsored enterprises	\$ 5,548	\$ 42	\$ 20	\$ 5,570
State and political subdivisions	87,351	114	3	87,462
Mortgage-backed securities-residential	3,810	21	94	3,737
Mortgage-backed securities-multi-family	19,055	122	247	18,930
Corporate debt securities	1,773	-	51	1,722
Total debt securities	117,537	299	415	117,421
Equity securities	62	144	-	206
Total securities available-for-sale	117,599	443	415	117,627
Securities held-to-maturity:				
U.S. government sponsored enterprises	9,242	-	218	9,024
State and political subdivisions	134,697	2,807	576	136,928
Mortgage-backed securities-residential	6,938	92	4	7,026
Mortgage-backed securities-multi-family	123,204	228	1,977	121,455
Corporate debt securities	1,000	9	-	1,009
Other securities	2,351	17	11	2,357
Total securities held-to-maturity	277,432	3,153	2,786	277,799
Total securities	\$ 395,031	\$ 3,596	\$ 3,201	\$ 395,426

Index

Securities at June 30, 2017 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government sponsored enterprises	\$ 4,566	\$ 151	\$ -	\$ 4,717
State and political subdivisions	57,885	227	-	58,112
Mortgage-backed securities-residential	4,868	72	27	4,913
Mortgage-backed securities-multi-family	20,344	483	62	20,765
Asset-backed securities	1	-	-	1
Corporate debt securities	2,765	29	3	2,791
Total debt securities	90,429	962	92	91,299
Equity securities	62	122	-	184
Total securities available-for-sale	90,491	1,084	92	91,483
Securities held-to-maturity:				
U.S. government sponsored enterprises	6,000	-	53	5,947
State and political subdivisions	115,805	3,434	95	119,144
Mortgage-backed securities-residential	10,798	274	2	11,070
Mortgage-backed securities-multi-family	88,702	1,259	199	89,762
Corporate debt securities	1,000	-	5	995
Other securities	1,525	21	12	1,534
Total securities held-to-maturity	223,830	4,988	366	228,452
Total securities	\$ 314,321	\$ 6,072	\$ 458	\$ 319,935

Greene County Bancorp, Inc.'s current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and GNMA, and collateralized mortgage obligations issued by these entities. At March 31, 2018, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were held in the securities portfolio. The Company's investments in state and political subdivisions securities generally are municipal obligations that are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are supported by state aid. Primarily, these investments are issued by municipalities within New York State.

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2018.

(In thousands, except number of securities)	Less Than 12 Months			More Than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
U.S. government sponsored enterprises	\$978	\$ 20	1	\$-	\$ -	-	\$978	\$ 20	1
State and political subdivisions	5,656	3	10	-	-	-	5,656	3	10
Mortgage-backed securities-residential	2,636	94	4	-	-	-	2,636	94	4
	9,790	247	6	-	-	-	9,790	247	6

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Mortgage-backed securities-multi-family									
Corporate debt securities	1,467	49	6	255	2	1	1,722	51	7
Total securities available-for-sale	20,527	413	27	255	2	1	20,782	415	28
Securities held-to-maturity:									
U.S. government sponsored enterprises	7,071	171	1	1,953	47	1	9,024	218	2
State and political subdivisions	34,843	491	165	3,723	85	37	38,566	576	202
Mortgage-backed securities-residential	1,033	4	1	-	-	-	1,033	4	1
Mortgage-backed securities-multi-family	84,677	1,923	43	2,464	54	3	87,141	1,977	46
Other securities	914	11	4	-	-	-	914	11	4
Total securities held-to-maturity	128,538	2,600	214	8,140	186	41	136,678	2,786	255
Total securities	\$149,065	\$ 3,013	241	\$8,395	\$ 188	42	\$157,460	\$ 3,201	283

10

Index

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2017.

(In thousands, except number of securities)	Less Than 12 Months			More Than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
Mortgage-backed securities-residential									
	\$ 1,164	\$ 27	1	\$ -	\$ -	-	\$ 1,164	\$ 27	1
Mortgage-backed securities-multi-family									
	6,488	62	4	-	-	-	6,488	62	4
Corporate debt securities									
	760	3	2	-	-	-	760	3	2
Total securities available for sale									
	8,412	92	7	-	-	-	8,412	92	7
Securities held to maturity:									
U.S. government sponsored enterprises									
	5,947	53	2	-	-	-	5,947	53	2
State and political subdivisions									
	8,976	76	64	514	19	6	9,490	95	70
Mortgage-backed securities-residential									
	1,864	2	1	-	-	-	1,864	2	1
Mortgage-backed securities-multi-family									
	23,823	199	15	-	-	-	23,823	199	15
Corporate debt securities									
	995	5	1	-	-	-	995	5	1
Other securities									
	467	11	1	74	1	1	541	12	2
Total securities held to maturity									
	42,072	346	84	588	20	7	42,660	366	91
Total securities									
	\$ 50,484	\$ 438	91	\$ 588	\$ 20	7	\$ 51,072	\$ 458	98

When the fair value of a held-to-maturity or available-for-sale security is less than its amortized cost basis, an assessment is made as to whether other-than-temporary impairment (“OTTI”) is present. The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of the security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

For debt securities, OTTI is considered to have occurred if (1) the Company intends to sell the security before recovery of its amortized cost basis, (2) it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. In determining the present value of expected cash flows, the Company discounts the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. In estimating cash flows expected to be collected, the Company uses available information with respect to security prepayment speeds, default rates and severity. In determining whether OTTI has occurred for equity securities, the Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

For debt securities, credit-related OTTI is recognized in earnings while noncredit related OTTI on securities not expected to be sold is recognized in other comprehensive income/loss (“OCI”). Credit-related OTTI is measured as the difference between the present value of an impaired security’s expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost less

any credit-related losses recognized. For securities classified as held-to-maturity, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in earnings. Management evaluated securities considering the factors as outlined above, and based on this evaluation the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2018. Management believes that the reasons for the decline in fair value are due to interest rates, widening credit spreads and market illiquidity at the reporting date. Also, a decline in the fair value of tax-exempt securities is due to a decrease in the maximum Federal income tax rate from 35% to 21% effective January 1, 2018, resulting in a lower yield to be realized on these securities on a fully-taxable equivalent basis.

There were no transfers of securities available-for-sale to held-to-maturity during the three and nine months ended March 31, 2018 or 2017. During the three and nine months ended March 31, 2018 and 2017, there were no sales of securities and no gains or losses were recognized. There was no other-than-temporary impairment loss recognized during the three and nine months ended March 31, 2018 and 2017.

Index

The estimated fair values of debt securities at March 31, 2018, by contractual maturity are shown below. Expected maturities may differ from contractual maturities, because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)

	Amortized Cost	Fair Value
Available-for-sale debt securities		
Within one year	\$ 87,351	\$ 87,462
After one year through five years	4,808	4,847
After five years through ten years	2,513	2,445
After ten years	-	-
Total available-for-sale debt securities	94,672	94,754
Mortgage-backed and asset-backed securities	22,865	22,667
Equity securities	62	206
Total available-for-sale securities	117,599	117,627
Held-to-maturity debt securities		
Within one year	22,243	22,383
After one year through five years	61,151	61,744
After five years through ten years	46,536	46,882
After ten years	17,360	18,309
Total held-to-maturity debt securities	147,290	149,318
Mortgage-backed	130,142	128,481
Total held-to-maturity securities	277,432	277,799
Total securities	\$ 395,031	\$ 395,426

At March 31, 2018 and June 30, 2017, respectively, securities with an aggregate fair value of \$381.8 million and \$305.7 million were pledged as collateral for deposits in excess of FDIC insurance limits for various municipalities placing deposits with Greene County Commercial Bank. At March 31, 2018 and June 30, 2017, securities with an aggregate fair value of \$1.7 million and \$2.8 million, respectively, were pledged as collateral for potential borrowings at the Federal Reserve Bank discount window. Greene County Bancorp, Inc. did not participate in any securities lending programs during the three and nine months ended March 31, 2018 or 2017.

Federal Home Loan Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold stock of its district FHLB according to a predetermined formula. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is carried at cost. FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. Impairment of this investment is evaluated quarterly and is a matter of judgment that reflects management’s view of the FHLB’s long-term performance, which includes factors such as the following: its operating performance; the severity and duration of declines in the fair value of its net assets related to its capital stock amount; its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance; the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of the FHLB; and its liquidity and funding position. After evaluating these considerations, Greene County Bancorp, Inc. concluded that the par value of its investment in FHLB stock will be recovered and, therefore, no other-than-temporary impairment charge was recorded during the three and nine months ended March 31, 2018 or 2017.

Index

(5) Loans and Allowance for Loan Losses

Loan segments and classes at March 31, 2018 and June 30, 2017 are summarized as follows:

(In thousands)	March 31, 2018	June 30, 2017
Residential real estate:		
Residential real estate	\$ 253,345	\$ 245,331
Residential construction and land	8,153	7,160
Multi-family	14,201	9,199
Commercial real estate:		
Commercial real estate	279,476	257,964
Commercial construction	30,495	28,430
Consumer loan:		
Home equity	21,290	21,076
Consumer installment	4,863	4,790
Commercial loans	77,547	60,381
Total gross loans	689,370	634,331
Allowance for loan losses	(11,622) (11,022
Deferred fees and costs	747	878
Loans receivable, net	\$ 678,495	\$ 624,187

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality and profitability of the Company's loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship's credit risk. Consistent with regulatory guidelines, The Bank of Greene County provides for the classification of loans considered being of lesser quality. Such ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, 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 full loss reserve and/or charge-off is not warranted. Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." Management also maintains a listing of loans designated "Watch." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk.

When The Bank of Greene County classifies problem assets as either Substandard or Doubtful, it generally establishes a specific valuation allowance or "loss reserve" in an amount deemed prudent by management. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular loans. When The Bank of Greene County identifies problem loans as being impaired, it is required to evaluate whether the Bank will be able to collect all amounts due either through repayments or the liquidation of the underlying collateral. If it is determined that impairment exists, the Bank is required either to establish a specific allowance for losses equal to the amount of impairment of the assets, or to charge-off such amount. The Bank of Greene County's determination as to the classification of its loans and the amount of its valuation allowance is subject to review by its regulatory agencies, which can order the establishment of additional general or specific loss allowances. The Bank of Greene County reviews its portfolio monthly to determine whether any assets require classification in accordance with applicable regulations.

The Bank primarily has four segments within its loan portfolio that it considers when measuring credit quality: residential real estate loans, commercial real estate loans, consumer loans and commercial loans. The residential real estate portfolio consists of residential, construction, and multi-family loan classes. Commercial real estate loans consist of commercial real estate and commercial construction loan classes. Consumer loans consist of home equity loan and consumer installment loan classes. The inherent risk within the loan portfolio varies depending upon each of these loan types.

The Bank of Greene County's primary lending activity is the origination of residential mortgage loans, including home equity loans, which are collateralized by residences. Generally, residential mortgage loans are made in amounts up to 89.9% of the appraised value of the property. However, The Bank of Greene County will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. In the event of default by the borrower, The Bank of Greene County will acquire and liquidate the underlying collateral. By originating the loan at a loan-to-value ratio of 89.9% or less or obtaining private mortgage insurance, The Bank of Greene County limits its risk of loss in the event of default. However, the market values of the collateral may be adversely impacted by declines in the economy. Home equity loans may have an additional inherent risk if The Bank of Greene County does not hold the first mortgage. The Bank of Greene County may stand in a secondary position in the event of collateral liquidation resulting in a greater chance of insufficiency to meet all obligations.

Index

Construction lending generally involves a greater degree of risk than other residential mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property within specified cost limits. The Bank of Greene County completes inspections during the construction phase prior to any disbursements. The Bank of Greene County limits its risk during the construction as disbursements are not made until the required work for each advance has been completed. Construction delays may further impair the borrower's ability to repay the loan.

Loans collateralized by commercial real estate, and multi-family dwellings, such as apartment buildings generally are larger than residential loans and involve a greater degree of risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Payments on these loans depend to a large degree on the results of operations and management of the properties or underlying businesses, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of commercial real estate loans makes them more difficult for management to monitor and evaluate.

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

Commercial lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate mortgage lending. Real estate lending is generally considered to be collateral-based, with loan amounts based on fixed loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial loans may be collateralized by equipment or other business assets, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because equipment and other business assets may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Loan balances by internal credit quality indicator at March 31, 2018 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 250,543	\$ 538	\$ 89	\$ 2,175	\$253,345
Residential construction and land	8,153	-	-	-	8,153
Multi-family	11,908	-	2,205	88	14,201
Commercial real estate	269,164	173	8,468	1,671	279,476
Commercial construction	30,319	-	-	176	30,495
Home equity	20,635	-	-	655	21,290
Consumer installment	4,826	17	-	20	4,863
Commercial loans	76,440	18	240	849	77,547
Total gross loans	\$ 671,988	\$ 746	\$ 11,002	\$ 5,634	\$689,370

Index

Loan balances by internal credit quality indicator at June 30, 2017 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 242,592	\$ 813	\$ 91	\$ 1,835	\$ 245,331
Residential construction and land	7,160	-	-	-	7,160
Multi-family	9,110	-	-	89	9,199
Commercial real estate	255,090	419	404	2,051	257,964
Commercial construction	28,254	-	-	176	28,430
Home equity	20,858	-	-	218	21,076
Consumer installment	4,770	10	-	10	4,790
Commercial loans	59,030	-	60	1,291	60,381
Total gross loans	\$ 626,864	\$ 1,242	\$ 555	\$ 5,670	\$ 634,331

The Company had no loans classified doubtful or loss at March 31, 2018 or June 30, 2017. The \$10.4 million increase in loans designated as special mention at March 31, 2018 compared to June 30, 2017 represented loans which, based on updated annual review, indicated weaknesses in borrowers' cash flow, warranting management's closer monitoring. At March 31, 2018, all of these loans were performing and management believes that the identified weaknesses do not expose the Company to sufficient risk to warrant a classification of substandard.

Nonaccrual Loans

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. A nonaccrual loan is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Nonaccrual loans consisted primarily of loans secured by real estate at March 31, 2018 and June 30, 2017. Loans on nonaccrual status totaled \$3.5 million at March 31, 2018 of which \$1.8 million were in the process of foreclosure. At March 31, 2018, there were twelve residential loans in the process of foreclosure totaling \$1.2 million. Included in nonaccrual loans were \$1.6 million of loans which were less than 90 days past due at March 31, 2018, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were \$62,000 of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with the Bank to bring the loans current over a specified period of time (resulting in an insignificant delay in repayment). During this term of the forbearance agreement, the Bank has agreed not to continue foreclosure proceedings. Loans on nonaccrual status totaled \$3.6 million at June 30, 2017 of which \$1.6 million were in the process of foreclosure. At June 30, 2017, there were twelve residential loans in the process of foreclosure totaling \$967,000. Included in nonaccrual loans were \$1.9 million of loans which were less than 90 days past due at June 30, 2017, but have a recent history of delinquency greater than 90 days past due.

The following table sets forth information regarding delinquent and/or nonaccrual loans at March 31, 2018:

(In thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non- accrual
Residential real estate	\$ 2,124	\$ 244	\$ 883	\$ 3,251	\$ 250,094	\$ 253,345	\$ 1,640
Residential construction and land	-	-	-	-	8,153	8,153	-
Multi-family	-	-	-	-	14,201	14,201	-
Commercial real estate	1,949	743	674	3,366	276,110	279,476	1,278
Commercial construction	-	-	-	-	30,495	30,495	-
Home equity	260	-	214	474	20,816	21,290	332

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Consumer installment	34	17	9	60	4,803	4,863	9
Commercial loans	449	18	182	649	76,898	77,547	279
Total gross loans	\$ 4,816	\$ 1,022	\$ 1,962	\$ 7,800	\$ 681,570	\$ 689,370	\$ 3,538

15

Index

The following table sets forth information regarding delinquent and/or nonaccrual loans at June 30, 2017:

(In thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non- accrual
Residential real estate	\$ 2,088	\$ 515	\$ 935	\$ 3,538	\$ 241,793	\$ 245,331	\$ 1,240
Residential construction and land	-	-	-	-	7,160	7,160	-
Multi-family	-	-	-	-	9,199	9,199	-
Commercial real estate	74	1,070	540	1,684	256,280	257,964	1,452
Commercial construction	-	176	-	176	28,254	28,430	176
Home equity	220	186	33	439	20,637	21,076	218
Consumer installment	22	10	10	42	4,748	4,790	10
Commercial loans	18	186	202	406	59,975	60,381	476
Total gross loans	\$ 2,422	\$ 2,143	\$ 1,720	\$ 6,285	\$ 628,046	\$ 634,331	\$ 3,572

The Bank of Greene County had accruing loans delinquent more than 90 days totaling \$0 and \$69,000 at March 31, 2018 and June 30, 2017, respectively. The loans delinquent more than 90 days and accruing consist of loans that are well collateralized and the borrowers have demonstrated the ability and willingness to pay. The borrower has made arrangements with the Bank to bring the loan current within a specified time period and has made a series of payments as agreed.

The table below details additional information related to nonaccrual loans for the three and nine months ended March 31:

(In thousands)	For the three months ended March 31, 2018		For the nine months ended March 31, 2017	
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 45	\$ 50	\$ 182	\$ 186
Interest income that was recorded on nonaccrual loans	30	34	95	88

Impaired Loan Analysis

The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "Receivables – Loan Impairment." Management may consider a loan impaired once it is classified as nonaccrual and when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. It should be noted that management does not evaluate all loans individually for impairment. Generally, The Bank of Greene County considers residential mortgages, home equity loans and installment loans as small, homogeneous loans, which are evaluated for impairment collectively based on historical loan experience and other factors. In contrast, large commercial mortgage, construction, multi-family, business loans and select larger balance residential mortgage loans are reviewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other factors. Based on this evaluation, a delinquent loan's risk rating may be downgraded to either pass-watch, special mention, or substandard, and the allocation of the allowance for loan loss is based upon the risk associated with such designation. Loans that have been modified as a troubled debt restructuring

are included in impaired loans. The measurement of impairment is generally based on the discounted cash flows based on the original rate of the loan before the restructuring, unless it is determined that the restructured loan is collateral dependent. If the restructured loan is deemed to be collateral dependent, impairment is based on the fair value of the underlying collateral.

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Index

The tables below detail additional information on impaired loans at the date or periods indicated:

	As of March 31, 2018			For the three months ended	For the nine months ended		
	Recorded Investment	Unpaid Principal	Related Allowance	March 31, 2018	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				Average Recorded Investment			
<u>(In thousands)</u>							
With no related allowance recorded:							
Commercial real estate	\$803	\$803	\$ -	\$ 800	\$ 7	\$ 803	\$ 22
Home equity	181	181	-	181	-	182	-
Commercial loans	353	353	-	355	-	320	-
Impaired loans with no allowance	1,337	1,337	-	1,336	7	1,305	22
With an allowance recorded:							
Residential real estate	1,930	1,930	359	1,797	14	1,667	40
Commercial real estate	397	397	80	401	-	416	-
Commercial construction	176	176	27	176	-	176	-
Home equity	323	323	61	323	3	324	11
Impaired loans with allowance	2,826	2,826	527	2,697	17	2,583	51
Total impaired:							
Residential real estate	1,930	1,930	359	1,797	14	1,667	40
Commercial real estate	1,200	1,200	80	1,201	7	1,219	22
Commercial construction	176	176	27	176	-	176	-
Home equity	504	504	61	504	3	506	11
Commercial loans	353	353	-	355	-	320	-
Total impaired loans	\$4,163	\$4,163	\$ 527	\$ 4,033	\$ 24	\$ 3,888	\$ 73

	As of June 30, 2017			For the three months ended	For the nine months ended		
	Recorded Investment	Unpaid Principal	Related Allowance	March 31, 2017	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
				Average Recorded Investment			
<u>(In thousands)</u>							
With no related allowance recorded:							
Residential real estate	\$-	\$-	\$ -	\$ 171	\$ -	\$ 235	\$ -
Commercial real estate	809	809	-	423	11	755	25
Home equity	186	186	-	64	7	24	7
Commercial loans	186	186	-	192	3	86	4
Impaired loans with no allowance	1,181	1,181	-	850	21	1,100	36
With an allowance recorded:							
Residential real estate	1,455	1,455	278	1,268	15	1,250	39
Commercial real estate	440	440	135	1,440	12	864	23
Commercial construction	176	176	23	-	-	-	-
Commercial loans	-	-	-	-	-	55	2
Impaired loans with allowance	2,071	2,071	436	2,708	27	2,169	64
Total impaired:							

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Residential real estate	1,455	1,455	278	1,439	15	1,485	39
Commercial real estate	1,249	1,249	135	1,863	23	1,619	48
Commercial construction	176	176	23	-	-	-	-
Home equity	186	186	-	64	7	24	7
Commercial loans	186	186	-	192	3	141	6
Total impaired loans	\$3,252	\$ 3,252	\$ 436	\$ 3,558	\$ 48	\$ 3,269	\$ 100

17

Index

The table below details loans that have been modified as a troubled debt restructuring during the periods indicated.

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current outstanding Recorded Investment
<u>For the three months ended March 31, 2018</u>				
Residential	1	\$ 184	\$ 184	\$ 184
<u>For the nine months ended March 31, 2018</u>				
Residential	1	\$ 184	\$ 184	\$ 184
Home equity	1	325	325	323

There were no loans modified as a troubled debt restructuring during the three and nine months ended March 31, 2017. During the nine months ended March 31, 2018, a residential loan and a home equity loan were modified to extend the term of the loan thereby reducing the monthly payments for the borrower.

There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to June 30, 2017 or 2016 which have subsequently defaulted during the three and nine months ended March 31, 2018 or 2017, respectively.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of certain identified loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, payment status of the loan, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review The Bank of Greene County's allowance for loan losses. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank of Greene County considers smaller balance residential mortgages, home equity loans, commercial loans and installment loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience. Larger balance residential, commercial mortgage and business loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The Bank of Greene County charges loans off against the allowance for credit losses when it becomes evident that a loan cannot be collected within a reasonable amount of time or that it will cost the Bank more than it will receive, and all possible avenues of repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers. Generally, consumer loans and smaller business loans (not secured by real estate) in excess of 90 days are charged-off against the allowance for loan losses, unless equitable arrangements are made. For loans secured by real estate, a charge-off is recorded when it is determined that the collection of all or a portion of a loan may not be collected and the amount of that loss can be reasonably estimated.

Index

The following tables set forth the activity and allocation of the allowance for loan losses by loan category during and at the periods indicated. The allowance is allocated to each loan category based on historical loss experience and economic conditions.

(In thousands)	Activity for the three months ended March 31, 2018				
	Balance at				Balance at
	December 31, 2017	Charge-offs	Recoveries	Provision	
Residential real estate	\$ 2,099	\$ 25	\$ -	\$ 5	\$ 2,079
Residential construction and land	86	-	-	8	94
Multi-family	95	-	-	67	162
Commercial real estate	5,904	-	-	52	5,956
Commercial construction	603	-	-	136	739
Home equity	312	-	-	-	312
Consumer installment	252	79	29	(14)	188
Commercial loans	2,001	-	-	(26)	1,975
Unallocated	-	-	-	117	117
Total	\$ 11,352	\$ 104	\$ 29	\$ 345	\$ 11,622

(In thousands)	Activity for the nine months ended March 31, 2018				
	Balance at				Balance at
	June 30, 2017	Charge-offs	Recoveries	Provision	
Residential real estate	\$ 2,289	\$ 96	\$ -	\$ (114)	\$ 2,079
Residential construction and land	89	-	-	5	94
Multi-family	43	-	-	119	162
Commercial real estate	5,589	-	-	367	5,956
Commercial construction	687	-	-	52	739
Home equity	234	-	-	78	312
Consumer installment	231	256	65	148	188
Commercial loans	1,680	157	-	452	1,975
Unallocated	180	-	-	(63)	117
Total	\$ 11,022	\$ 509	\$ 65	\$ 1,044	\$ 11,622

(In thousands)	Allowance for Loan Losses		Loans Receivable	
	Ending Balance At		Ending Balance At	
	March 31, 2018		March 31, 2018	
	Impairment Analysis		Impairment Analysis	
	Individually Evaluated	Collectively Evaluated	Individually Evaluated	Collectively Evaluated
Residential real estate	\$ 359	\$ 1,720	\$ 1,930	\$ 251,415
Residential construction and land	-	94	-	8,153
Multi-family	-	162	-	14,201
Commercial real estate	80	5,876	1,200	278,276
Commercial construction	27	712	176	30,319
Home equity	61	251	504	20,786
Consumer installment	-	188	-	4,863
Commercial loans	-	1,975	353	77,194
Unallocated	-	117	-	-

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Total	\$ 527	\$ 11,095	\$4,163	\$ 685,207
-------	--------	-----------	---------	------------

19

Index

(In thousands)	Activity for the three months ended March 31, 2017				
	Balance at				Balance at
	December	Charge-offs	Recoveries	Provision	
	31, 2016				March 31, 2017
Residential real estate	\$ 2,234	\$ -	\$ -	\$ 29	\$ 2,263
Residential construction and land	63	-	-	15	78
Multi-family	18	-	-	16	34
Commercial real estate	5,365	-	-	141	5,506
Commercial construction	603	-	-	45	648
Home equity	257	-	-	(30)	227
Consumer installment	224	68	25	(17)	164
Commercial loans	1,513	-	-	58	1,571
Unallocated	144	-	-	86	230
Total	\$ 10,421	\$ 68	\$ 25	\$ 343	\$ 10,721

(In thousands)	Activity for the nine months ended March 31, 2017				
	Balance at				Balance at
	June 30,	Charge-offs	Recoveries	Provision	
	2016				March 31, 2017
Residential real estate	\$ 2,396	\$ 90	\$ -	\$ (43)	\$ 2,263
Residential construction and land	75	-	-	3	78
Multi-family	22	-	-	12	34
Commercial real estate	4,541	-	-	965	5,506
Commercial construction	502	-	-	146	648
Home equity	309	-	-	(82)	227
Consumer installment	228	209	60	85	164
Commercial loans	1,412	-	3	156	1,571
Unallocated	-	-	-	230	230
Total	\$ 9,485	\$ 299	\$ 63	\$ 1,472	\$ 10,721

(In thousands)	Allowance for Loan Losses		Loans Receivable	
	Ending Balance At		Ending Balance At	
	June 30, 2017		June 30, 2017	
	Impairment Analysis Individually		Impairment Analysis Individually	
	Evaluated	Collectively Evaluated	Evaluated	Collectively Evaluated
Residential real estate	\$ 278	\$ 2,011	\$ 1,455	\$ 243,876
Residential construction and land	-	89	-	7,160
Multi-family	-	43	-	9,199
Commercial real estate	135	5,454	1,249	256,715
Commercial construction	23	664	176	28,254
Home equity	-	234	186	20,890
Consumer installment	-	231	-	4,790
Commercial loans	-	1,680	186	60,195
Unallocated	-	180	-	-
Total	\$ 436	\$ 10,586	\$ 3,252	\$ 631,079

Foreclosed real estate (FRE)

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

FRE consists of properties acquired through mortgage loan foreclosure proceedings or in full or partial satisfaction of loans. The following table sets forth information regarding FRE at March 31, 2018 and June 30, 2017:

(in thousands)	March 31, 2018	June 30, 2017
Residential real estate	\$ 208	\$ -
Commercial real estate	-	799
Total foreclosed real estate	\$ 208	\$ 799

20

Index

(6) Fair Value Measurements and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured at March 31, 2018 and June 30, 2017 and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The FASB ASC Topic on "Fair Value Measurement" established a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

(In thousands)	March 31, 2018	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)
Assets:				
U.S. Government sponsored enterprises	\$ 5,570	\$ -	\$ 5,570	\$ -
State and political subdivisions	87,462	-	87,462	-
Mortgage-backed securities-residential	3,737	-	3,737	-
Mortgage-backed securities-multi-family	18,930	-	18,930	-

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Corporate debt securities	1,722	1,722	-	-
Equity securities	206	206	-	-
Securities available-for-sale	\$ 117,627	\$ 1,928	\$ 115,699	\$ -

(In thousands)	June 30, 2017	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)
Assets:				
U.S. Government sponsored enterprises	\$ 4,717	\$ -	\$ 4,717	\$ -
State and political subdivisions	58,112	-	58,112	-
Mortgage-backed securities-residential	4,913	-	4,913	-
Mortgage-backed securities-multi-family	20,765	-	20,765	-
Asset-backed securities	1	1	-	-
Corporate debt securities	2,791	2,791	-	-
Equity securities	184	184	-	-
Securities available-for-sale	\$ 91,483	\$ 2,976	\$ 88,507	\$ -

Index

Certain investments that are actively traded and have quoted market prices have been classified as Level 1 valuations. Other available-for-sale investment securities have been valued by reference to prices for similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2.

In addition to disclosures of the fair value of assets on a recurring basis, FASB ASC Topic on “Fair Value Measurement” requires disclosures for assets and liabilities measured at fair value on a nonrecurring basis, such as impaired assets, in the period in which a re-measurement at fair value is performed. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated as required by the “Receivables –Loan Impairment” subtopic of the FASB ASC when establishing the allowance for credit losses. Impaired loans are those loans in which the Company has measured impairment based on the fair value of the loan’s collateral or the discounted value of expected future cash flows. Fair value is generally determined based upon market value evaluations by third parties of the properties and/or estimates by management of working capital collateral or discounted cash flows based upon expected proceeds. These appraisals may include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property), and the cost approach. Management modifies the appraised values, if needed, to take into account recent developments in the market or other factors, such as, changes in absorption rates or market conditions from the time of valuation and anticipated sales values considering management’s plans for disposition. Such modifications to the appraised values could result in lower valuations of such collateral. Estimated costs to sell are based on current amounts of disposal costs for similar assets. These measurements are classified as Level 3 within the valuation hierarchy. Impaired loans are subject to nonrecurring fair value adjustment upon initial recognition or subsequent impairment. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

Fair values for foreclosed real estate are initially recorded based on market value evaluations by third parties, less costs to sell (“initial cost basis”). Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to foreclosed real estate are charged to the allowance for loan losses. Values are derived from appraisals, similar to impaired loans, of underlying collateral or discounted cash flow analysis. Subsequent to foreclosure, valuations are updated periodically and assets are marked to current fair value, not to exceed the initial cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as, changes in absorption rates and market conditions from the time of valuation and anticipated sales values considering management’s plans for disposition. Either change could result in adjustment to lower the property value estimates indicated in the appraisals. These measurements are classified as Level 3 within the fair value hierarchy.

(In thousands)	Recorded Investment	Related Allowance	Fair Value	Fair Value Measurements Using		
				(Level 1)	(Level 2)	(Level 3)
March 31, 2018						
Impaired loans	\$ 2,826	\$ 527	\$ 2,299	\$ -	\$ -	\$ 2,299
Foreclosed real estate	208	-	208	-	-	208
June 30, 2017						
Impaired loans	\$ 2,071	\$ 436	\$ 1,635	\$ -	\$ -	\$ 1,635
Foreclosed real estate	799	-	799	-	-	799

Index

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were utilized to determine fair value:

(Dollars in thousands) March 31, 2018	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average	
Impaired Loans	\$ 1,665	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	26.58%-31.00 %	28.20	%
			Liquidation expenses ⁽³⁾	4.14%-7.26 %	5.07	%
Foreclosed real estate	208	Appraisal of collateral ⁽¹⁾	Discount rate	4.19%-6.63 %	5.36	%
			Appraisal adjustments ⁽²⁾	0.00%-0.00 %	0.00	%
			Liquidation expenses ⁽³⁾	8.99%-12.43 %	11.12	%
June 30, 2017						
Impaired loans	\$ 1,094	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	25.00%-42.52 %	28.46	%
			Liquidation expenses ⁽³⁾	3.45%-7.38 %	5.93	%
Foreclosed real estate	799	Appraisal of collateral ⁽¹⁾	Discount rate	4.19%-6.63 %	5.36	%
			Appraisal adjustments ⁽²⁾	0.00%-0.00 %	0.00	%
			Liquidation expenses ⁽³⁾	11.64%-17.92 %	16.29	%

⁽¹⁾ Fair value is generally determined through independent third-party appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not observable.

Appraisals may be adjusted downwards by management for qualitative factors such as economic conditions. Higher ⁽²⁾downward adjustments are caused by negative changes to the collateral or conditions in the real estate market, actual offers or sales contracts received or age of the appraisal.

⁽³⁾ Appraisals are adjusted downwards by management for qualitative factors such as the estimated costs to liquidate the collateral.

The carrying amounts reported in the statements of financial condition for cash and cash equivalents, accrued interest receivable and accrued interest payable approximate their fair values. Fair values of securities are based on quoted market prices (Level 1), where available, or matrix pricing (Level 2), which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. The carrying amount of Federal Home Loan Bank stock approximates fair value due to its restricted nature. Fair values for variable rate loans that repriced frequently, with no significant credit risk, are based on carrying value. Fair value for fixed rate loans are estimated using discounted cash flows and interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values disclosed for demand and savings deposits are equal to carrying amounts at the reporting date. The carrying amounts for variable rate money market deposits approximate fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using discounted cash flows and interest rates currently being offered in the market on similar certificates. Fair value for Federal Home Loan Bank long term borrowings are estimated using discounted cash flows and interest rates currently being offered on similar borrowings. The carrying value of short-term Federal Home Loan Bank borrowings approximates its fair value.

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At March 31, 2018 and June 30, 2017, the estimated fair values of these off-balance sheet financial instruments were immaterial, and are therefore excluded from the table below.

The carrying amounts and estimated fair value of financial instruments are as follows:

(In thousands)	March 31, 2018		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$74,604	\$74,604	\$74,604	\$-	\$-
Long term certificate of deposit	2,385	2,385	2,385	-	-
Securities available-for-sale	117,627	117,627	1,928	115,699	-
Securities held-to-maturity	277,432	277,799	-	277,799	-
Federal Home Loan Bank stock	1,485	1,485	-	1,485	-
Net loans	678,495	674,614	-	-	674,614
Accrued interest receivable	5,079	5,079	-	5,079	-
Deposits	1,052,247	1,052,344	-	1,052,344	-
Borrowings	18,150	17,744	-	17,744	-
Accrued interest payable	85	85	-	85	-

Index

(In thousands)	June 30, 2017		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$ 16,277	\$ 16,277	\$ 16,277	\$-	\$-
Long term certificate of deposit	2,145	2,145	2,145	-	-
Securities available-for-sale	91,483	91,483	2,976	88,507	-
Securities held-to-maturity	223,830	228,452	-	228,452	-
Federal Home Loan Bank stock	2,131	2,131	-	2,131	-
Net loans	624,187	629,690	-	-	629,690
Accrued interest receivable	4,033	4,033	-	4,033	-
Deposits	859,535	859,715	-	859,715	-
Borrowings	29,550	29,411	-	29,411	-
Accrued interest payable	92	92	-	92	-

(7) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as stock options) issued became vested during the period. There were no anti-dilutive securities or contracts outstanding during the three and nine months ended March 31, 2018 and 2017.

	For the three months ended March 31,		For the nine months ended March 31,	
	2018	2017	2018	2017
Net Income	\$3,677,000	\$2,897,000	\$10,789,000	\$8,330,000
Weighted Average Shares – Basic	8,517,614	8,502,614	8,508,103	8,492,501
Effect of Dilutive Stock Options	18,793	16,762	25,747	17,251
Weighted Average Shares - Dilute	8,536,407	8,519,376	8,533,850	8,509,752
Earnings per share - Basic	\$0.43	\$0.34	\$1.27	\$0.98
Earnings per share - Diluted	\$0.43	\$0.34	\$1.26	\$0.98

(8) Dividends

On January 16, 2018, the Board of Directors declared a cash dividend for the quarter ended December 31, 2017 of \$0.0975 per share on Greene County Bancorp, Inc.'s common stock. The dividend reflects an annual cash dividend rate of \$0.39 per share, which was the same rate as the dividend declared during the previous quarter. The dividend was payable to stockholders of record as of February 15, 2018, and was paid on February 28, 2018. The MHC waived its right to receive dividends declared on its shares of the Company's common stock for the quarter ended December 31, 2017.

(9) Impact of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU") (ASU 2014-09) to amend its guidance on "Revenue from Contracts with Customers (Topic 606)". The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. This

ASU will replace most existing revenue recognition guidance under GAAP when it becomes effective. In August 2015, the FASB issued an amendment (ASU 2015-14) which defers the effective date of this new guidance by one year. More detailed implementation guidance on Topic 606 was issued in March 2016 (ASU 2016-08), April 2016 (ASU 2016-10), May 2016 (ASU 2016-12), December 2016 (ASU 2016-20), February 2017 (ASU 2017-05), and September 2017 (ASU-2017-13) and the effective date and transition requirements for these ASUs are the same as the effective date and transition requirements of ASU 2014-09. The amendments in ASU 2014-09 are effective for public business entities for annual periods, beginning after December 15, 2017. The Company expects to adopt the revenue recognition guidance beginning July 1, 2018. A significant amount of the Company's revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. With respect to noninterest income, the Company has identified revenue streams within the scope of the guidance and is in the final stages of its accounting analysis of the underlying contracts. The Company does not presently expect that changes in the timing of revenue recognition will be material to the amount of annual revenue recognized by the Company.

Index

In August 2014, the FASB issued an amendment (ASU 2014-14) to its guidance on “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)”. The objective of the ASU is to reduce the diversity in how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure, to provide more decision-useful information about a creditor’s foreclosed mortgage loans that are expected to be recovered, at least in part, through government guarantees. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Public entities would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In January 2016, the FASB issued an Update (ASU 2016-01) to its guidance on “Financial Instruments (Subtopic 825-10)”. This amendment addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. These amendments require equity securities to be measured at fair value with changes in the fair value to be recognized through net income. The amendments also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption of the amendments in this Update is not permitted. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In February 2016, the FASB issued an Update (ASU 2016-02) to its guidance on “Leases (Topic 842)”. The new leases standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this ASU will result in a gross up of the Consolidated Statements of Financial Condition for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. The Company is evaluating the significance and other effects of adoption on the consolidated financial statements and related disclosures. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations. Branch building leases have been reviewed and are considered immaterial to the financial statements; there are no equipment leases to consider.

In March 2016, the FASB issued an Update (ASU 2016-09) to its guidance on “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. This amendment is intended to simplify the accounting for stock compensation. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this guidance did not have a material impact on our consolidated results of operations or financial position.

Index

In June 2016, the FASB issued an Update (ASU 2016-13) to its guidance on “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price (“gross up approach”) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company is currently evaluating the potential impact on our consolidated results of operations or financial position. The initial adjustment will not be reported in earnings and therefore will not have any material impact on our consolidated results of operations, but it is expected that it will have an impact on our consolidated financial position at the date of adoption of this Update. At this time, we have not calculated the estimated impact that this Update will have on our Allowance for Loan Losses, however, we anticipate it will have a significant impact on the methodology process we utilize to calculate the allowance. Alternative methodologies and software vendors are currently being considered. Data requirements and integrity are being reviewed and enhancements incorporated into standard processes. The Company is in the early stages of evaluation and implementation of the guidance.

In August 2016, the FASB issued an Update (ASU 2016-15) which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. The amendment covers the following cash flows: Cash payments for debt prepayment or extinguishment costs will be classified in financing activities. Upon settlement of zero-coupon bonds and bonds with insignificant cash coupons, the portion of the payment attributable to imputed interest will be classified as an operating activity, while the portion of the payment attributable to principal will be classified as a financing activity. Cash paid by an acquirer that isn’t soon after a business combination for the settlement of a contingent consideration liability will be separated between financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date will be classified in financing activities; any excess will be classified in operating activities. Cash paid soon after the business combination will be classified in investing activities. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (that is, the nature of the loss). Cash proceeds from lump-sum settlements will be classified based on the nature of each loss included in the settlement. Cash proceeds received from the settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies will be classified as cash inflows from investing activities. Cash payments for premiums on COLI and BOLI may be classified as cash outflows for investing, operating, or a combination of both. A transferor’s beneficial interest obtained in a securitization of financial assets will be disclosed as a noncash activity, and cash received from beneficial interests will be classified in investing activities. Distributions received from equity method investees will be classified using either a cumulative earnings approach or a look-through approach as an accounting policy election. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class

of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the potential impact of adoption of this ASU on our consolidated results of operations or financial position.

In November 2016, the FASB issued an Update (ASU 2016-18) to its guidance on “Statement of Cash Flows (Topic 230) Restricted Cash” addresses diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. The ASU requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows. ASU 2016-18 is effective for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted provided all amendments are adopted in the same period. Management is evaluating the effect that this guidance will have on consolidated financial statements and disclosures.

In March 2017, the FASB issued an Update (ASU 2017-07) to its guidance on “Compensation - Retirement Benefits (Topic 715)” to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption should be within the first interim period if an employer issues interim financial statements. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit costs in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net period pension cost and net periodic postretirement benefit in assets. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

Index

In March 2017, the FASB issued an Update (ASU 2017-08) to its guidance on “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) related to premium amortization on purchased callable debt securities. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosure about a change in accounting principle. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In May 2017, the FASB issued an Update (ASU 2017-09) to its guidance on “Compensation - Stock Compensation (Topic 718)” such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification. (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification. (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification. The amendments are effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the potential impact of adoption of this ASU on our consolidated results of operations or financial position.

In February 2018, the FASB issued an Update (ASU 2018-02) to its guidance on “Income Statement-Reporting Comprehensive Income (Topic 220). The amendments in this Update require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate. This amendment would eliminate the stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments would be applied retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017 is recognized. The Company has adopted the amendments in the Update as of its interim period ended March 31, 2018. The adoption of this guidance did not have a material impact on our consolidated results of operations or financial position.

(10)Employee Benefit Plans

Defined Benefit Plan

The components of net periodic pension cost related to the defined benefit pension plan for the three and nine months ended March 31, 2018 and 2017 were as follows:

Three months ended Nine months ended

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

(In thousands)	March 31,		March 31,	
	2018	2017	2018	2017
Interest cost	\$ 55	\$ 54	\$ 165	\$ 161
Expected return on plan assets	(62)	(58)	(186)	(173)
Amortization of net loss	42	49	126	147
Net periodic pension cost	\$ 35	\$ 45	\$ 105	\$ 135

27

Index

The Company does not anticipate that it will make any additional contributions to the defined benefit pension plan during fiscal 2018.

SERP

The Board of Directors of The Bank of Greene County adopted The Bank of Greene County Supplemental Executive Retirement Plan (the "SERP Plan"), effective as of July 1, 2010. The SERP Plan benefits certain key senior executives of the Bank who have been selected by the Board to participate. The SERP Plan is intended to provide a benefit from the Bank upon retirement, death or disability or voluntary or involuntary termination of service (other than "for cause"). The SERP Plan is more fully described in Note 9 of the consolidated financial statements and notes thereto for the year ended June 30, 2017.

The net periodic pension costs related to the SERP Plan for the three and nine months ended March 31, 2018 were \$108,000 and \$316,000, respectively, and for the three and nine months ended March 31, 2017 were \$82,000 and \$239,000, respectively, consisting primarily of service costs and interest costs. The total liability for the SERP Plan was \$3.5 million and \$2.9 million as of March 31, 2018 and June 30, 2017, respectively. The total liability for the SERP Plan includes both accumulated net periodic pension costs and participant contributions.

(11) Stock-Based Compensation

At March 31, 2018, Greene County Bancorp, Inc. had two stock-based compensation plans, which are described more fully in Note 10 of the consolidated financial statements and notes thereto for the year ended June 30, 2017.

Stock Option Plan

At March 31, 2018 and 2017, all granted shares related to the 2008 Option Plan were fully vested, with no remaining compensation cost to be recognized. A summary of the Company's stock option activity and related information for its option plan for the nine months ended March 31, 2018 and 2017 is as follows:

	2018		2017	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	37,770	\$ 6.25	64,770	\$ 6.25
Exercised	(24,000)	\$ 6.25	(27,000)	\$ 6.25
Outstanding at period end	13,770	\$ 6.25	37,770	\$ 6.25
Exercisable at period end	13,770	\$ 6.25	37,770	\$ 6.25

The intrinsic value of options both outstanding and exercisable was \$419,000 at March 31, 2018 and \$646,000 at March 31, 2017. The following table presents stock options outstanding and exercisable at March 31, 2018:

Options Outstanding and Exercisable

Range
of

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 6.25	13,770	0.50	\$ 6.25

The total intrinsic value of the options exercised during the three and nine months ended March 31, 2018 was approximately \$563,000 and \$666,000, respectively. The total intrinsic value of the options exercised during the three

and nine months ended March 31, 2017 was approximately \$0 and \$339,000, respectively. There were no stock options granted during the three and nine months ended March 31, 2018 or 2017. All outstanding options were fully vested at March 31, 2018 and 2017.

Phantom Stock Option Plan and Long-term Incentive Plan

The Greene County Bancorp, Inc. 2011 Phantom Stock Option and Long-Term Incentive Plan (the “Plan”) was adopted effective July 1, 2011, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interests with those of the Company’s shareholders. The Plan is intended to provide benefits to employees and directors of the Company or any subsidiary as designated by the Compensation Committee of the Board of Directors of the Company (“Committee”). A phantom stock option represents the right to receive a cash payment on the date the award vests. The Plan is more fully described in Note 10 of the consolidated financial statements and notes thereto for the year ended June 30, 2017.

Index

A summary of the Company's phantom stock option activity and related information for its option plan for the nine months ended March 31, 2018 and 2017 is as follows:

	2018	2017
Number of options outstanding at beginning of year	1,522,720	1,352,554
Options granted	594,200	578,200
Options forfeited	(27,000)	-
Options paid in cash	(455,760)	(408,034)
Number of options outstanding at period end	1,634,160	1,522,720

(In thousands)	Three months ended March 31,		Nine months ended March 31,	
	2018	2017	2018	2017
Cash paid out on options vested	\$ -	\$ -	\$ 1,187	\$ 845
Compensation costs recognized	640	410	1,460	998

The total liability for the long-term incentive plan was \$2.3 million and \$2.0 million at March 31, 2018 and June 30, 2017, respectively, and is included in accrued expenses and other liabilities.

(12) Income taxes

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Act"). The Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate. The corporate tax rate reduction was effective January 1, 2018. Because the Company has a fiscal year end of June 30, the reduced corporate tax rate will result in the application of a blended federal statutory tax rate for its fiscal year 2018 and then a flat 21% thereafter.

Under generally accepted accounting principles, the Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As a result of the reduction in the corporate income tax rate under the Act, the Company revalued its deferred tax assets and liabilities at December 31, 2017. These re-measurements resulted in a discrete tax benefit of \$251,000 that was recognized during the three months ended December 31, 2017. The Company's revaluation of its deferred tax assets and liabilities is subject to further clarification of the Tax Act and refinements of its estimates. As a result, the actual impact on the deferred tax assets and liabilities and income tax expense due to the Tax Act may vary from the amounts estimated.

(13) Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss at March 31, 2018 and June 30, 2017 are presented in the following table:

(In thousands)	March 31, 2018	June 30, 2017
Accumulated other comprehensive loss:		
Unrealized gain on available-for-sale securities, net of tax	\$ 21	\$ 612
Net losses and past service liability for defined benefit plan, net of tax	(1,920)	(1,604)
Accumulated other comprehensive loss	\$ (1,899)	\$ (992)

As a result of the enactment of the Tax Cuts and Jobs Act in December 2017, the tax effects of the rate change on deferred taxes associated with accumulated other comprehensive loss were recognized as a tax benefit through income tax expense. This resulted in a “stranded” credit in accumulated other comprehensive loss representing the adjustment from 35% to 21% tax rate of \$259,000. This credit has been reclassified to retained earnings at March 31, 2018.

(14) Subsequent events

On April 17, 2018, the Board of Directors declared a cash dividend for the quarter ended March 31, 2018 of \$0.0975 per share on Greene County Bancorp, Inc.’s common stock. The dividend reflects an annual cash dividend rate of \$0.39 per share, which was the same rate as the dividend declared during the previous quarter. The dividend will be payable to stockholders of record as of May 15, 2018, and will be paid on May 31, 2018. The MHC intends to waive its receipt of this dividend.

Index

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

Overview of the Company's Activities and Risks

Greene County Bancorp, Inc.'s results of operations depend primarily on its net interest income, which is the difference between the income earned on Greene County Bancorp, Inc.'s loan and securities portfolios and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by Greene County Bancorp, Inc.'s provision for loan losses, gains and losses from sales of securities, noninterest income and noninterest expense. Noninterest income consists primarily of fees and service charges. Greene County Bancorp, Inc.'s noninterest expense consists principally of compensation and employee benefits, occupancy, equipment and data processing, and other operating expenses. Results of operations are also significantly affected by general economic and competitive conditions, changes in interest rates, as well as government policies and actions of regulatory authorities. Additionally, future changes in applicable law, regulations or government policies may materially affect Greene County Bancorp, Inc.

To operate successfully, the Company must manage various types of risk, including but not limited to, market or interest rate risk, credit risk, transaction risk, liquidity risk, security risk, strategic risk, reputation risk and compliance risk. While all of these risks are important, the risks of greatest significance to the Company relate to market or interest rate risk and credit risk.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates. Since net interest income (the difference between interest earned on loans and investments and interest paid on deposits and borrowings) is the Company's primary source of revenue, interest rate risk is the most significant non-credit related market risk to which the Company is exposed. Net interest income is affected by changes in interest rates as well as fluctuations in the level and duration of the Company's assets and liabilities.

Interest rate risk is the exposure of the Company's net interest income to adverse movements in interest rates. In addition to directly impacting net interest income, changes in interest rates can also affect the amount of new loan originations, the ability of borrowers and debt issuers to repay loans and debt securities, the volume of loan repayments and refinancings, and the flow and mix of deposits.

Credit risk is the risk to the Company's earnings and shareholders' equity that results from customers, to whom loans have been made and to the issuers of debt securities in which the Company has invested, failing to repay their obligations. The magnitude of risk depends on the capacity and willingness of borrowers and debt issuers to repay and the sufficiency of the value of collateral obtained to secure the loans made or investments purchased.

Special Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements. Greene County Bancorp, Inc. desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all such forward-looking statements. These forward-looking statements, which are included in this Management's Discussion and Analysis and elsewhere in this quarterly report, describe future plans or strategies and include Greene County Bancorp, Inc.'s expectations of future financial results. The words "believe," "expect," "anticipate," "project," and similar expressions identify forward-looking statements. Greene County Bancorp, Inc.'s ability to predict results or the effect of future plans or strategies or qualitative or quantitative changes based on market risk exposure is inherently uncertain. Factors that could affect actual results include but are not limited to:

- (a) changes in general market interest rates,
- (b) general economic conditions, including unemployment rates and real estate values,
- (c) legislative and regulatory changes,

- (d) monetary and fiscal policies of the U.S. Treasury and the Federal Reserve,
- (e) changes in the quality or composition of The Bank of Greene County's loan portfolio or the consolidated investment portfolios of The Bank of Greene County and Greene County Bancorp, Inc.,
- (f) deposit flows,
- (g) competition, and
- (h) demand for financial services in Greene County Bancorp, Inc.'s market area.

These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements, since results in future periods may differ materially from those currently expected because of various risks and uncertainties.

Index

Non-GAAP Financial Measures

Regulation G, a rule adopted by the Securities and Exchange Commission (SEC), applies to certain SEC filings, including earnings releases, made by registered companies that contain “non-GAAP financial measures.” GAAP is generally accepted accounting principles in the United States of America. Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure (if a comparable GAAP measure exists) and a statement of the Company’s reasons for utilizing the non-GAAP financial measure as part of its financial disclosures. The SEC has exempted from the definition of “non-GAAP financial measures” certain commonly used financial measures that are not based on GAAP. When these exempted measures are included in public disclosures, supplemental information is not required. Financial institutions like the Company and its subsidiary banks are subject to an array of bank regulatory capital measures that are financial in nature but are not based on GAAP and are not easily reconcilable to the closest comparable GAAP financial measures, even in those cases where a comparable measure exists. The Company follows industry practice in disclosing its financial condition under these various regulatory capital measures, including period-end regulatory capital ratios for itself and its subsidiary banks, in its periodic reports filed with the SEC, and it does so without compliance with Regulation G, on the widely-shared assumption that the SEC regards such non-GAAP measures to be exempt from Regulation G. The Company uses in this Report additional non-GAAP financial measures that are commonly utilized by financial institutions and have not been specifically exempted by the SEC from Regulation G. The Company provides, as supplemental information, such non-GAAP measures included in this Report as described immediately below.

Tax-Equivalent Net Interest Income and Net Interest Margin: Net interest income, as a component of the tabular presentation by financial institutions of Selected Financial Information regarding their recently completed operations, as well as disclosures based on that tabular presentation, is commonly presented on a tax-equivalent basis. That is, to the extent that some component of the institution's net interest income, which is presented on a before-tax basis, is exempt from taxation (e.g., is received by the institution as a result of its holdings of state or municipal obligations), an amount equal to the tax benefit derived from that component is added to the actual before-tax net interest income total. This adjustment is considered helpful in comparing one financial institution's net interest income to that of another institution or in analyzing any institution’s net interest income trend line over time, to correct any analytical distortion that might otherwise arise from the fact that financial institutions vary widely in the proportions of their portfolios that are invested in tax-exempt securities, and that even a single institution may significantly alter over time the proportion of its own portfolio that is invested in tax-exempt obligations. Moreover, net interest income is itself a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, tax-equivalent net interest income is generally used by financial institutions, again to provide a better basis of comparison from institution to institution and to better demonstrate a single institution’s performance over time. While we present net interest income and net interest margin utilizing GAAP measures (no tax-equivalent adjustments) as a component of the tabular presentation within our disclosures, we do provide as supplemental information net interest income and net interest margin on a tax-equivalent basis.

Index

Comparison of Financial Condition at March 31, 2018 and June 30, 2017

ASSETS

Total assets of the Company were \$1.2 billion at March 31, 2018 as compared to \$982.3 million at June 30, 2017, an increase of \$191.5 million, or 19.5%. Securities available-for-sale and held-to-maturity amounted to \$395.1 million, at March 31, 2018 as compared to \$315.3 million, at June 30, 2017, an increase of \$79.8 million, or 25.3%. Net loans grew by \$54.3 million, or 8.7%, to \$678.5 million at March 31, 2018 as compared to \$624.2 million at June 30, 2017.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents increased \$58.3 million to \$74.6 million at March 31, 2018 from \$16.3 million at June 30, 2017. The level of cash and cash equivalents is a function of the daily account clearing needs and deposit levels as well as activities associated with securities transactions and loan funding. All of these items can cause cash levels to fluctuate significantly on a daily basis.

SECURITIES

Securities available-for-sale and held-to-maturity increased \$79.8 million, or 25.3%, to \$395.1 million at March 31, 2018 as compared to \$315.3 million at June 30, 2017. Securities purchases totaled \$146.2 million during the nine months ended March 31, 2018 and consisted of \$98.8 million of state and political subdivision securities, \$40.8 million of mortgage backed securities, \$4.2 million of U.S. government sponsored enterprises securities, \$1.5 million of corporate debt securities, and \$890,000 of other securities. Principal pay-downs and maturities during the nine months amounted to \$65.0 million, of which \$12.2 million were mortgage-backed securities, \$50.3 million were state and political subdivision securities, and \$2.5 million were corporate debt securities. At March 31, 2018, 56.2% of our securities portfolio consisted of state and political subdivision securities to take advantage of tax savings and to promote Greene County Bancorp, Inc.'s participation in the communities in which it operates. As a result of a reduction in the maximum Federal income tax rate from 35% to 21% effective January 1, 2018, the tax benefits to be received on these tax-exempt securities will be reduced in the future, resulting in a lower yield to be realized on these securities on a fully-taxable equivalent basis. With this lower yield, the unrealized gain on state and political subdivision securities has decreased at March 31, 2018. Mortgage-backed securities and asset-backed securities held within the portfolio do not contain sub-prime loans and are not exposed to the credit risk associated with such lending.

(Dollars in thousands)	March 31, 2018		June 30, 2017		
	Balance	Percentage of portfolio	Balance	Percentage of portfolio	
Securities available-for-sale:					
U.S. government sponsored enterprises	\$5,570	1.4	% \$4,717	1.5	%
State and political subdivisions	87,462	22.1	58,112	18.4	
Mortgage-backed securities-residential	3,737	1.0	4,913	1.5	
Mortgage-backed securities-multifamily	18,930	4.8	20,765	6.6	
Asset-backed securities	-	-	1	0.0	
Corporate debt securities	1,722	0.4	2,791	1.0	
Total debt securities	117,421	29.7	91,299	29.0	
Equity securities	206	0.1	184	0.1	
Total securities available-for-sale	117,627	29.8	91,483	29.1	
Securities held-to-maturity:					
U.S. government sponsored enterprises	9,242	2.3	6,000	1.9	
State and political subdivisions	134,697	34.1	115,805	36.7	
Mortgage-backed securities-residential	6,938	1.8	10,798	3.4	

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Mortgage-backed securities-multifamily	123,204	31.2	88,702	28.1	
Corporate debt securities	1,000	0.2	1,000	0.3	
Other securities	2,351	0.6	1,525	0.5	
Total securities held-to-maturity	277,432	70.2	223,830	70.9	
Total securities	\$395,059	100.0	% \$315,313	100.0	%

32

Index

LOANS

Net loans receivable increased \$54.3 million, or 8.7%, to \$678.5 million at March 31, 2018 from \$624.2 million at June 30, 2017. The loan growth experienced during the nine-month period consisted primarily of \$21.5 million in commercial real estate loans, \$17.2 million in commercial loans, \$5.0 million in multi-family real estate loans, \$8.0 million in residential real estate loans, and \$3.1 million in construction loans. We believe that the continued low interest rate environment and strong customer satisfaction from personal service continued to enhance loan growth. If long term rates begin to rise, the Company anticipates some slowdown in new loan demand as well as refinancing activities. The Bank of Greene County continues to use a conservative underwriting policy in regard to all loan originations, and does not engage in sub-prime lending or other exotic loan products. A significant decline in home values, however, in the Company's markets could have a negative effect on the consolidated results of operations, as any such decline in home values would likely lead to a decrease in residential real estate loans and new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and the residential real estate loan portfolios and result in increased losses in these portfolios. Updated appraisals are obtained on loans when there is a reason to believe that there has been a change in the borrower's ability to repay the loan principal and interest, generally, when a loan is in a delinquent status. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure continued collateral adequacy.

(Dollars in thousands)	March 31, 2018		June 30, 2017		
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio	
Residential real estate	\$253,345	36.8	% \$245,331	38.7	%
Residential construction and land	8,153	1.2	7,160	1.1	
Multi-family	14,201	2.1	9,199	1.4	
Commercial real estate	279,476	40.5	257,964	40.7	
Commercial construction	30,495	4.4	28,430	4.5	
Home equity	21,290	3.1	21,076	3.3	
Consumer installment	4,863	0.7	4,790	0.8	
Commercial loans	77,547	11.2	60,381	9.5	
Total gross loans	689,370	100.0	% 634,331	100.0	%
Allowance for loan losses	(11,622)		(11,022)		
Deferred fees and costs	747		878		
Total net loans	\$678,495		\$624,187		

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of certain identified loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, payment status of the loan, historical loan loss experience and other factors that warrant recognition in providing for an allowance for loan loss. In addition, various regulatory agencies, as an integral part of their examination process, periodically review The Bank of Greene County's allowance for loan losses. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank of Greene County considers smaller balance residential mortgages, home equity loans and installment loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience. Larger balance residential and commercial mortgage and business loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is generally based on

the fair value of the underlying collateral. The Bank of Greene County charges loans off against the allowance for loan losses when it becomes evident that a loan cannot be collected within a reasonable amount of time or that it will cost the Bank more than it will receive, and all possible avenues of repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers. Generally, consumer loans and smaller business loans (not secured by real estate) in excess of 90 days are charged-off against the allowance for loan losses, unless equitable arrangements are made. For loans secured by real estate, a charge-off is recorded when it is determined that the collection of all or a portion of a loan may not be collected and the amount of that loss can be reasonably estimated. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to expense) and recoveries of loans previously charged off and is reduced by charge-offs.

IndexAnalysis of allowance for loan losses activity

(Dollars in thousands)	At or for the nine months ended March 31,			
	2018		2017	
Balance at the beginning of the period	\$ 11,022		\$ 9,485	
Charge-offs:				
Residential real estate	96		90	
Consumer installment	256		209	
Commercial loans	157		-	
Total loans charged off	509		299	
Recoveries:				
Consumer installment	65		60	
Commercial loans	-		3	
Total recoveries	65		63	
Net charge-offs	444		236	
Provisions charged to operations	1,044		1,472	
Balance at the end of the period	\$ 11,622		\$ 10,721	
Net charge-offs to average loans outstanding (annualized)	0.09	%	0.06	%
Net charge-offs to nonperforming assets (annualized)	15.80	%	8.16	%
Allowance for loan losses to nonperforming loans	328.58	%	293.81	%
Allowance for loan losses to total loans receivable	1.69	%	1.74	%

Nonaccrual Loans and Nonperforming Assets

Loans are reviewed on a regular basis to assess collectability of all principal and interest payments due. Management determines that a loan is impaired or nonperforming when it is probable at least a portion of the principal or interest will not be collected in accordance with contractual terms of the note. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral.

Generally, management places loans on nonaccrual status once the loans have become 90 days or more delinquent or sooner if there is a significant reason for management to believe the collectability is questionable and, therefore, interest on the loan will no longer be recognized on an accrual basis. The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "Receivables – Loan Impairment." Management may consider a loan impaired once it is classified as nonaccrual and when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. It should be noted that management does not evaluate all loans individually for impairment. Generally, The Bank of Greene County considers residential mortgages, home equity loans and installment loans as small, homogeneous loans, which are evaluated for impairment collectively based on historical loan experience and other factors. In contrast, large commercial mortgage, construction, multi-family, business loans and select larger balance residential mortgage loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other

factors. Based on this evaluation, a delinquent loan's risk rating may be downgraded to either pass-watch, special mention, or substandard, and the allocation of the allowance for loan loss is based upon the risk associated with such designation. A loan does not have to be 90 days delinquent in order to be classified as nonperforming. Foreclosed real estate is considered to be a nonperforming asset.

IndexAnalysis of Nonaccrual Loans and Nonperforming Assets

(Dollars in thousands)	March 31, 2018	June 30, 2017		
Nonaccruing loans:				
Residential real estate	\$ 1,640	\$ 1,240		
Commercial real estate	1,278	1,452		
Commercial construction	-	176		
Home equity	332	218		
Consumer installment	9	10		
Commercial	279	476		
Total nonaccruing loans	3,538	3,572		
90 days & accruing				
Residential real estate	-	69		
Total 90 days & accruing	-	69		
Total nonperforming loans	3,538	3,641		
Foreclosed real estate:				
Residential real estate	208	-		
Commercial real estate	-	799		
Total foreclosed real estate	208	799		
Total nonperforming assets	\$ 3,746	\$ 4,440		
Troubled debt restructuring:				
Nonperforming (included above)	\$ 778	\$ 932		
Performing (accruing and excluded above)	1,565	916		
Total nonperforming assets as a percentage of total assets	0.32	%	0.45	%
Total nonperforming loans to net loans	0.52	%	0.58	%

The table below details additional information related to nonaccrual loans for the three and nine months ended March 31:

(In thousands)	For the three months ended March 31,		For the nine months ended March 31	
	2018	2017	2018	2017
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 45	\$ 50	\$ 182	\$ 186
Interest income that was recorded on nonaccrual loans	30	34	95	88

Nonperforming assets amounted to \$3.7 million at March 31, 2018 and \$4.4 million at June 30, 2017, a decrease of \$694,000 or 15.6%. Loans on nonaccrual status totaled \$3.5 million at March 31, 2018 of which \$1.8 million were in the process of foreclosure. At March 31, 2018, there were twelve residential loans in the process of foreclosure totaling \$1.2 million. Included in nonaccrual loans were \$1.6 million of loans which were less than 90 days past due at March 31, 2018, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were \$62,000 of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with the Bank to bring the loans current over a specified period of time (resulting in an insignificant delay in repayment). During this term of the forbearance agreement, the Bank has agreed not to continue foreclosure proceedings. While the Bank makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans in process of foreclosure has grown substantially over the past

several years. Loans on nonaccrual status totaled \$3.6 million at June 30, 2017 of which \$1.6 million were in the process of foreclosure. Included in nonaccrual loans were \$1.9 million of loans which were less than 90 days past due at June 30, 2017, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were \$179,000 of loans which were making payments pursuant to forbearance agreements.

IndexImpaired Loans

The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic “Receivables – Loan Impairment”. A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring.

The table below details additional information on impaired loans at March 31, 2018 and June 30, 2017:

(In thousands)	March 31, 2018	June 30, 2017
Balance of impaired loans, with a valuation allowance	\$ 2,826	\$ 2,071
Allowances relating to impaired loans included in allowance for loan losses	527	436
Balance of impaired loans, without a valuation allowance	1,337	1,181
Total impaired loans	4,163	3,252

(In thousands)	For the three months ended March 31,		For the nine months ended March 31,	
	2018	2017	2018	2017
Average balance of impaired loans for the periods ended	\$ 3,717	\$ 3,558	\$ 3,888	\$ 3,269
Interest income recorded on impaired loans during the periods ended	24	48	73	100

DEPOSITS

Total deposits increased to \$1.1 billion at March 31, 2018 from \$859.5 million at June 30, 2017, an increase of \$192.7 million, or 22.4%. This increase was the result of a \$146.7 million increase in municipal deposits at Greene County Commercial Bank, primarily from continued growth in new account relationships as well as tax collection. NOW deposits increased \$170.7 million, or 43.5%, money market deposits increased \$22.6 million, or 18.8%, savings deposits increased \$11.2 million, or 5.7% and noninterest-bearing deposits increased \$4.8 million, or 5.0% when comparing March 31, 2018 and June 30, 2017. These increases were partially offset by a decrease in certificates of deposit of \$16.6 million, or 30.8%, when comparing March 31, 2018 and June 30, 2017. Included within certificates of deposits at June 30, 2017 were \$15.0 million, in brokered certificates of deposit. There were no brokered deposits at March 31, 2018.

(In thousands)	March 31, 2018	Percentage of Portfolio	June 30, 2017	Percentage of Portfolio
Noninterest-bearing deposits	\$ 100,729	9.6 %	\$ 95,929	11.2 %
Certificates of deposit	37,179	3.5	53,742	6.3
Savings deposits	208,455	19.8	197,288	22.9
Money market deposits	142,367	13.5	119,806	13.9
NOW deposits	563,517	53.6	392,770	45.7
Total deposits	\$ 1,052,247	100.0	\$ 859,535	100.0 %

BORROWINGS

At March 31, 2018, The Bank of Greene County had pledged approximately \$282.2 million of its residential and commercial mortgage portfolio as collateral for borrowing and irrevocable stand-by letters of credit at the Federal Home Loan Bank of New York (“FHLB”). The maximum amount of funding available from the FHLB was \$227.1 million at March 31, 2018, of which \$18.2 million in borrowings and \$90.0 million in irrevocable stand-by letters of credit were outstanding at March 31, 2018. There were no short-term or overnight borrowings outstanding at March 31, 2018. The \$18.2 million consisted of long-term fixed rate advances with a weighted average rate of 1.63% and a

weighted average maturity of 25 months. The \$90.0 million of irrevocable stand-by letters of credit with the FHLB have been issued to secure municipal transactional deposit accounts, on behalf of Greene County Commercial Bank.

The Bank of Greene County also pledges securities as collateral at the Federal Reserve Bank discount window for overnight borrowings. At March 31, 2018, approximately \$1.7 million of collateral was available to be pledged against potential borrowings at the Federal Reserve Bank discount window. There were no balances outstanding with the Federal Reserve Bank at March 31, 2018 or June 30, 2017.

The Bank of Greene County has established unsecured lines of credit with Atlantic Central Bankers Bank and another financial institution for \$6.0 million and \$10.0 million, respectively. At March 31, 2018 and June 30, 2017, there were no balances outstanding on either of these lines of credit. Greene County Bancorp, Inc. has also established an unsecured line of credit with Atlantic Central Bankers Bank for \$7.5 million. At March 31, 2018 and June 30, 2017 there were no balances outstanding on this line of credit. All of these lines of credit provide for overnight borrowing and the interest rate is determined at the time of the borrowing.

Index

Scheduled maturities of long-term borrowings at March 31, 2018 were as follows:

(In thousands)

Within the twelve months ended March 31,	
2019	\$5,500
2020	4,500
2021	3,300
2022	4,850
2023	-
	\$18,150

EQUITY

Shareholders' equity increased to \$92.7 million at March 31, 2018 from \$83.5 million at June 30, 2017, as net income of \$10.8 million was partially offset by dividends declared and paid of \$1.1 million, and a \$907,000 increase in accumulated other comprehensive loss. Other changes in equity, an increase of \$150,000, were the result of options exercised with the Company's 2008 Stock Option Plan.

During the three months ended March 31, 2018, \$259,000 in accumulated other comprehensive income was reclassified to retained earnings, which represents the stranded credit resulting from the change in Federal tax rates upon the enactment of the TCJA and its impact on deferred taxes associated with items reported in accumulated other comprehensive income. This adjustment is the result of the Company adopting the amendments to the Financial Accounting Standards Board's Accounting Standard Update (ASU 2018-02) "Income Statement-Reporting Comprehensive Income (Topic 220)" issued in February 2018.

Selected Equity Data:

	March 31, 2018		June 30, 2017	
Shareholders' equity to total assets, at end of period	7.89	%	8.50	%
Book value per share	\$10.87		\$ 9.82	
Closing market price of common stock	\$36.70		\$ 27.20	

	For the nine months ended March 31,			
	2018		2017	
Average shareholders' equity to average assets	8.38	%	8.60	%
Dividend payout ratio ¹	23.03	%	29.08	%
Actual dividends paid to net income ²	10.61	%	13.35	%

¹The dividend payout ratio has been calculated based on the dividends declared per share divided by basic earnings per share. No adjustments have been made for dividends waived by Greene County Bancorp, MHC ("MHC"), the owner of 54.1% of the Company's shares outstanding.

² Dividends declared divided by net income. The MHC waived its right to receive dividends declared during the nine months ended March 31, 2018 and 2017. The MHC's ability to waive the receipt of dividends is dependent upon annual approval of its members as well as receiving the non-objection of the Federal Reserve Board.

Index

Comparison of Operating Results for the Three and Nine Months Ended March 31, 2018 and 2017

Average Balance Sheet

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the three and nine months ended March 31, 2018 and 2017. For the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, are expressed both in dollars and rates. No tax equivalent adjustments were made. Average balances were based on daily averages. Average loan balances include nonperforming loans. The loan yields include net amortization of certain deferred fees and costs that are considered adjustments to yields.

	Three months ended March 31, 2018			2017		
	Average Outstanding Balance	Interest Earned / Paid	Average Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Average Yield / Rate
(Dollars in thousands)						
Interest-earning Assets:						
Loans receivable, net ¹	\$678,911	\$ 7,454	4.39	% \$608,070	\$ 6,598	4.34
Securities ²	367,269	2,233	2.43	299,379	1,773	2.37
Interest-bearing bank balances and federal funds	45,646	161	1.41	5,549	8	0.58
FHLB stock	1,530	28	7.32	2,485	32	5.15
Total interest-earning assets	1,093,356	9,876	3.61	% 915,483	8,411	3.67
Cash and due from banks	12,363			10,463		
Allowance for loan losses	(11,428)			(10,517)		
Other noninterest-earning assets	20,107			21,447		
Total assets	\$1,114,398			\$936,876		
Interest-Bearing Liabilities:						
Savings and money market deposits	\$339,216	\$ 272	0.32	% \$308,213	\$ 239	0.31
NOW deposits	518,463	585	0.45	366,759	341	0.37
Certificates of deposit	38,303	82	0.86	40,426	77	0.76
Borrowings	19,177	77	1.61	40,501	127	1.25
Total interest-bearing liabilities	915,159	1,016	0.44	% 755,899	784	0.41
Noninterest-bearing deposits	98,498			90,273		
Other noninterest-bearing liabilities	9,805			11,137		
Shareholders' equity	90,936			79,567		
Total liabilities and equity	\$1,114,398			\$936,876		
Net interest income		\$ 8,860			\$ 7,627	
Net interest rate spread			3.17	%		3.26
Net earnings assets	\$178,197			\$159,584		
Net interest margin			3.24	%		3.33
Average interest-earning assets to average interest-bearing liabilities	119.47	%		121.11	%	

¹Calculated net of deferred loan fees and costs, loan discounts, and loans in process.

²Includes tax-free securities, mortgage-backed securities, and asset-backed securities.

Taxable-equivalent net interest income and net interest margin

(Dollars in thousands)	For the three months ended March 31,			
	2018		2017	
Net interest income (GAAP)	\$ 8,860		\$ 7,627	
Tax-equivalent adjustment ⁽¹⁾	558		565	
Net interest income (fully taxable-equivalent)	\$ 9,418		\$ 8,192	
Average interest-earning assets	\$ 1,093,356		\$ 915,483	
Net interest margin (fully taxable-equivalent)	3.45	%	3.58	%

¹Net interest income on a taxable-equivalent basis includes the additional amount of interest income that would have been earned if the Company's investment in tax-exempt securities and loans had been subject to federal and New York State income taxes yielding the same after-tax income. The rate used for this adjustment was approximately 28.1% and 34% for federal income taxes and 3.62% and 3.32% for New York State income taxes for the period ended March 31, 2018 and 2017, respectively.

Index

(Dollars in thousands)	Nine months ended March 31, 2018			2017		
	Average Outstanding Balance	Interest Earned / Paid	Average Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Average Yield / Rate
Interest-earning Assets:						
Loans receivable, net ¹	\$658,906	\$ 21,800	4.41 %	\$576,076	\$ 19,033	4.41 %
Securities ²	345,361	6,238	2.41	299,811	5,567	2.48
Interest-bearing bank balances and federal funds	25,761	260	1.35	3,492	16	0.61
FHLB stock	1,737	87	6.68	2,545	93	4.87
Total interest-earning assets	1,031,765	28,385	3.67 %	881,924	24,709	3.74 %
Cash and due from banks	10,182			8,707		
Allowance for loan losses	(11,219)			(10,066)		
Other noninterest-earning assets	19,078			19,235		
Total assets	\$1,049,806			\$899,800		
Interest-Bearing Liabilities:						
Savings and money market deposits	\$327,188	\$ 789	0.32 %	\$299,486	\$ 709	0.32 %
NOW deposits	465,022	1,571	0.45	341,520	969	0.38
Certificates of deposit	40,249	255	0.84	41,903	233	0.74
Borrowings	23,467	280	1.59	41,809	353	1.13
Total interest-bearing liabilities	855,926	2,895	0.45 %	724,718	2,264	0.42 %
Noninterest-bearing deposits	97,913			88,738		
Other noninterest-bearing liabilities	8,015			8,974		
Shareholders' equity	87,952			77,370		
Total liabilities and equity	\$1,049,806			\$899,800		
Net interest income		\$ 25,490			\$ 22,445	
Net interest rate spread			3.22 %			3.32 %
Net earnings assets	\$175,839			\$157,206		
Net interest margin			3.29 %			3.39 %
Average interest-earning assets to average interest-bearing liabilities	120.54 %			121.69 %		

¹Calculated net of deferred loan fees and costs, loan discounts, and loans in process.

²Includes tax-free securities, mortgage-backed securities, and asset-backed securities.

Non-GAAP taxable-equivalent net interest income and net interest margin

(Dollars in thousands)	For the nine months ended March 31,	
	2018	2017
Net interest income (GAAP)	\$ 25,490	\$ 22,445
Tax-equivalent adjustment ⁽¹⁾	1,595	1,622
Net interest income (fully taxable-equivalent)	\$ 27,085	\$ 24,067
Average interest-earning assets	\$ 1,031,765	\$ 881,924
Net interest margin (fully taxable-equivalent)	3.50 %	3.64 %

¹Net interest income on a taxable-equivalent basis includes the additional amount of interest income that would have been earned if the Company's investment in tax-exempt securities and loans had been subject to federal and New York State income taxes yielding the same after-tax income. The rate used for this adjustment was approximately 28.1% and 34% for federal income taxes and 3.62% and 3.32% for New York State income taxes for the period ended March 31, 2018 and 2017, respectively.

Index

Rate / Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected Greene County Bancorp, Inc.'s interest income and interest expense during the periods indicated. Information is provided in each category with respect to:

- (i) Change attributable to changes in volume (changes in volume multiplied by prior rate);
- (ii) Change attributable to changes in rate (changes in rate multiplied by prior volume); and
- (iii) The net change.

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

(Dollars in thousands)	Three Months Ended March 31, 2018 versus 2017			Nine Months Ended March 31, 2018 versus 2017		
	Increase/(Decrease) Due To		Total Increase/ (Decrease)	Increase/(Decrease) Due To		Total Increase/ (Decrease)
	Volume	Rate		Volume	Rate	
Interest Earning Assets:						
Loans receivable, net ¹	\$ 779	\$ 77	\$ 856	\$ 2,767	\$ 0	\$ 2,767
Securities ²	414	46	460	831	(160)	671
Interest-bearing bank balances and federal funds	128	25	153	205	39	244
FHLB stock	(15)	11	(4)	(35)	29	(6)
Total interest-earning assets	1,306	159	1,465	3,768	(92)	3,676
Interest-Bearing Liabilities:						
Savings and money market deposits	25	8	33	80	0	80
NOW deposits	160	84	244	399	203	602
Certificates of deposit	(4)	9	5	(9)	31	22
Borrowings	(79)	29	(50)	(188)	115	(73)
Total interest-bearing liabilities	102	130	232	282	349	631
Net change in net interest income	\$ 1,204	\$ 29	\$ 1,233	\$ 3,486	\$ (441)	\$ 3,045

¹ Calculated net of deferred loan fees, loan discounts, and loans in process.

² Includes tax-free securities, mortgage-backed securities, and asset-backed securities.

GENERAL

Return on average assets and return on average equity are common methods of measuring operating results. Annualized return on average assets increased to 1.32% for the three months ended March 31, 2018 as compared to 1.24% for the three months ended March 31, 2017, and was 1.37% and 1.23% for the nine months ended March 31, 2018 and 2017, respectively. Annualized return on average equity increased to 16.17% for the three months and 16.36% for the nine months ended March 31, 2018 as compared to 14.56% for the three months and 14.36% for the nine months ended March 31, 2017. The increase in return on average assets and return on average equity was primarily the result of growth in net income resulting from growth in earning assets. Net income amounted to \$3.7 million and \$2.9 million for the three months ended March 31, 2018 and 2017, respectively, an increase of \$780,000

or 26.9% and amounted to \$10.8 million and \$8.3 million for the nine months ended March 31, 2018 and 2017, respectively, an increase of \$2.5 million or 29.5%. Average assets increased \$177.5 million, or 18.9% to \$1.1 billion for the three months ended March 31, 2018 as compared to \$936.9 million for the three months ended March 31, 2017. Average equity increased \$11.3 million, or 14.2%, to \$90.9 million for the three months ended March 31, 2018 as compared to \$79.6 million for the three months ended March 31, 2017. Average assets increased \$150.0 million, or 16.7%, to \$1.0 billion for the nine months ended March 31, 2018 as compared to \$899.8 million for the nine months ended March 31, 2017. Average equity increased \$10.6 million, or 13.7%, to \$88.0 million for the nine months ended March 31, 2018 as compared to \$77.4 million for the nine months ended March 31, 2017.

Index

INTEREST INCOME

Interest income amounted to \$9.9 million for the three months ended March 31, 2018 as compared to \$8.4 million for the three months ended March 31, 2017, an increase of \$1.5 million, or 17.9%. Interest income amounted to \$28.4 million for the nine months ended March 31, 2018 as compared to \$24.7 million for the nine months ended March 31, 2017, an increase of \$3.7 million, or 15.0%. The increase in average loan and securities balances had the greatest impact on interest income when comparing the three and nine months ended March 31, 2018 and 2017. Average loan balances increased \$70.8 million and \$82.8 million while the yield on loans increased five basis points and remained unchanged when comparing the three and nine months ended March 31, 2018 and 2017, respectively. Average securities increased \$67.9 million and \$45.6 million and the yield on such securities increased six basis points when comparing the three months ended March 31, 2018 and 2017 and decreased seven basis points when comparing the nine months ended March 31, 2018 and 2017, respectively. The lower yield on securities when comparing the nine months ended March 31, 2018 and 2017, is the result of a decrease in prepayment penalty income on mortgage-backed securities, included in interest income, of \$234,000 when comparing the nine months ended March 31, 2018 and 2017.

INTEREST EXPENSE

Interest expense amounted to \$1.0 million for the three months ended March 31, 2018 as compared to \$784,000 for the three months ended March 31, 2017, an increase of \$232,000, or 29.6%. Interest expense amounted to \$2.9 million for the nine months ended March 31, 2018 as compared to \$2.3 million for the nine months ended March 31, 2017, an increase of \$631,000, or 27.9%. Increases in average balances on interest-bearing liabilities as well as an increase in rates paid on deposits contributed to the increase in overall interest expense. As illustrated in the rate/volume table, interest expense increased \$102,000 and \$282,000 when comparing the three and nine months ended March 31, 2018 and 2017, respectively, due to a \$159.3 million and \$131.2 million increase in the average balances on interest-bearing liabilities when comparing these same periods. The average rate paid on interest-bearing liabilities increased three basis points to 0.44% from 0.41% when comparing the three months ended March 31, 2018 and 2017, respectively, and increased three basis points to 0.45% from 0.42% when comparing the nine months ended March 31, 2018 and 2017.

Average deposits increased \$188.8 million and \$158.7 million for the three and nine months ended March 31, 2018 and 2017, respectively, as a result of continued growth across all three of our primary banking lines – retail, commercial and municipal. The average rate paid on NOW deposits increased eight basis points when comparing the three months ended March 31, 2018 and 2017, and the average balance of such accounts grew by \$151.7 million when comparing these same periods. The average rate paid on NOW deposits increased seven basis points when comparing the nine months ended March 31, 2018 and 2017, and the average balance of such accounts increased \$123.5 million when comparing these same periods. The average balance of savings and money market deposits increased \$31.0 million and \$27.7 million when comparing the three and nine months ended March 31, 2018 and 2017, respectively. The rates paid on savings and money market deposits increased one basis point when comparing the three months ended March 31, 2018 and 2017, and remained unchanged when comparing the nine months ended March 31, 2018 and 2017. The average balance of certificates of deposit decreased \$2.1 million and \$1.7 million when comparing the three and nine months ended March 31, 2018 and 2017, respectively. The average rate paid on certificate of deposits increased ten basis points when comparing the three and nine months ended March 31, 2018 and 2017. This increase in rate paid on certificates of deposit for the three and nine months is the result of the promotion of a five year certificate product.

The average balance on borrowings decreased \$21.3 million and the rate increased 36 basis points when comparing the three months ended March 31, 2018 and 2017. The average balance on borrowings decreased \$18.3 million and the rate increased 46 basis points when comparing the nine months ended March 31, 2018 and 2017. This was primarily the result of a decrease in the average balance of short-term borrowings when comparing both the three and

nine month periods ended March 31, 2018 and 2017, resulting in a higher mix of longer term, higher rate borrowings.

NET INTEREST INCOME

Net interest income increased \$1.2 million to \$8.8 million for the three months ended March 31, 2018 from \$7.6 million for the three months ended March 31, 2017. Net interest income increased \$3.1 million to \$25.5 million for the nine months ended March 31, 2018 from \$22.4 million for the nine months ended March 31, 2017. These increases in net interest income were primarily the result of the growth in the average balance of interest-earning assets.

Net interest spread and margin decreased nine basis points to 3.17% and 3.24%, respectively, for the three months ended March 31, 2018 compared to 3.26% and 3.33%, respectively, for the three months ended March 31, 2017. Net interest spread and margin decreased 10 basis points to 3.22% and 3.29%, respectively for the nine months ended March 31, 2018 compared to 3.32% and 3.39%, respectively, for the nine months ended March 31, 2017.

Index

Net interest income on a taxable-equivalent basis includes the additional amount of interest income that would have been earned if the Company's investment in tax-exempt securities and loans had been subject to federal and New York State income taxes yielding the same after-tax income. Tax equivalent net interest margin was 3.45% and 3.58% for the three months ended March 31, 2018 and 2017, respectively. Tax equivalent net interest margin was 3.50% and 3.64% for the nine months ended March 31, 2018 and 2017, respectively. Tax equivalent net interest margin for the three and nine months ended March 31, 2018 have been adjusted to reflect the Federal blended statutory tax rate applicable to our fiscal year 2018 of 28.1% resulting from the Tax Cuts and Jobs Act ("TCJA"). As a result of utilizing this lower statutory tax rate for the periods ended March 31, 2018, the tax equivalent net interest margin decreased six and five basis points for the three and nine months ended March 31, 2018, respectively.

Due to the large portion of fixed-rate residential mortgages in the Company's portfolio, interest rate risk is a concern and the Company will continue to monitor and adjust the asset and liability mix as much as possible to take advantage of the benefits and reduce the risks or potential negative effects of a rising rate environment. Management attempts to mitigate the interest rate risk through balance sheet composition. Several strategies are used to help manage interest rate risk such as maintaining a high level of liquid assets such as short-term federal funds sold and various investment securities and maintaining a high concentration of less interest-rate sensitive and lower-costing core deposits.

PROVISION FOR LOAN LOSSES

Management continues to closely monitor asset quality and adjust the level of the allowance for loan losses when necessary. The amount recognized for the provision for loan losses is determined by management based on its ongoing analysis of the adequacy of the allowance for loan losses. The provision for loan losses amounted to \$345,000 and \$343,000 for the three months ended March 31, 2018 and 2017, respectively. The provision for loan losses amounted to \$1.0 million and \$1.5 million for the nine months ended March 31, 2018 and 2017, respectively. The decrease in the provision for loan loss for the nine months is the result of slower growth in average loan balances. Net loans grew \$54.3 million during the nine months ended March 31, 2018 compared to \$83.9 million for the nine months ended March 31, 2017. Net charge-offs amounted to \$75,000 and \$43,000 for the three months ended March 31, 2018 and 2017, respectively, and amounted to \$444,000 and \$236,000 for the nine months ended March 31, 2018 and 2017, respectively.

Allowance for loan losses to total loans receivable decreased to 1.69% as of March 31, 2018 as compared to 1.74% as of June 30, 2017, and 1.74% as of March 31, 2017. Nonperforming loans amounted to \$3.5 million and \$3.6 million at March 31, 2018 and June 30, 2017, respectively. At March 31, 2018 and June 30, 2017, respectively, nonperforming assets to total assets were 0.32% and 0.45% and nonperforming loans to net loans were 0.52% and 0.58%. At March 31, 2017, nonperforming assets to total assets were 0.40% and nonperforming loans to net loans were 0.60%. The Company has not been an originator of "no documentation" mortgage loans, and the loan portfolio does not include any mortgage loans that the Company classifies as sub-prime.

NONINTEREST INCOME

(In thousands)	For the three months ended		Change from Prior		For the nine		Change from Prior		
	March 31,	March 31,	Year	Year	months	months	Year	Year	
Noninterest income:	2018	2017	Amount	Percent	ended March 31,	ended March 31,	Amount	Percent	
Service charges on deposit accounts	\$ 932	\$ 746	\$ 186	24.93	% \$ 2,717	\$ 2,339	\$ 378	16.16	%
Debit card fees	566	490	76	15.51	1,723	1,491	232	15.56	
Investment services	138	100	38	38.00	332	237	95	40.08	
E-commerce fees	31	31	-	0.00	104	94	10	10.64	
Other operating income	192	215	(23)	(10.70)	610	582	28	4.81	

Total noninterest income	\$ 1,859	\$ 1,582	\$ 277	17.51	%	\$ 5,486	\$ 4,743	\$ 743	15.67	%
--------------------------	----------	----------	--------	-------	---	----------	----------	--------	-------	---

Noninterest income increased \$277,000, or 17.5%, to \$1.9 million for the three months ended March 31, 2018 as compared to \$1.6 million for the three months ended March 31, 2017. Noninterest income increased \$743,000, or 15.7%, to \$5.5 million for the nine months ended March 31, 2018 as compared to \$4.7 million for the nine months ended March 31, 2017. These increases are primarily due to increases in debit card fees and service charges on deposit accounts resulting from continued growth in the number of checking accounts with debit cards, as well as increased monthly or transactional service charges on deposit accounts.

NONINTEREST EXPENSE

(In thousands)	For the three months ended March 31,		Change from Prior Year		For the nine months ended March 31,		Change from Prior Year			
	2018	2017	Amount	Percent	2018	2017	Amount	Percent		
Noninterest expense:										
Salaries and employee benefits	\$ 3,485	\$ 2,992	\$ 493	16.48	%	\$ 9,522	\$ 8,447	\$ 1,075	12.73	%
Occupancy expense	448	442	6	1.36		1,159	1,161	(2)	(0.17))
Equipment and furniture expense	159	104	55	52.88		430	356	74	20.79	
Service and data processing fees	539	508	31	6.10		1,566	1,455	111	7.63	
Computer software, supplies and support	175	162	13	8.02		480	456	24	5.26	
Advertising and promotion	74	79	(5)	(6.33))	241	287	(46)	(16.03))
FDIC insurance premiums	115	86	29	33.72		301	293	8	2.73	
Legal and professional fees	223	207	16	7.73		683	625	58	9.28	
Other	564	443	121	27.31		1,605	1,485	120	8.08	
Total noninterest expense	\$ 5,782	\$ 5,023	\$ 759	15.11	%	\$ 15,987	\$ 14,565	\$ 1,422	9.76	%

Index

Noninterest expense increased \$759,000, or 15.1%, to \$5.8 million for the three months ended March 31, 2018 as compared to \$5.0 million for the three months ended March 31, 2017. Noninterest expense increased \$1.4 million, or 9.8%, to \$16.0 million for the nine months ended March 31, 2018 as compared to \$14.6 million for the nine months ended March 31, 2017. These increases in noninterest expense are primarily the result of an increase in salaries and employee benefits expenses, resulting from additional staffing to support the Bank's growth. New positions were added within the Bank's lending department, customer service center, investment center and for the Bank's new branch in Copake, New York. The increase is also due to higher service and data processing fees resulting from costs associated with offering more services to customers through online banking.

INCOME TAXES

The provision for income taxes directly reflects the expected tax associated with the pre-tax income generated for the given year and certain regulatory requirements. The effective tax rate was 19.9% and 22.6% for the three and nine months ended March 31, 2018, respectively compared to 24.6% and 25.3% for the three and nine months ended March 31, 2017. The decrease in the effective tax rate for the three and nine months ended March 31, 2018 is primarily the result of the impact of the enactment of the TCJA in December 2017. The TCJA permanently reduces the maximum corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. The lower corporate income tax rate means that deferred tax assets and liabilities that will be deductible or taxable in the future would need to be computed at the new tax rate. Additionally, fiscal year-end taxpayers such as Greene County Bancorp, Inc. are required to utilize a "blended rate" in calculating the effective tax rate for the fiscal year based on a ratio utilizing the number of days at the 35% tax rate and the number of days at the 21% tax rate. Greene County Bancorp, Inc.'s statutory blended rate for fiscal 2018 is approximately 28%. The Company recognized \$251,000 an income tax benefit for the three months ended December 31, 2017 as a result of the TCJA. The statutory rate is also impacted by the benefits derived from tax-exempt bond and loan income, the Company's real estate investment trust subsidiary income, as well as the tax benefit derived from premiums paid to the Company's pooled captive insurance subsidiary to arrive at the effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates or prices such as interest rates, foreign currency exchange rates, commodity prices, and equity prices. Greene County Bancorp, Inc.'s most significant form of market risk is interest rate risk since the majority of Greene County Bancorp, Inc.'s assets and liabilities are sensitive to changes in interest rates. Greene County Bancorp, Inc.'s primary sources of funds are deposits and proceeds from principal and interest payments on loans, mortgage-backed securities and debt securities, with lines of credit available through the Federal Home Loan Bank, Atlantic Central Bankers Bank and another financial institution, as needed. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, mortgage prepayments, and lending activities are greatly influenced by general interest rates, economic conditions and competition.

The Bank of Greene County's unfunded loan commitments and unused lines of credit are as follows at March 31, 2018:

(In thousands)	2018
Unfunded loan commitments	\$37,648
Unused lines of credit	59,001
Total commitments	\$96,649

Greene County Bancorp, Inc. anticipates that it will have sufficient funds available to meet current loan commitments based on the level of cash and cash equivalents as well as the available-for-sale investment portfolio and borrowing

capacity.

43

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Index

The Bank of Greene County and Greene County Commercial Bank met all applicable regulatory capital requirements at March 31, 2018 and June 30, 2017. Consolidated shareholders' equity represented 7.9% of total assets at March 31, 2018 and 8.5% at June 30, 2017.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Capital Conservation Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Actual	Required
<u>The Bank of Greene County</u>								
As of March 31, 2018:								
Total risk-based capital	\$99,824	15.7%	\$ 50,918	8.0 %	\$ 63,648	10.0 %	7.684 %	1.875 %
Tier 1 risk-based capital	91,758	14.4	38,189	6.0	50,918	8.0	8.417	1.875
Common equity tier 1 capital	91,758	14.4	28,642	4.5	41,371	6.5	9.917	1.875
Tier 1 leverage ratio	91,758	8.3	44,471	4.0	55,589	5.0	4.253	1.875
As of June 30, 2017:								
Total risk-based capital	\$87,719	15.8%	\$ 44,433	8.0 %	\$ 55,542	10.0 %	7.794 %	1.250 %
Tier 1 risk-based capital	80,671	14.5	33,325	6.0	44,433	8.0	8.525	1.250
Common equity tier 1 capital	80,671	14.5	24,994	4.5	36,102	6.5	10.024	1.250
Tier 1 leverage ratio	80,671	8.5	38,056	4.0	47,571	5.0	4.479	1.250
<u>Greene County Commercial Bank</u>								
As of March 31, 2018:								
Total risk-based capital	\$38,394	40.3%	\$ 7,623	8.0 %	\$ 9,529	10.0 %	32.290 %	1.875 %
Tier 1 risk-based capital	38,394	40.3	5,718	6.0	7,623	8.0	34.290	1.875
Common equity tier 1 capital	38,394	40.3	4,288	4.5	6,194	6.5	35.790	1.875
Tier 1 leverage ratio	38,394	8.6	17,792	4.0	22,241	5.0	4.632	1.875

As of June 30,
2017:

Total risk-based capital	\$ 30,095	40.1 %	\$ 6,011	8.0 %	\$ 7,514	10.0 %	32.053 %	1.250 %
Tier 1 risk-based capital	30,095	40.1	4,508	6.0	6,011	8.0	34.053	1.250
Common equity tier 1 capital	30,095	40.1	3,381	4.5	4,884	6.5	35.550	1.250
Tier 1 leverage ratio	30,095	9.6	12,508	4.0	15,635	5.0	5.624	1.250

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. 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 were effective 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 Securities and Exchange Commission's rules and forms and in timely altering them to material information relating to the Company (or its consolidated subsidiaries) required to be filed in its periodic SEC filings.

Index

There has been no change in the Company's internal control over financial reporting in connection with the quarterly evaluation that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Greene County Bancorp, Inc. and its subsidiaries are not engaged in any material legal proceedings at the present time.

Item 1A. Risk Factors

Not applicable to smaller reporting companies.

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

- a) Not applicable
- b) Not applicable
- c) Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

- a) Not applicable
- b) There were no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors during the period covered by this Form 10-Q.

Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer, adopted pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of Chief Financial Officer, adopted pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Statement of Chief Executive Officer, furnished pursuant to U.S.C. Section 1350

32.2 Statement of Chief Financial Officer, furnished pursuant to U.S.C. Section 1350

- 101 The following materials from Greene County Bancorp, Inc. Form 10-Q for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Financial Condition, (iii) Consolidated Statements of Cash Flows and (iv) related notes, tagged as blocks of text.

Index

SIGNATURES

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

Greene County Bancorp, Inc.

Date: May 14, 2018

By: /s/ Donald E. Gibson

Donald E. Gibson
President and Chief Executive Officer

Date: May 14, 2018

By: /s/ Michelle M. Plummer

Michelle M. Plummer, CPA
Executive Vice President, Chief Financial Officer, and Chief Operating Officer