

GREENE COUNTY BANCORP INC
Form 10-Q
February 13, 2017

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 DECEMBER 31, 2016

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, or a small reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Yes: No:

As of February 13, 2017, the registrant had 8,502,614 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>	8-27
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28-41
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4.	<u>Controls and Procedures</u>	41
PART II.	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	42
Item 1A.	<u>Risk Factors</u>	42
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3.	<u>Defaults Upon Senior Securities</u>	42
Item 4.	<u>Mine Safety Disclosures</u>	42
Item 5.	<u>Other Information</u>	42
Item 6.	<u>Exhibits</u>	42
	<u>Signatures</u>	43
	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
 As of December 31, 2016 and June 30, 2016
 (Unaudited)
 (In thousands, except share and per share amounts)

	December 31, 2016	June 30, 2016
ASSETS		
Total cash and cash equivalents	\$ 15,575	\$ 15,895
Long term certificate of deposit	2,145	2,210
Securities available-for-sale, at fair value	85,710	100,123
Securities held-to-maturity, at amortized cost (fair value \$212,534 at December 31, 2016; \$214,058 at June 30, 2016)	210,983	204,935
Federal Home Loan Bank stock, at cost	3,730	2,752
Loans	600,882	531,290
Allowance for loan losses	(10,421) (9,485
Unearned origination fees and costs, net	866	959
Net loans receivable	591,327	522,764
Premises and equipment	13,928	14,176
Accrued interest receivable	3,790	3,610
Foreclosed real estate	338	370
Prepaid expenses and other assets	4,455	1,946
Total assets	\$ 931,981	\$ 868,781
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 88,957	\$ 88,254
Interest-bearing deposits	686,108	650,633
Total deposits	775,065	738,887
Borrowings from Federal Home Loan Bank, short-term	45,700	26,100
Borrowings from other banks, short-term	100	-
Borrowings from Federal Home Loan Bank, long-term	22,450	20,300
Accrued expenses and other liabilities	10,287	9,193
Total liabilities	853,602	794,480
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 8,502,614 shares at December 31, 2016, and 8,475,614 shares at June 30, 2016	861	861
Additional paid-in capital	10,990	10,872
Retained earnings	68,496	63,805
Accumulated other comprehensive loss	(1,558) (725
Treasury stock, at cost 108,726 shares at December 31, 2016, and 135,726 shares at June 30, 2016	(410) (512
Total shareholders' equity	78,379	74,301
Total liabilities and shareholders' equity	\$ 931,981	\$ 868,781

See notes to consolidated financial statements

3

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

Index

Greene County Bancorp, Inc.

Consolidated Statements of Income

For the Three and Six Months Ended December 31, 2016 and 2015

(Unaudited)

(In thousands, except share and per share amounts)

	For the three months ended December 31,		For the six months ended December 31,	
	2016	2015	2016	2015
Interest income:				
Loans	\$ 6,382	\$ 5,479	\$ 12,435	\$ 10,772
Investment securities - taxable	146	139	296	273
Mortgage-backed securities	1,099	786	1,883	1,553
Investment securities - tax exempt	852	730	1,676	1,397
Interest-bearing deposits and federal funds sold	5	2	8	4
Total interest income	8,484	7,136	16,298	13,999
Interest expense:				
Interest on deposits	648	540	1,254	1,071
Interest on borrowings	105	86	226	169
Total interest expense	753	626	1,480	1,240
Net interest income	7,731	6,510	14,818	12,759
Provision for loan losses	586	343	1,129	717
Net interest income after provision for loan losses	7,145	6,167	13,689	12,042
Noninterest income:				
Service charges on deposit accounts	820	766	1,593	1,483
Debit card fees	510	453	1,001	905
Investment services	67	78	137	171
E-commerce fees	31	17	63	41
Other operating income	184	217	367	415
Total noninterest income	1,612	1,531	3,161	3,015
Noninterest expense:				
Salaries and employee benefits	2,787	2,514	5,455	4,938
Occupancy expense	339	333	719	696
Equipment and furniture expense	132	118	252	238
Service and data processing fees	499	508	947	918
Computer software, supplies and support	148	96	294	229
Advertising and promotion	85	94	208	195
FDIC insurance premiums	93	104	207	204
Legal and professional fees	220	277	418	537
Other	485	636	1,042	1,283
Total noninterest expense	4,788	4,680	9,542	9,238
Income before provision for income taxes	3,969	3,018	7,308	5,819
Provision for income taxes	1,043	698	1,875	1,349
Net income	\$ 2,926	\$ 2,320	\$ 5,433	\$ 4,470

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

Basic earnings per share	\$ 0.34	\$ 0.27	\$ 0.64	\$ 0.53
Basic average shares outstanding	8,491,929	8,451,848	8,487,554	8,449,080
Diluted earnings per share	\$ 0.34	\$ 0.27	\$ 0.64	\$ 0.53
Diluted average shares outstanding	8,509,316	8,502,966	8,503,913	8,500,912
Dividends per share	\$ 0.0950	\$ 0.0925	\$ 0.1900	\$ 0.1850

See notes to consolidated financial statements

4

Index

Greene County Bancorp, Inc.
 Consolidated Statements of Comprehensive Income
 For the Three and Six Months Ended December 31, 2016 and 2015
 (Unaudited)
 (In thousands)

	For the three months ended December 31,		For the six months ended December 31,	
	2016	2015	2016	2015
Net Income	\$ 2,926	\$ 2,320	\$ 5,433	\$ 4,470
Other comprehensive (loss) income:				
Unrealized holding (losses) gains on available-for-sale securities, net of income taxes of (\$430) and (\$35), for the three months, and (\$530) and (\$14), for the six months ended December 31, 2016 and 2015 respectively	(693)	(55)	(834)	(21)
Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of \$0 and \$0 for the three months, and \$1 and \$4 for the six months ended December 31, 2016 and 2015, respectively	1	1	1	7
Total other comprehensive (loss) income, net of taxes	(692)	(54)	(833)	(14)
Comprehensive income	\$ 2,234	\$ 2,266	\$ 4,600	\$ 4,456

See notes to consolidated financial statements.

Index

Greene County Bancorp, Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the Six Months Ended December, 2016 and 2015

(Unaudited)

(In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2015	\$ 431	\$ 11,220	\$ 56,696	\$ (798)	\$ (629)	\$ 66,920
Options exercised		33			50	83
Tax benefit of stock based compensation		6				6
Dividends declared			(715)			(715)
Net income			4,470			4,470
Other comprehensive loss, net of taxes				(14)		(14)
Balance at December 31, 2015	\$ 431	\$ 11,259	\$ 60,451	\$ (812)	\$ (579)	\$ 70,750
				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			(742)			(742)
Net income			5,433			5,433
Other comprehensive loss, net of taxes				(833)		(833)
Balance at December 31, 2016	\$ 861	\$ 10,990	\$ 68,496	\$ (1,558)	\$ (410)	\$ 78,379

See notes to consolidated financial statements.

Index

Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended December 31, 2016 and 2015
(Unaudited)
(In thousands)

	2016	2015
Cash flows from operating activities:		
Net Income	\$5,433	\$4,470
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	319	316
Deferred income tax expense	(2,196)	(2,451)
Net amortization of premiums and discounts	443	341
Net amortization of deferred loan costs and fees	251	190
Provision for loan losses	1,129	717
Losses on sale of foreclosed real estate	61	177
Excess tax benefit from share based compensation	(51)	(6)
Net increase in accrued income taxes	2,438	3,104
Net increase in accrued interest receivable	(179)	(232)
Net increase in prepaid and other assets	(291)	(342)
Net (decrease) increase in other liabilities	(786)	165
Net cash provided by operating activities	6,571	6,449
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	37,123	23,524
Purchases of securities	(29,683)	(34,067)
Principal payments on securities	5,573	2,846
Securities held-to-maturity:		
Proceeds from maturities	5,795	5,558
Purchases of securities	(17,646)	(18,679)
Principal payments on securities	5,397	4,351
Net purchase of Federal Home Loan Bank Stock	(978)	(288)
Maturity of long term certificate of deposit	65	-
Net increase in loans receivable	(70,066)	(35,933)
Proceeds from sale of foreclosed real estate	94	684
Purchases of premises and equipment	(71)	(141)
Net cash used by investing activities	(64,397)	(52,145)
Cash flows from financing activities		
Net increase in short-term advances	19,700	4,900
Proceeds from long-term FHLB advances	2,650	1,500
Repayment of long-term FHLB advances	(500)	-
Payment of cash dividends	(742)	(715)
Proceeds from issuance of stock options	169	83
Excess tax benefit from share based compensation	51	6
Net increase in deposits	36,178	46,472
Net cash provided by financing activities	57,506	52,246
Net (decrease) increase in cash and cash equivalents	(320)	6,550

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

Cash and cash equivalents at beginning of period	15,895	15,538
Cash and cash equivalents at end of period	\$15,575	\$22,088
Non-cash investing activities:		
Foreclosed loans transferred to foreclosed real estate	\$123	\$318
Cash paid during period for:		
Interest	\$1,471	\$1,230
Income taxes	\$1,633	\$696

See notes to consolidated financial statements

7

Index

Greene County Bancorp, Inc.

Notes to Consolidated Financial Statements

As of and for the Three and Six Months Ended December 31, 2016 and 2015

(1) Basis of Presentation

Within the accompanying unaudited consolidated statement of financial condition, and related notes to the consolidated financial statements, June 30, 2016 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 six months ended December 31, 2016 and 2015 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 year ended June 30, 2016, 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 six months ended December 31, 2016, are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2017. 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.

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 13 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 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 December 31, 2016 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	\$ 4,576	\$ 170	\$ -	\$ 4,746
State and political subdivisions	54,297	-	-	54,297
Mortgage-backed securities-residential	5,641	75	54	5,662
Mortgage-backed securities-multi-family	17,727	383	101	18,009
Asset-backed securities	4	-	-	4
Corporate debt securities	2,771	66	3	2,834
Total debt securities	85,016	694	158	85,552
Equity securities	62	96	-	158
Total securities available-for-sale	85,078	790	158	85,710
Securities held-to-maturity:				
U.S. government sponsored enterprises	4,000	-	55	3,945
State and political subdivisions	108,775	2,045	431	110,389
Mortgage-backed securities-residential	11,505	330	2	11,833
Mortgage-backed securities-multi-family	83,648	752	1,071	83,329
Corporate debt securities	1,000	-	-	1,000
Other securities	2,055	-	17	2,038
Total securities held-to-maturity	210,983	3,127	1,576	212,534
Total securities	\$ 296,061	\$ 3,917	\$ 1,734	\$ 298,244

Index

Securities at June 30, 2016 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	\$ 4,587	\$ 304	\$ -	\$ 4,891
State and political subdivisions	60,491	8	-	60,499
Mortgage-backed securities-residential	6,360	185	5	6,540
Mortgage-backed securities-multi-family	22,594	1,285	-	23,879
Asset-backed securities	5	-	-	5
Corporate debt securities	4,028	129	-	4,157
Total debt securities	98,065	1,911	5	99,971
Equity securities	62	90	-	152
Total securities available-for-sale	98,127	2,001	5	100,123
Securities held-to-maturity:				
U.S. government sponsored enterprises	2,000	32	-	2,032
State and political subdivisions	99,040	5,003	3	104,040
Mortgage-backed securities-residential	13,543	606	-	14,149
Mortgage-backed securities-multi-family	87,204	3,471	4	90,671
Corporate debt securities	1,000	-	-	1,000
Other securities	2,148	18	-	2,166
Total securities held-to-maturity	204,935	9,130	7	214,058
Total securities	\$ 303,062	\$ 11,131	\$ 12	\$ 314,181

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. As of December 31, 2016, 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 December 31, 2016.

(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:									
State and political subdivisions	\$ 793	\$ -	1	\$ -	\$ -	-	\$ 793	\$ -	1
Mortgage-backed securities-residential	1,240	46	1	876	8	1	2,116	54	2
Mortgage-backed securities-multi-family	5,668	101	3	-	-	-	5,668	101	3

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

Corporate debt securities	263	3	2	-	-	-	263	3	2
Total securities available for sale	7,964	150	7	880	8	1	8,844	158	8
Securities held to maturity:									
U.S. government sponsored enterprises	1,945	55	1	-	-	-	1,945	55	1
State and political subdivisions	26,934	429	133	103	2	1	27,037	431	134
Mortgage-backed securities-residential	1,884	2	1	-	-	-	1,884	2	1
Mortgage-backed securities-multi-family	55,346	1,071	24	-	-	-	55,346	1,071	24
Other securities	962	16	1	74	1	1	1,036	17	2
Total securities held to maturity	87,071	1,573	160	177	3	2	87,248	1,576	162
Total securities	\$95,035	\$ 1,723	167	\$ 1,057	\$ 11	3	\$96,092	\$ 1,734	170

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, 2016.

(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									
	\$ 924	\$ 5	1	\$ -	\$ -	-	\$ 924	\$ 5	1
Total securities available-for-sale	924	5	1	-	-	-	924	5	1
Securities held-to-maturity:									
State and political subdivisions									
	272	2	1	175	1	2	447	3	3
Mortgage-backed securities-multi-family									
	499	4	4	-	-	-	499	4	4
Total securities held-to-maturity	771	6	5	175	1	2	946	7	7
Total securities	\$ 1,695	\$ 11	6	\$ 175	\$ 1	2	\$ 1,870	\$ 12	8

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, (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 income while noncredit related OTTI on securities not expected to be sold is recognized in other comprehensive income (“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 income. 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 December 31, 2016. Management believes that the reasons for the decline in fair value are due to interest rates and widening credit spreads at the end of the quarter.

There were no transfers of securities available-for-sale to held-to-maturity during the three and six months ended December 31, 2016 or 2015. During the three and six months ended December 31, 2016 and 2015, 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 six months ended December 31, 2016 and 2015.

Index

The estimated fair values of debt securities at December 31, 2016, 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	\$ 55,006	\$ 55,055
After one year through five years	6,638	6,822
After five years through ten years	-	-
After ten years	-	-
Total available-for-sale debt securities	61,644	61,877
Mortgage-backed and asset-backed securities	23,372	23,675
Equity securities	62	158
Total available-for-sale securities	85,078	85,710
Held-to-maturity debt securities		
Within one year	15,632	15,754
After one year through five years	56,769	57,364
After five years through ten years	32,225	32,621
After ten years	11,204	11,633
Total held-to-maturity debt securities	115,830	117,372
Mortgage-backed	95,153	95,162
Total held-to-maturity securities	210,983	212,534
Total securities	\$ 296,061	\$ 298,244

As of December 31, 2016 and June 30, 2016, respectively, securities with an aggregate fair value of \$279.7 million and \$291.6 million were pledged as collateral for deposits in excess of FDIC insurance limits for various municipalities placing deposits with Greene County Commercial Bank. As of December 31, 2016 and June 30, 2016, securities with an aggregate fair value of \$2.8 million and \$4.2 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 six months ended December 31, 2016 or 2015.

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 six months ended December 31, 2016 or 2015.

Index

(5) Loans and Allowance for Loan Losses

Loan segments and classes at December 31, 2016 and June 30, 2016 are summarized as follows:

(In thousands)	December 31, 2016	June 30, 2016
Residential real estate:		
Residential real estate	\$ 238,431	\$ 234,992
Residential construction and land	4,980	5,575
Multi-family	3,904	3,918
Commercial real estate:		
Commercial real estate	246,306	192,678
Commercial construction	25,651	20,159
Consumer loan:		
Home equity	20,660	20,893
Consumer installment	4,714	4,350
Commercial loans	56,236	48,725
Total gross loans	600,882	531,290
Allowance for loan losses	(10,421) (9,485
Deferred fees and costs	866	959
Loans receivable, net	\$ 591,327	\$ 522,764

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 multifamily 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 as of December 31, 2016 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 235,628	\$ 755	\$ 93	\$ 1,955	\$238,431
Residential construction and land	4,980	-	-	-	4,980
Multi-family	3,810	-	-	94	3,904
Commercial real estate	243,664	100	178	2,364	246,306
Commercial construction	25,651	-	-	-	25,651
Home equity	20,469	-	-	191	20,660
Consumer installment	4,688	26	-	-	4,714
Commercial loans	54,845	72	347	972	56,236
Total gross loans	\$ 593,735	\$ 953	\$ 618	\$ 5,576	\$600,882

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

Index

Loan balances by internal credit quality indicator as of June 30, 2016 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 232,321	\$ 757	\$ 94	\$ 1,820	\$ 234,992
Residential construction and land	5,575	-	-	-	5,575
Multi-family	3,820	-	-	98	3,918
Commercial real estate	190,293	52	531	1,802	192,678
Commercial construction	20,159	-	-	-	20,159
Home equity	20,555	321	12	5	20,893
Consumer installment	4,340	10	-	-	4,350
Commercial loans	47,598	26	8	1,093	48,725
Total gross loans	\$ 524,661	\$ 1,166	\$ 645	\$ 4,818	\$ 531,290

The Company had no loans classified Doubtful or Loss at December 31, 2016 or June 30, 2016.

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 December 31, 2016 and June 30, 2016. Loans on nonaccrual status totaled \$3.8 million at December 31, 2016, of which \$1.5 million were in the process of foreclosure. At December 31, 2016, there were 12 residential loans in the process of foreclosure totaling \$895,000. Included in nonaccrual loans were \$1.9 million of loans which were less than 90 days past due at December 31, 2016, 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 \$183,000 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 \$3.3 million at June 30, 2016 of which \$1.5 million were in the process of foreclosure. At June 30, 2016, there were nine residential loans in the process of foreclosure totaling \$867,000. Included in nonaccrual loans were \$1.9 million of loans which were less than 90 days past due at June 30, 2016, 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 as of December 31, 2016:

(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	\$ 928	\$ 455	\$ 1,038	\$ 2,421	\$ 236,010	\$ 238,431	\$ 1,351
Residential construction and land	18	-	-	18	4,962	4,980	-
Multi-family	-	-	-	-	3,904	3,904	-
Commercial real estate	1,007	959	613	2,579	243,727	246,306	1,936
Commercial construction	-	-	-	-	25,651	25,651	-
Home equity	25	-	191	216	20,444	20,660	191
Consumer installment	51	26	-	77	4,637	4,714	-
Commercial loans	458	72	116	646	55,590	56,236	276
Total gross loans	\$ 2,487	\$ 1,512	\$ 1,958	\$ 5,957	\$ 594,925	\$ 600,882	\$ 3,754

Index

The following table sets forth information regarding delinquent and/or nonaccrual loans as of June 30, 2016:

(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	\$ 1,533	\$ 637	\$ 938	\$ 3,108	\$ 231,884	\$ 234,992	\$ 1,207
Residential construction and land	-	-	-	-	5,575	5,575	-
Multi-family	47	-	-	47	3,871	3,918	-
Commercial real estate	324	793	590	1,707	190,971	192,678	1,899
Commercial construction	-	-	-	-	20,159	20,159	-
Home equity	17	321	17	355	20,538	20,893	18
Consumer installment	34	10	-	44	4,306	4,350	-
Commercial loans	392	112	-	504	48,221	48,725	202
Total gross loans	\$ 2,347	\$ 1,873	\$ 1,545	\$ 5,765	\$ 525,525	\$ 531,290	\$ 3,326

The Bank of Greene County had accruing loans delinquent more than 90 days totaling \$73,000 and \$77,000 as of December 31, 2016 and June 30, 2016, 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 six months ended December 31:

(In thousands)	For the three months ended December 31,		For the six months ended December 31	
	2016	2015	2016	2015
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 56	\$ 58	\$ 136	\$ 159
Interest income that was recorded on nonaccrual loans	26	50	54	99

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 December 31, 2016			For the three months ended		For the six months ended	
	Recorded Investment	Unpaid Principal	Related Allowance	December 31, 2016		December 31, 2016	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<u>(In thousands)</u>							
With no related allowance recorded:							
Residential real estate	\$266	\$266	\$ -	\$ 266	\$ -	\$ 266	\$ -
Commercial real estate	427	427	-	821	4	921	14
Home equity	-	-	-	2	-	4	-
Commercial loans	195	195	-	65	1	33	1
Impaired loans with no allowance	888	888	-	1,154	5	1,224	15
With an allowance recorded:							
Residential real estate	1,235	1,235	244	1,238	12	1,241	24
Commercial real estate	1,450	1,656	221	749	7	576	11
Commercial loans	81	81	2	81	-	82	2
Impaired loans with allowance	2,766	2,972	467	2,068	19	1,899	37
Total impaired:							
Residential real estate	1,501	1,501	244	1,504	12	1,507	24
Commercial real estate	1,877	2,083	221	1,570	11	1,497	25
Home equity	-	-	-	2	-	4	-
Commercial loans	276	276	2	146	1	115	3
Total impaired loans	\$3,654	\$3,860	\$ 467	\$ 3,222	\$ 24	\$ 3,123	\$ 52

	As of June 30, 2016			For the three months ended		For the six months ended	
	Recorded Investment	Unpaid Principal	Related Allowance	December 31, 2015		December 31, 2015	
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<u>(In thousands)</u>							
With no related allowance recorded:							
Residential real estate	\$266	\$266	\$ -	\$ 185	\$ -	\$ 267	\$ 2
Commercial real estate	1,024	1,231	-	1,086	11	1,143	17
Home equity	5	5	-	46	-	90	1
Impaired loans with no allowance	1,295	1,502	-	1,317	11	1,500	20
With an allowance recorded:							
Residential real estate	1,457	1,457	267	1,382	14	1,393	28
Commercial real estate	405	405	61	461	6	566	12
Commercial loans	85	85	2	89	2	91	3
Impaired loans with allowance	1,947	1,947	330	1,932	22	2,050	43
Total impaired:							
Residential mortgage	1,723	1,723	267	1,567	14	1,660	30
Nonresidential mortgage	1,429	1,636	61	1,547	17	1,709	29
Home equity	5	5	-	46	-	90	1

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

Commercial loans	85	85	2	89	2	91	3
Total impaired loans	\$3,242	\$ 3,449	\$ 330	\$ 3,249	\$ 33	\$ 3,550	\$ 63

There were no loans that have been modified as a troubled debt restructuring during the three and six months ended December 31, 2016 or 2015.

There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to June 30, 2016 or 2015 which have subsequently defaulted during the three and six months ended December 31, 2016 or 2015, respectively.

IndexAllowance 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.

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 December 31, 2016				Balance at December 31, 2016
	Balance at September 30, 2016	Charge-offs	Recoveries	Provision	
Residential real estate	\$ 2,242	\$ 90	\$ -	\$ 82	\$ 2,234
Residential construction and land	63	-	-	-	63
Multi-family	18	-	-	-	18
Commercial real estate	4,981	-	-	384	5,365
Commercial construction	628	-	-	(25)	603
Home equity	251	-	-	6	257
Consumer installment	168	69	18	107	224
Commercial loans	1,492	-	-	21	1,513
Unallocated	133	-	-	11	144
Total	\$ 9,976	\$ 159	\$ 18	\$ 586	\$ 10,421

(In thousands)	Activity for the six months ended December 31, 2016				Balance at December 31, 2016
	Balance at June 30, 2016	Charge-offs	Recoveries	Provision	

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

Residential real estate	\$ 2,396	\$ 90	\$ -	\$ (72)	\$ 2,234
Residential construction and land	75	-	-	(12)	63
Multi-family	22	-	-	(4)	18
Commercial real estate	4,541	-	-	824	5,365
Commercial construction	502	-	-	101	603
Home equity	309	-	-	(52)	257
Consumer installment	228	141	35	102	224
Commercial loans	1,412	-	3	98	1,513
Unallocated	-	-	-	144	144
Total	\$ 9,485	\$ 231	\$ 38	\$ 1,129	\$ 10,421

18

Index

(In thousands)	Allowance for Loan Losses		Loans Receivable	
	Ending Balance		Ending Balance	
	December 31, 2016		December 31, 2016	
	Impairment Analysis		Impairment Analysis	
	Individually	Collectively	Individually	Collectively
	Evaluated	Evaluated	Evaluated	Evaluated
Residential real estate	\$ 244	\$ 1,990	\$ 1,501	\$ 236,930
Residential construction and land	-	63	-	4,980
Multi-family	-	18	-	3,904
Commercial real estate	221	5,144	1,876	244,430
Commercial construction	-	603	-	25,651
Home equity	-	257	-	20,660
Consumer installment	-	224	-	4,714
Commercial loans	2	1,511	276	55,960
Unallocated	-	144	-	-
Total	\$ 467	\$ 9,954	\$ 3,653	\$ 597,229

Activity for the three months ended December 31, 2015

(In thousands)	Balance at		Charge-offs	Recoveries	Provision	Balance at
	September	30, 2015				
Residential real estate	\$ 2,386	\$ -	\$ -	\$ 6	\$ 2,392	
Residential construction and land	62	-	-	8	70	
Multi-family	25	-	-	-	25	
Commercial real estate	3,814	148	-	354	4,020	
Commercial construction	162	-	-	169	331	
Home equity	319	-	-	(14)	305	
Consumer installment	240	65	15	(2)	188	
Commercial loans	1,252	-	-	20	1,272	
Unallocated	206	-	-	(198)	8	
Total	\$ 8,466	\$ 213	\$ 15	\$ 343	\$ 8,611	

Activity for the six months ended December 31, 2015

(In thousands)	Balance at		Charge-offs	Recoveries	Provision	Balance at
	June 30,	2015				
Residential real estate	\$ 2,454	\$ -	\$ -	\$ (62)	\$ 2,392	
Residential construction and land	50	-	-	20	70	
Multi-family	40	-	-	(15)	25	
Commercial real estate	3,699	162	17	466	4,020	
Commercial construction	233	-	-	98	331	
Home equity	314	-	-	(9)	305	
Consumer installment	223	143	40	68	188	
Commercial loans	1,129	-	-	143	1,272	
Unallocated	-	-	-	8	8	
Total	\$ 8,142	\$ 305	\$ 57	\$ 717	\$ 8,611	

Allowance for Loan Losses	Loans Receivable
Ending Balance	Ending Balance
June 30, 2016	June 30, 2016

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

(In thousands)	Impairment Analysis		Impairment Analysis	
	Individually Evaluated	Collectively Evaluated	Individually Evaluated	Collectively Evaluated
Residential real estate	\$ 267	\$ 2,129	\$ 1,723	\$ 233,269
Residential construction and land	-	75	-	5,575
Multi-family	-	22	-	3,918
Commercial real estate	61	4,480	1,429	191,249
Commercial construction	-	502	-	20,159
Home equity	-	309	5	20,888
Consumer installment	-	228	-	4,350
Commercial loans	2	1,410	85	48,640
Unallocated	-	-	-	-
Total	\$ 330	\$ 9,155	\$ 3,242	\$ 528,048

19

IndexForeclosed real estate (FRE)

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 as of December 31, 2016 and June 30, 2016:

(in thousands)	December 31, 2016	June 30, 2016
Residential real estate	\$ 130	\$ 61
Land	-	65
Commercial real estate	208	244
Total foreclosed real estate	\$ 338	\$ 370

(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 as of December 31, 2016 and June 30, 2016 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)	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices In	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Active Markets For Identical Assets (Level 1)			
Assets:					
U.S. Government sponsored enterprises	\$ 4,746	\$ -	\$ 4,746	\$ -	-
State and political subdivisions	54,297	-	54,297	-	-
Mortgage-backed securities-residential	5,662	-	5,662	-	-
Mortgage-backed securities-multi-family	18,009	-	18,009	-	-
Asset-backed securities	4	4	-	-	-
Corporate debt securities	2,834	2,834	-	-	-
Equity securities	158	158	-	-	-
Securities available-for-sale	\$ 85,710	\$ 2,996	\$ 82,714	\$ -	-

20

Index

(In thousands)	June 30, 2016	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	\$ 4,891	\$ -	\$ 4,891	\$ -
State and political subdivisions	60,499	-	60,499	-
Mortgage-backed securities-residential	6,540	-	6,540	-
Mortgage-backed securities-multi-family	23,879	-	23,879	-
Asset-backed securities	5	5	-	-
Corporate debt securities	4,157	4,157	-	-
Equity securities	152	152	-	-
Securities available-for-sale	\$ 100,123	\$ 4,314	\$ 95,809	\$ -

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 for which the Company has measured impairment generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount may not necessarily represent the actual fair value of the loan. Real estate collateral is typically valued using independent appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Estimates of fair value used for other collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

(In thousands)	Recorded Investment	Related Allowance	Fair Value	Fair Value Measurements Using		
				(Level 1)	(Level 2)	(Level 3)
December 31, 2016						
Impaired loans	\$ 1,422	\$ 298	\$ 1,124	\$ -	\$ -	\$ 1,124
Foreclosed real estate	338	-	338	-	-	338
June 30, 2016						
Impaired loans	\$ 655	\$ 164	\$ 491	\$ -	\$ -	\$ 491

Foreclosed real estate	370	-	370	-	-	370
------------------------	-----	---	-----	---	---	-----

21

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)	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average	
December 31, 2016						
Impaired Loans	\$ 1,124	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	16.50%-42.52 %	26.73	%
			Liquidation expenses ⁽³⁾	3.45%-8.35 %	6.25	%
Foreclosed real estate	338	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	0.00%-54.17 %	3.50	%
			Liquidation expenses ⁽³⁾	0.42%-11.79 %	7.18	%
June 30, 2016						
Impaired loans	\$ 491	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	0.00%-38.85 %	21.01	%
			Liquidation expenses ⁽³⁾	0.00%-8.35 %	4.92	%
Foreclosed real estate	370	Appraisal of collateral ⁽¹⁾	Appraisal adjustments ⁽²⁾	0.00%-54.17 %	8.83	%
			Liquidation expenses ⁽³⁾	0.42%-12.67 %	7.81	%

⁽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 reprice 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 December 31, 2016 and June 30, 2016, 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)	December 31, 2016		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$15,575	\$ 15,575	\$15,575	\$-	\$-
Long term certificate of deposit	2,145	2,145	2,145	-	-
Securities available-for-sale	85,710	85,710	2,996	82,714	-
Securities held-to-maturity	210,983	212,534	-	212,534	-
Federal Home Loan Bank stock	3,730	3,730	-	3,730	-
Net loans	591,327	599,016	-	-	599,016
Accrued interest receivable	3,790	3,790	-	3,790	-
Deposits	775,065	775,252	-	775,252	-
Borrowings	68,250	68,075	-	68,075	-
Accrued interest payable	83	83	-	83	-

Index

(In thousands)	June 30, 2016		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$ 15,895	\$ 15,895	\$ 15,895	\$-	\$-
Long term certificate of deposit	2,210	2,210	2,210	-	-
Securities available-for-sale	100,123	100,123	4,314	95,809	-
Securities held-to-maturity	204,935	214,058	-	214,058	-
Federal Home Loan Bank stock	2,752	2,752	-	2,752	-
Net loans	522,764	533,721	-	-	533,721
Accrued interest receivable	3,610	3,610	-	3,610	-
Deposits	738,887	739,087	-	739,087	-
Borrowings	46,400	46,562	-	46,562	-
Accrued interest payable	74	74	-	74	-

(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 six months ended December 31, 2016 and 2015. On February 17, 2016, the Company declared a 2-for-1 stock split on the Company's common stock. The stock split was paid on March 15, 2016 to stockholders of record as of March 7, 2016. Weighted-average number of shares outstanding and earnings per share have been restated for December 31, 2015 as if the new shares had been issued and outstanding at the same time as the original shares.

	For the three months ended December 31,		For the six months ended December 31,	
	2016	2015	2016	2015
Net Income	\$2,926,000	\$2,320,000	\$5,433,000	\$4,470,000
Weighted Average Shares – Basic	8,491,929	8,451,848	8,487,554	8,449,080
Effect of Dilutive Stock Options	17,387	51,118	16,359	51,832
Weighted Average Shares - Dilute	8,509,316	8,502,966	8,503,913	8,500,912
Earnings per share - Basic	\$0.34	\$0.27	\$0.64	\$0.53
Earnings per share - Diluted	\$0.34	\$0.27	\$0.64	\$0.53

(8) Dividends

On October 26, 2016, the Board of Directors declared a cash dividend for the quarter ended September 30, 2016 of \$0.095 per share on Greene County Bancorp, Inc.'s common stock. The dividend reflects an annual cash dividend rate of \$0.38 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 November 15, 2016, and was paid on November 30, 2016. The MHC waived its receipt of this dividends declared on its shares of the Company's common stock for the quarter ended September 30, 2016.

(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) and May 2016 (ASU 2016-12), 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 has not yet determined the effect of the standard on its ongoing financial reporting.

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 2015, the FASB issued an Update (ASU 2015-01) to its guidance on “Income Statement-Extraordinary and Unusual Items (Subtopic 225-20)”. The objective of the ASU is to simplify the income statement presentation by eliminating the concept of extraordinary items, and will align GAAP more closely with International Accounting Standards which prohibits the presentation and disclosure of extraordinary items. The amendments in this Update were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this guidance did not 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 guidance is not expected to have a material impact on our consolidated results of operations or financial position.

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. Early adoption is permitted for any entity in any interim or annual period. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

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.

Index

(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 six months ended December 31, 2016 and 2015 were as follows:

(In thousands)	Three months ended		Six months ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Interest cost	\$ 53	\$ 58	\$ 107	\$ 116
Expected return on plan assets	(46)	(77)	(115)	(154)
Amortization of net loss	49	34	98	68
Net periodic pension cost	\$ 56	\$ 15	\$ 90	\$ 30

The Company made a contribution of \$576,000 to the defined benefit pension plan during the three months ended December 31, 2016. The Company does not anticipate that it will make any additional contributions to the defined benefit pension plan during the remainder of fiscal 2017.

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, 2016.

The net periodic pension costs related to the SERP Plan for the three and six months ended December 31, 2016 were \$81,000 and \$158,000, respectively, and for the three and six months ended December 31, 2015 were \$62,000 and \$120,000, respectively, consisting primarily of service costs and interest costs. The total liability for the SERP Plan was \$2.4 million and \$2.0 million as of December 31, 2016 and June 30, 2016, respectively. The total liability for the SERP Plan includes both accumulated net periodic pension costs and participant contributions.

(11) Stock-Based Compensation

At December 31, 2016, 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, 2016. All share and per share data has been restated in all periods presented to reflect the 2-for-1 stock split, which was paid on March 15, 2016, as if the new share options had been granted at the same time as the original share options.

IndexStock Option Plan

At December 31, 2016 and 2015, 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 six months ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	64,770	\$ 6.25	95,670	\$ 6.25
Exercised	(27,000)	\$ 6.25	(13,200)	\$ 6.25
Outstanding at period end	37,770	\$ 6.25	82,470	\$ 6.25
Exercisable at period end	37,770	\$ 6.25	82,470	\$ 6.25

The following table presents stock options outstanding and exercisable at September 30, 2016:

Options Outstanding and Exercisable

Range
of

Exercise Prices	Number Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price
\$6.25	37,770	1.75	\$6.25

The total intrinsic value of the options exercised during the three and six months ended December 31, 2016 was approximately \$208,000 and \$339,000, respectively. The total intrinsic value of the options exercised during the three and six months ended December 31, 2015 was approximately \$82,000 and \$115,000, respectively. There were no stock options granted during the six months ended December 31, 2016 or 2015. All outstanding options were fully vested at December 31, 2016 and 2015.

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, 2016.

A summary of the Company's phantom stock option activity and related information for its option plan for the six months ended December 31, 2016 and 2015 is as follows:

	2016	2015
Number of options outstanding at beginning of year	1,353,554	1,257,508
Options granted	578,200	493,760
Options paid in cash upon vesting	(408,034)	(396,714)
Number of options outstanding at period end	1,523,720	1,354,554

Three months ended Six months ended

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

(In thousands)	December 31,		December 31,	
	2016	2015	2016	2015
Cash paid out on options vested	\$ 845	\$ -	\$ 845	\$ 711
Compensation costs recognized	347	240	588	420

The total liability for the long-term incentive plan was \$1.2 million and \$1.4 million as of December 31, 2016 and June 30, 2016, respectively.

Index

(12) Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss as of December 31, 2016 and June 30, 2016 are presented in the following table:

(In thousands)

Accumulated other comprehensive loss:	December 31, 2016	June 30, 2016
Unrealized gain on available-for-sale securities, net of tax	\$ 390	\$ 1,224
Unrealized loss on securities transferred to held-to-maturity, net of tax	(1)	(2)
Net losses and past service liability for defined benefit plan, net of tax	(1,947)	(1,947)
Accumulated other comprehensive loss	\$ (1,558)	\$ (725)

(13) Subsequent events

On January 17, 2017, the Board of Directors declared a cash dividend for the quarter ended December 31, 2016 of \$0.095 per share on Greene County Bancorp, Inc.'s common stock. The dividend reflects an annual cash dividend rate of \$0.38 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 February 15, 2017, and will be paid on February 28, 2017. 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 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 as of December 31, 2016 and June 30, 2016

ASSETS

Total assets of the Company were \$932.0 million at December 31, 2016 as compared to \$868.8 million at June 30, 2016, an increase of \$63.2 million, or 7.3%. Securities available-for-sale and held-to-maturity amounted to \$296.7 million, or 31.8% of assets, at December 31, 2016 as compared to \$305.1 million, or 35.1% of assets, at June 30, 2016, a decrease of \$8.4 million, or 2.8%. Net loans grew by \$68.5 million, or 13.1%, to \$591.3 million at December 31, 2016 as compared to \$522.8 million at June 30, 2016.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents decreased \$320,000 to \$15.6 million at December 31, 2016 from \$15.9 million at June 30, 2016. 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 decreased \$8.4 million, or 2.8%, to \$296.7 million at December 31, 2016 as compared to \$305.1 million at June 30, 2016. Securities purchases totaled \$47.3 million during the six months ended December 31, 2016 and consisted of \$45.3 million of state and political subdivision securities, and \$2.0 million of U.S. government sponsored enterprises securities. Principal pay-downs and maturities during the six months amounted to \$53.9 million, of which \$11.0 million were mortgage-backed securities, \$41.6 million were state and political subdivision securities, and \$1.3 million were corporate debt securities. At December 31, 2016, 54.9% 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. 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)	December 31, 2016		June 30, 2016		
	Balance	Percentage of portfolio	Balance	Percentage of portfolio	
Securities available-for-sale:					
U.S. government sponsored enterprises	\$ 4,746	1.6	% \$ 4,891	1.6	%
State and political subdivisions	54,297	18.3	60,499	19.8	
Mortgage-backed securities-residential	5,662	1.9	6,540	2.1	
Mortgage-backed securities-multifamily	18,009	6.1	23,879	7.8	
Asset-backed securities	4	0.0	5	0.0	
Corporate debt securities	2,834	0.9	4,157	1.4	
Total debt securities	85,552	28.8	99,971	32.7	
Equity securities	158	0.1	152	0.1	
Total securities available-for-sale	85,710	28.9	100,123	32.8	
Securities held-to-maturity:					
U.S. government sponsored enterprises	4,000	1.4	2,000	0.7	
State and political subdivisions	108,775	36.6	99,040	32.5	
Mortgage-backed securities-residential	11,505	3.9	13,543	4.4	
Mortgage-backed securities-multifamily	83,648	28.2	87,204	28.6	
Corporate debt securities	1,000	0.3	1,000	0.3	
Other securities	2,055	0.7	2,148	0.7	

Total securities held-to-maturity	210,983	71.1	204,935	67.2	
Total securities	\$ 296,693	100.0	% \$ 305,058	100.0	%

LOANS

Net loans receivable increased \$68.5 million, or 13.1%, to \$591.3 million at December 31, 2016 from \$522.8 million at June 30, 2016. The loan growth experienced during the period consisted primarily of \$53.6 million in commercial real estate loans, \$5.5 million in commercial construction loans, \$7.5 million in commercial loans, and \$3.4 million in residential real estate loans. Balances within all other loan categories were relatively flat when comparing December 31, 2016 and June 30, 2016. 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.

Index

(Dollars in thousands)	December 31, 2016		June 30, 2016		
	Balance	Percentage of Portfolio	Balance	Percentage of Portfolio	
Residential real estate	\$ 238,431	39.7	% \$234,992	44.2	%
Residential construction and land	4,980	0.8	5,575	1.1	
Multi-family	3,904	0.6	3,918	0.7	
Commercial real estate	246,306	41.0	192,678	36.3	
Commercial construction	25,651	4.3	20,159	3.8	
Home equity	20,660	3.4	20,893	3.9	
Consumer installment	4,714	0.8	4,350	0.8	
Commercial loans	56,236	9.4	48,725	9.2	
Total gross loans	600,882	100.0	% 531,290	100.0	%
Allowance for loan losses	(10,421)		(9,485)		
Deferred fees and costs	866		959		
Total net loans	\$ 591,327		\$522,764		

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 Six Months Ended December 31,			
	2016		2015	
Balance at the beginning of the period	\$ 9,485		\$ 8,142	
Charge-offs:				
Residential real estate	90		-	
Commercial real estate	-		162	
Consumer installment	141		143	
Total loans charged off	231		305	
Recoveries:				
Commercial real estate	-		17	
Consumer installment	35		40	
Commercial loans	3		-	
Total recoveries	38		57	
Net charge-offs	193		248	
Provisions charged to operations	1,129		717	
Balance at the end of the period	\$ 10,421		\$ 8,611	
Net charge-offs to average loans outstanding (annualized)	0.07	%	0.11	%
Net charge-offs to nonperforming assets (annualized)	9.27	%	12.39	%
Allowance for loan losses to nonperforming loans	272.3	%	232.73	%
Allowance for loan losses to total loans receivable	1.73	%	1.77	%

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)	At December 31, 2016	At June 30, 2016		
Nonaccruing loans:				
Residential real estate	\$ 1,351	\$	1,207	
Commercial real estate	1,936		1,899	
Home equity	191		18	
Commercial	276		202	
Total nonaccruing loans	3,754		3,326	
90 days & accruing				
Residential real estate	73		77	
Total 90 days & accruing	73		77	
Total nonperforming loans	3,827		3,403	
Foreclosed real estate:				
Residential real estate	130		65	
Land	-		61	
Commercial real estate	208		244	
Total foreclosed real estate	338		370	
Total nonperforming assets	\$ 4,165	\$	3,773	
Troubled debt restructuring:				
Nonperforming (included above)	\$ 1,622	\$	1,645	
Performing (accruing and excluded above)	925		934	
Total nonperforming assets as a percentage of total assets	0.45	%	0.43	%
Total nonperforming loans to net loans	0.65	%	0.65	%

The table below details additional information related to nonaccrual loans for the indicated periods:

(In thousands)	For the three months ended December 31,		For the six months ended December 31	
	2016	2015	2016	2015
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 56	\$ 58	\$ 136	\$ 159
Interest income that was recorded on nonaccrual loans	26	50	54	99

Nonperforming assets amounted to \$4.2 million at December 31, 2016 and \$3.8 million as of June 30, 2016, an increase of \$392,000 or 10.4%. Nonaccrual loans consisted primarily of loans secured by real estate at December 31, 2016 and June 30, 2016. Loans on nonaccrual status totaled \$3.8 million at December 31, 2016, of which \$1.5 million were in the process of foreclosure. At December 31, 2016, there were 12 residential loans in the process of foreclosure totaling \$895,000. Included in nonaccrual loans were \$1.9 million of loans which were less than 90 days past due at December 31, 2016, 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 \$183,000 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. The growth in nonperforming assets is also due in part to the extended length of time required to meet all of the legal requirements mandated by New York State law prior to a foreclosure sale, which may be in excess of two years.

Impaired 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.

Index

The table below details additional information on impaired loans as of the dates indicated:

(In thousands)	December 31, 2016	June 30, 2016	December 31, 2015
Balance of impaired loans, with a valuation allowance	\$ 2,766	\$ 1,947	\$ 1,878
Allowances relating to impaired loans included in allowance for loan losses	467	330	322
Balance of impaired loans, without a valuation allowance	888	1,295	1,159
Total impaired loans	3,654	3,242	3,037

(In thousands)	For the three months ended December 31,		For the six months ended December 31,	
	2016	2015	2016	2015
Average balance of impaired loans for the periods ended	\$ 3,222	\$ 3,249	\$ 3,123	\$ 3,550
Interest income recorded on impaired loans during the periods ended	24	33	52	63

DEPOSITS

Total deposits increased to \$775.1 million at December 31, 2016 from \$738.9 million at June 30, 2016, an increase of \$36.2 million, or 4.9%. Noninterest-bearing deposits increased \$703,000, or 0.8%, NOW deposits increased \$25.2 million, or 8.1%, money market deposits increased \$3.0 million, or 2.7%, and savings deposits increased \$8.3 million, or 4.7% when comparing December 31, 2016 and June 30, 2016. These increases were partially offset by a decrease in certificates of deposit of \$1.0 million, or 2.0%, when comparing December 31, 2016 and June 30, 2016. These increases were partially the result of a \$13.9 million increase in municipal deposits at Greene County Commercial Bank, primarily from continued growth in new account relationships as well as tax collection. Included within certificates of deposits at December 31, 2016 and June 30, 2016 were \$10.0 million in brokered certificates of deposit.

(In thousands)	At December 31, 2016	Percentage of Portfolio	At June 30, 2016	Percentage of Portfolio	
Noninterest-bearing deposits	\$ 88,957	11.5	% \$ 88,254	11.9	%
Certificates of deposit	49,636	6.4	50,666	6.9	
Savings deposits	185,577	23.9	177,309	24.0	
Money market deposits	115,914	15.0	112,905	15.3	
NOW deposits	334,981	43.2	309,753	41.9	
Total deposits	\$ 775,065	100.0	% \$ 738,887	100.0	%

BORROWINGS

At December 31, 2016, The Bank of Greene County had pledged approximately \$233.8 million of its mortgage portfolio (including residential, multi-family, and commercial mortgage loans) as collateral for borrowing and 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 \$190.1 million at December 31, 2016, of which \$68.2 million in borrowings were outstanding at December 31, 2016. There were \$45.7 million in short term borrowings outstanding at December 31, 2016. Interest rates on short term borrowings are determined at the time of borrowing. The remaining \$22.5 million consisted of long-term fixed rate, fixed term advances with a weighted average rate of 1.50% and a weighted average maturity of 29 months. The Bank of Greene County has established an Irrevocable Letter of Credit Reimbursement Agreement with the FHLB, whereby upon The Bank of Greene County's request, on behalf of Greene County Commercial Bank, an irrevocable stand-by letter of credit is issued to secure municipal transactional deposit accounts. At December 31, 2016, there were no outstanding letters of credit.

The Bank of Greene County also pledges securities as collateral at the Federal Reserve Bank discount window for overnight borrowings. At December 31, 2016, approximately \$2.8 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 December 31, 2016 or 2015.

The Bank of Greene County has established unsecured lines of credit with Atlantic Community Bankers Bank and another financial institution for \$6.0 million and \$5.0 million, respectively. At December 31, 2016 and 2015, there were no balances outstanding on either of these lines of credit, and there was no activity during the six months ended December 31, 2016 and 2015. Greene County Bancorp, Inc. has also established an unsecured line of credit with Atlantic Community Bankers Bank for \$5.0 million. At December 31, 2016, there was a balance of \$100,000 outstanding on this line of credit. There was no balance outstanding at December 31, 2015. The 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 December 31, 2016 were as follows:

(In thousands)

Within the twelve months ended December 31,

2017	\$3,000
2018	6,500
2019	3,500
2020	6,500
2021	2,950
	\$22,450

EQUITY

Shareholders' equity increased to \$78.4 million at December 31, 2016 from \$74.3 million at June 30, 2016, as net income of \$5.4 million was partially offset by an \$833,000 increase in other accumulated comprehensive loss and dividends declared and paid of \$742,000. Other changes in equity, an increase of \$220,000, were the result of options exercised with the Company's 2008 Stock Option Plan.

Selected Equity Data:

	December 31, 2016		June 30, 2016	
Shareholders' equity to total assets, at end of period	8.41	%	8.55	%
Book value per share	\$ 9.22		\$ 8.77	
Closing market price of common stock	\$ 22.90		\$ 16.27	

	For the six months ended December 31,			
	2016		2015	
Average shareholders' equity to average assets	8.65	%	9.08	%
Dividend payout ratio ¹	29.69	%	34.91	%
Actual dividends paid to net income ²	13.66	%	16.00	%

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 54.2% of the Company's shares outstanding.

² Dividends declared divided by net income. The MHC waived its right to receive dividends declared during the six months ended December 31, 2016 and 2015. 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 Six Months Ended December 31, 2016 and 2015

Average Balance Sheet

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the three and six months ended December 31, 2016 and 2015. 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 December 31,			2015			Average Yield / Rate
	2016			2015			
(Dollars in thousands)	Average Outstanding Balance	Interest Earned / Paid	Average Yield / Rate	Average Outstanding Balance	Interest Earned / Paid		
Interest-earning Assets:							
Loans receivable, net ¹	\$578,184	\$ 6,382	4.42	% \$476,759	\$ 5,479	4.60	%
Securities ²	298,137	2,061	2.77	274,053	1,635	2.39	
Interest-bearing bank balances and federal funds							
FHLB stock	3,872	5	0.52	2,091	2	0.38	
Total interest-earning assets	882,482	8,484	3.85	% 754,770	7,136	3.78	%
Cash and due from banks	7,829			7,355			
Allowance for loan losses	(10,110)			(8,493)			
Other noninterest-earning assets	18,074			17,182			
Total assets	\$898,275			\$770,814			
Interest-Bearing Liabilities:							
Savings and money market deposits	\$298,967	\$ 238	0.32	% \$273,728	\$ 214	0.31	%
NOW deposits	348,601	331	0.38	275,735	249	0.36	
Certificates of deposit	42,432	79	0.74	45,537	77	0.68	
Borrowings	36,107	105	1.16	27,763	86	1.24	
Total interest-bearing liabilities	726,107	753	0.41	% 622,763	626	0.40	%
Noninterest-bearing deposits	87,690			77,207			
Other noninterest-bearing liabilities	7,199			1,165			
Shareholders' equity	77,279			69,679			
Total liabilities and equity	\$898,275			\$770,814			
Net interest income		\$ 7,731			\$ 6,510		
Net interest rate spread			3.44	%		3.38	%
Net earnings assets	\$156,375			\$132,007			
Net interest margin			3.50	%		3.45	%
Average interest-earning assets to average interest-bearing liabilities	121.54	%		121.20	%		

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 three months ended December 31,	
	2016	2015
Net interest income (GAAP)	\$ 7,731	\$ 6,510
Tax-equivalent adjustment ⁽¹⁾	537	471
Net interest income (fully taxable-equivalent)	\$ 8,268	\$ 6,981
Average interest-earning assets	\$ 882,482	\$ 754,770
Net interest margin (fully taxable-equivalent)	3.75	% 3.70

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 34% for federal income taxes and 3.32% and 3.63% for the three months ended December 31, 2016 and 2015, respectively, for New York State income taxes.

Index

(Dollars in thousands)	Six months ended December 31, 2016			2015		
	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	\$560,427	\$ 12,435	4.44 %	\$467,803	\$ 10,772	4.61 %
Securities ²	300,023	3,794	2.53	268,593	3,186	2.37
Interest-bearing bank balances and federal funds	2,486	8	0.64	1,566	4	0.51
FHLB stock	2,574	61	4.74	1,907	37	3.88
Total interest-earning assets	865,510	16,298	3.77 %	739,869	13,999	3.79 %
Cash and due from banks	7,847			7,609		
Allowance for loan losses	(9,845)			(8,380)		
Other noninterest-earning assets	18,153			17,790		
Total assets	\$881,665			\$756,888		
Interest-Bearing Liabilities:						
Savings and money market deposits	\$295,218	\$ 470	0.32 %	\$272,267	\$ 429	0.32 %
NOW deposits	329,174	628	0.38	263,723	489	0.37
Certificates of deposit	42,626	156	0.73	44,191	153	0.69
Borrowings	42,449	226	1.06	28,668	169	1.18
Total interest-bearing liabilities	709,467	1,480	0.42 %	608,849	1,240	0.41 %
Noninterest-bearing deposits	87,988			75,720		
Other noninterest-bearing liabilities	7,952			3,625		
Shareholders' equity	76,258			68,694		
Total liabilities and equity	\$881,665			\$756,888		
Net interest income		\$ 14,818			\$ 12,759	
Net interest rate spread			3.35 %			3.38 %
Net earnings assets	\$156,043			\$131,020		
Net interest margin			3.42 %			3.45 %
Average interest-earning assets to average interest-bearing liabilities	121.99 %			121.52 %		

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 six months ended December 31,	
	2016	2015
Net interest income (GAAP)	\$ 14,818	\$ 12,759
Tax-equivalent adjustment ⁽¹⁾	1,057	904
Net interest income (fully taxable-equivalent)	\$ 15,875	\$ 13,663
Average interest-earning assets	\$ 865,510	\$ 739,869
Net interest margin (fully taxable-equivalent)	3.67 %	3.69 %

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 34% for federal income taxes and 3.32% and 3.63% for the six months ended December 31, 2016 and 2015, respectively, for New York State income taxes.

37

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 December 31, 2016 versus 2015			Six Months Ended December 31, 2016 versus 2015		
	Increase/(Decrease)		Total	Increase/(Decrease)		Total
	Due To	Rate		Due To	Rate	
Volume			(Decrease)	Volume		
Interest Earning Assets:						
Loans receivable, net ¹	\$ 1,125	\$ (222)	\$ 903	\$ 2,072	\$ (409)	\$ 1,663
Securities ²	152	274	426	386	222	608
Interest-bearing bank balances and federal funds	2	1	3	3	1	4
FHLB stock	5	11	16	15	9	24
Total interest-earning assets	1,284	64	1,348	2,476	(177)	2,299
Interest-Bearing Liabilities:						
Savings and money market deposits	18	6	24	41	0	41
NOW deposits	68	14	82	125	14	139
Certificates of deposit	(5)	7	2	(6)	9	3
Borrowings	25	(6)	19	75	(18)	57
Total interest-bearing liabilities	106	21	127	235	5	240
Net change in net interest income	\$ 1,178	\$ 43	\$ 1,221	\$ 2,241	\$ (182)	\$ 2,059

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 1.30% for the three months ended December 31, 2016 as compared to 1.20% for the three months ended December 31, 2015, and was 1.23% and 1.18% for the six months ended December 31, 2016 and 2015, respectively. Annualized return on average equity increased to 15.15% for the three months and 14.25% for the six months ended December 31, 2016 as compared to 13.32% for the three months and 13.01% for the six months ended December 31, 2015. 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 \$2.9 million and \$2.3 million for the three months ended December 31, 2016 and 2015, respectively, an increase of \$606,000 or 26.1% and amounted to \$5.4 million and \$4.5 million for the six months ended December 31,

2016 and 2015, respectively, an increase of \$963,000 or 21.5%. Average assets increased \$127.5 million, or 16.5% to \$898.3 million for the three months ended December 31, 2016 as compared to \$770.8 million for the three months ended December 31, 2015. Average equity increased \$7.6 million, or 10.9%, to \$77.3 million for the three months ended December 31, 2016 as compared to \$69.7 million for the three months ended December 31, 2015. Average assets increased \$124.8 million, or 16.5%, to \$881.7 million for the six months ended December 31, 2016 as compared to \$756.9 million for the six months ended December 31, 2015. Average equity increased \$7.6 million, or 11.1%, to \$76.3 million for the six months ended December 31, 2016 as compared to \$68.7 million for the six months ended December 31, 2015.

Index

INTEREST INCOME

Interest income amounted to \$8.5 million for the three months ended December 31, 2016 as compared to \$7.1 million for the three months ended December 31, 2015, an increase of \$1.4 million, or 19.7%. Interest income amounted to \$16.3 million for the six months ended December 31, 2016 as compared to \$14.0 million for the six months ended December 31, 2015, an increase of \$2.3 million, or 16.4%. The increase in average loan and securities balances and the increase in securities yields had the greatest impact on interest income when comparing the six and three months ended December 31, 2016 and 2015, which were offset by a decrease in the yield on loans. Average loan balances increased \$101.4 million and \$92.6 million while the yield on loans decreased 18 basis points and 17 basis points when comparing the three and six months ended December 31, 2016 and 2015, respectively. Average securities increased \$24.1 million and \$31.4 million and the yield on such securities increased 38 basis points and 16 basis points when comparing the three and six months ended December 31, 2016 and 2015, respectively. The significant increase in yield for both the three and six months ended December 31, 2016 was due to the prepayment of a mortgage-backed security which provided for the receipt of a prepayment penalty of \$318,000.

INTEREST EXPENSE

Interest expense amounted to \$753,000 for the three months ended December 31, 2016 as compared to \$626,000 for the three months ended December 31, 2015, an increase of \$127,000, or 20.3%. Interest expense amounted to \$1.5 million for the six months ended December 31, 2016 as compared to \$1.2 million for the six months ended December 31, 2015, an increase of \$240,000, or 19.4%. 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 \$106,000 and \$235,000 when comparing the three and six months ended December 31, 2016 and 2015, respectively, due to a \$103.3 million and \$100.6 million increase in the average balances on interest-bearing liabilities when comparing these same periods. The average rate paid on interest-bearing liabilities increased one basis point from 0.40% to 0.41% when comparing the three months ended December 31, 2016 and 2015, respectively, and from 0.41% to 0.42% when comparing the six months ended December 31, 2016 and 2015.

The average rate paid on NOW deposits increased two basis points when comparing the three months ended December 31, 2016 and 2015, and the average balance of such accounts grew by \$72.9 million when comparing these same periods. The average rate paid on NOW deposits increased one basis point when comparing the six months ended December 31, 2016 and 2015, and the average balance of such accounts increased \$65.5 million when comparing these same periods. The average balance of savings and money market deposits increased \$25.2 million and \$22.9 million when comparing the three and six months ended December 31, 2016 and 2015, respectively. The rates paid on savings and money market deposits increased one basis point when comparing the three months ended December 31, 2016 and 2015, and remained unchanged when comparing the six month ended December 31, 2016 and 2015. The average balance of certificates of deposit decreased \$3.1 million and \$1.6 million when comparing the three and six months ended December 31, 2016 and 2015, respectively. The average rate paid on certificate of deposits increased 6 basis points when comparing the three months ended December 31, 2016 and 2015, and increased four basis point when comparing the six months ended December 31, 2016 and 2015. This increase in rate paid on certificates of deposit for the six months is the result of the promotion of a five year certificate product.

The average balance on borrowings increased \$8.3 million and the rate decreased eight basis points when comparing the three months ended December 31, 2016 and 2015. The average balance on borrowings increased \$13.8 million and the rate decreased 12 basis points when comparing the six months ended December 31, 2016 and 2015. This was the result of an increase in the average balance of short-term borrowings when comparing both the three and six month periods ended December 31, 2016 and 2015.

NET INTEREST INCOME

Net interest income increased \$1.2 million to \$7.7 million for the three months ended December 31, 2016 from \$6.5 million for the three months ended December 31, 2015. Net interest income increased \$2.0 million to \$14.8 million for the six months ended December 31, 2016 from \$12.8 million for the six months ended December 31, 2015. These increases in net interest income were primarily the result of the growth in the average balance of interest-earning assets.

Net interest spread increased six basis points to 3.44% for the three months ended December 31, 2016 compared to 3.38% for the three months ended December 31, 2015. Net interest margin increased five basis points to 3.50% for the three months ended December 31, 2016 compared to 3.45% for the three months ended December 31, 2015. Net interest spread and margin decreased three basis points to 3.35% and 3.42%, respectively, for the six months ended December 31, 2016 compared to 3.38% and 3.45%, respectively, for the six months ended December 31, 2015.

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 3.75% and 3.70% for the three months ended December 31, 2016 and 2015, respectively. Tax equivalent net interest margin was 3.67% and 3.69% for the six months ended December 31, 2016 and 2015, respectively.

Index

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 \$586,000 and \$343,000 for the three months ended December 31, 2016 and 2015, respectively. The provision for loan losses amounted to \$1.1 million and \$717,000 for the six months ended December 31, 2016 and 2015, respectively. Allowance for loan losses to total loans receivable decreased to 1.73% as of December 31, 2016 as compared to 1.79% as of June 30, 2016. Nonperforming loans amounted to \$3.8 million and \$3.4 million at December 31, 2016 and June 30, 2016, respectively. Net charge-offs amounted to \$141,000 and \$198,000 for the three months ended December 31, 2016 and 2015, respectively, and amounted to \$193,000 and \$248,000 for the six months ended December 31, 2016 and 2015, respectively. At December 31, 2016, nonperforming assets were 0.45% of total assets and nonperforming loans were 0.65% of net loans. 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				For the six months				
	ended December 31,		Change from Prior Year		ended December 31,		Change from Prior Year		
	2016	2015	Amount	Percent	2016	2015	Amount	Percent	
Noninterest income:									
Service charges on deposit accounts	\$ 820	\$ 766	\$ 54	7.05	% \$ 1,593	\$ 1,483	\$ 110	7.42	%
Debit card fees	510	453	57	12.58	1,001	905	96	10.61	
Investment services	67	78	(11)	(14.10)	137	171	(34)	(19.88)	
E-commerce fees	31	17	14	82.35	63	41	22	53.66	
Other operating income	184	217	(33)	(15.21)	367	415	(48)	(11.57)	
Total noninterest income	\$ 1,612	\$ 1,531	\$ 81	5.29	% \$ 3,161	\$ 3,015	\$ 146	4.84	%

Noninterest income increased \$81,000, or 5.3%, to \$1.6 million for the three months ended December 31, 2016 as compared to \$1.5 million for the three months ended December 31, 2015. Noninterest income increased \$146,000, or 4.8%, to \$3.2 million for the six months ended December 31, 2016 as compared to \$3.0 million for the six months ended December 31, 2015. 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. These increases are partially offset by decreases in investment services commission income and check fee income which is included in other operating income. During the six months ended December 31, 2016, the Company changed to a new check printer vendor. This has resulted in lower fee income which is more than offset by lower expenses charged by the vendor.

NONINTEREST EXPENSE

(In thousands)

For the six months

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

	For the three months ended December 31		Change from Prior Year		ended December 31,		Change from Prior Year		
	2016	2015	Amount	Percent	2016	2015	Amount	Percent	
Noninterest expense:									
Salaries and employee benefits	\$ 2,787	\$ 2,514	\$ 273	10.86	% \$ 5,455	\$ 4,938	\$ 517	10.47	%
Occupancy expense	339	333	6	1.80	719	696	23	3.30	
Equipment and furniture expense	132	118	14	11.86	252	238	14	5.88	
Service and data processing fees	499	508	(9)	(1.77)	947	918	29	3.16	
Computer software, supplies and support	148	96	52	54.17	294	229	65	28.38	
Advertising and promotion	85	94	(9)	(9.57)	208	195	13	6.67	
FDIC insurance premiums	93	104	(11)	(10.58)	207	204	3	1.47	
Legal and professional fees	220	277	(57)	(20.58)	418	537	(119)	(22.16)	
Other	485	636	(151)	(23.74)	1,042	1,283	(241)	(18.78)	
Total noninterest expense	\$ 4,788	\$ 4,680	\$ 108	2.31	% \$ 9,542	\$ 9,238	\$ 304	3.29	%

Noninterest expense increased \$108,000, or 2.3%, to \$4.8 million for the three months ended December 31, 2016 as compared to \$4.7 million for the three months ended December 31, 2015. Noninterest expense increased \$304,000, or 3.3%, to \$9.5 million for the six months ended December 31, 2016 as compared to \$9.2 million for the six months ended December 31, 2015. These increases in noninterest expense were primarily the result of an increase in salaries and employee benefits expenses, resulting from additional staffing within our lending department and customer service center, and increased computer software, supplies and support expense, resulting from changing the Company's online banking platform to a new vendor, providing greater functionality for customers. Partially offsetting the aforementioned increases were decreases in legal and professional fees and lower expenses related to foreclosed real estate included in other expenses.

Index

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 26.3% and 25.7% for the three and six months ended December 31, 2016, respectively compared to 23.1% and 23.2% for the three and six months ended December 31, 2015. The effective tax rate is 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 benefits derived from premiums paid to the Company's pooled captive insurance subsidiary. Growth in taxable loan income has exceeded growth in income from these tax exempt sources, which has led to the increases in the effective tax rates for both the three and six months ended December 31, 2016.

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 and Atlantic Central Bankers Bank 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 December 31, 2016:

(In thousands)	2016
Unfunded loan commitments	\$38,737
Unused lines of credit	45,940
Total commitments	\$84,677

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.

The Bank of Greene County and Greene County Commercial Bank met all applicable regulatory capital requirements at December 31, 2016 and June 30, 2016. Consolidated shareholders' equity represented 8.4% and 8.6% of total assets at December 31, 2016 and at June 30, 2016, respectively.

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.

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.

Index

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 December 31, 2016, 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: February 13, 2017

By: /s/ Donald E. Gibson

Donald E. Gibson
President and Chief Executive Officer

Date: February 13, 2017

By: /s/ Michelle M. Plummer

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