GREENE COUNTY BANCORP INC
Form 10-Q
February 08, 2019

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, 2018

OR

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

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

Commission file number 0-25165

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

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

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

Check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
Emerging Growth Company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

As of February 8, 2019, the registrant had 8,537,814 shares of common stock outstanding at $ 0.10 par value per share.

Index
GREENE COUNTY BANCORP, INC.

INDEX

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

ASSETS	December 31, 2018	June 30, 2018
Total cash and cash equivalents	$ 31,945	$ 26,504
Long term certificate of deposit	2,385	2,385
Securities available-for-sale, at fair value	107,192	120,806
Securities held-to-maturity, at amortized cost (fair value $278,344 at December 31, 2018; $274,177 at June 30, 2018)	276,939	274,550
Equity securities, at fair value	215	217
Federal Home Loan Bank stock, at cost	3,873	1,545
Loans	762,233	715,641
Allowance for loan losses	(12,673)	(12,024)
Unearned origination fees and costs, net	810	814
Net loans receivable	750,370	704,431
Premises and equipment	13,308	13,304
Accrued interest receivable	5,765	5,057
Foreclosed real estate	79	119
Prepaid expenses and other assets	3,215	2,560
Total assets	$ 1,195,286	$ 1,151,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$ 101,387	$ 102,694
Interest-bearing deposits	907,833	922,540
Total deposits	1,009,220	1,025,234
Borrowings from Federal Home Loan Bank, short-term	54,700	-
Borrowings from other banks, short-term	200	-
Borrowings from Federal Home Loan Bank, long-term	15,150	18,150
Accrued expenses and other liabilities	11,895	11,903
Total liabilities	1,091,165	1,055,287
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 - 8,537,814 shares	861	861
Additional paid-in capital	11,017	11,017
Retained earnings	94,040	86,213
Accumulated other comprehensive loss	(1,520)	(1,623)
Treasury stock, at cost 73,526 shares	(277)	(277)
Total shareholders' equity	104,121	96,191
Total liabilities and shareholders' equity	$ 1,195,286	$ 1,151,478

See notes to consolidated financial statements

Index
Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Three and Six Months Ended December 31, 2018 and 2017
(Unaudited)
(In thousands, except share and per share amounts)

	For the three months ended December 31,		For the six months ended December 31,	
	2018	2017	2018	2017
Interest income:				
Loans	$ 8,696	$ 7,287	$ 16,994	$ 14,346
Investment securities - taxable	217	163	411	328
Mortgage-backed securities	1,059	791	2,173	1,608
Investment securities - tax exempt	1,406	1,092	2,766	2,128
Interest-bearing deposits and federal funds sold	28	87	59	99
Total interest income	11,406	9,420	22,403	18,509
Interest expense:				
Interest on deposits	1,271	867	2,307	1,676
Interest on borrowings	140	93	444	203
Total interest expense	1,411	960	2,751	1,879
Net interest income	9,995	8,460	19,652	16,630
Provision for loan losses	354	352	708	699
Net interest income after provision for loan losses	9,641	8,108	18,944	15,931
Noninterest income:				
Service charges on deposit accounts	1,106	934	2,143	1,785
Debit card fees	685	591	1,325	1,157
Investment services	136	122	251	194
E-commerce fees	34	35	71	73
Other operating income	180	205	403	418
Total noninterest income	2,141	1,887	4,193	3,627
Noninterest expense:				
Salaries and employee benefits	3,677	3,075	7,155	5,957
Occupancy expense	414	355	816	711
Equipment and furniture expense	127	158	341	271
Service and data processing fees	542	540	1,037	1,027
Computer software, supplies and support	200	162	423	305
Advertising and promotion	76	112	196	167
FDIC insurance premiums	100	93	227	186
Legal and professional fees	283	229	612	460
Other	828	588	1,401	1,121
Total noninterest expense	6,247	5,312	12,208	10,205
Income before provision for income taxes	5,535	4,683	10,929	9,353
Provision for income taxes	951	1,043	1,965	2,241
Net income	$ 4,584	$ 3,640	$ 8,964	$ 7,112

Basic earnings per share	$ 0.54	$ 0.43	$ 1.05	$ 0.84
Basic average shares outstanding	8,537,814	8,504,168	8,537,814	8,503,451
Diluted earnings per share	$ 0.54	$ 0.43	$ 1.05	$ 0.83
Diluted average shares outstanding	8,537,814	8,533,126	8,537,814	8,532,274
Dividends per share	$ 0.10	$ 0.0975	$ 0.20	$ 0.195

See notes to consolidated financial statements

Index

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

	For the three months ended December 31,		For the six months ended December 31,	
	2018	2017	2018	2017
Net Income	$ 4,584	$ 3,640	$ 8,964	$ 7,112
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities, net of income tax expense (benefit) of $104 and ($345), for the three months, and $77 and ($200), for the six months ended December 31, 2018 and 2017, respectively	293	(557)	217	(322)
Total other comprehensive income (loss), net of taxes	293	(557)	217	(322)
Comprehensive income	$ 4,877	$ 3,083	$ 9,181	$ 6,790

See notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2017	$ 861	$ 10,990	$ 73,072	$ (992)	$ (410)	$ 83,521
Options exercised		10			15	25
Dividends declared			(763)			(763)
Net income			7,112			7,112
Other comprehensive loss, net of taxes				(322)		(322)
Balance at December 31, 2017	$ 861	$ 11,000	$ 79,421	$ (1,314)	$ (395)	$ 89,573

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2018	$ 861	$ 11,017	$ 86,213	$ (1,623)	$ (277)	$ 96,191
Impact of Adopting ASU 2016-01[(1)]			114	(114)		-
Dividends declared			(1,251)			(1,251)
Net income			8,964			8,964
Other comprehensive income, net of taxes				217		217
Balance at December 31, 2018	$ 861	$ 11,017	$ 94,040	$ (1,520)	$ (277)	$ 104,121

(1) See Note 9 Impact of Recent Accounting Pronouncements – cumulative effect of change in measurement of equity securities.

See notes to consolidated financial statements.

6

Index

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

	2018	2017
Cash flows from operating activities:		
Net Income	$8,964	$7,112
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	318	318
Deferred income tax benefit	(240)	(2,130)
Net amortization of premiums and discounts	119	385
Net amortization of deferred loan costs and fees	235	253
Provision for loan losses	708	699
Net loss on equity securities	2	-
Net loss (gain) on sale of foreclosed real estate	9	(53)
Net increase in accrued income taxes	155	3,376
Net increase in accrued interest receivable	(708)	(577)
Net increase in prepaid and other assets	(648)	(973)
Net (decrease) increase in other liabilities	(7)	351
Net cash provided by operating activities	8,907	8,761
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	56,351	30,543
Purchases of securities	(44,462)	(43,784)
Principal payments on securities	2,003	1,206
Securities held-to-maturity:		
Proceeds from maturities	8,286	7,347
Purchases of securities	(27,916)	(31,015)
Principal payments on securities	17,138	8,001
Net (purchase) of Federal Home Loan Bank Stock	(2,328)	(357)
Maturity of long term certificate of deposit	-	250
Net increase in loans receivable	(46,916)	(40,729)
Proceeds from sale of foreclosed real estate	65	38
Purchases of premises and equipment	(322)	(202)
Net cash used by investing activities	(38,101)	(68,702)
Cash flows from financing activities		
Net increase in short-term advances	54,900	13,400
Repayment of long-term FHLB advances	(3,000)	(2,500)
Payment of cash dividends	(1,251)	(763)
Proceeds from issuance of stock options	-	25
Net (decrease) increase in deposits	(16,014)	61,216
Net cash provided by financing activities	34,635	71,378
Net increase in cash and cash equivalents	5,441	11,437
Cash and cash equivalents at beginning of period	26,504	16,277
Cash and cash equivalents at end of period	$31,945	$27,714

Non-cash investing activities:		
Foreclosed loans transferred to foreclosed real estate	$34	$91
Cash paid during period for:		
Interest	$2,693	$1,882
Income taxes	$2,049	$994

See notes to consolidated financial statements

7

Index
Greene County Bancorp, Inc.
Notes to Consolidated Financial Statements
At and for the Three and Six Months Ended December 31, 2018 and 2017

(1) Basis of Presentation

Within the accompanying unaudited consolidated statement of financial condition, and related notes to the consolidated financial statements, June 30, 2018 data was derived from the audited consolidated financial statements of Greene County Bancorp, Inc. (the "Company") and its wholly owned subsidiaries, 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, 2018 and 2017 are unaudited.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. To the extent that information and notes required by GAAP for complete financial statements are contained in or are consistent with the audited financial statements incorporated by reference to Greene County Bancorp, Inc.'s Annual Report on Form 10-K for the year ended June 30, 2018, 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, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2019. These consolidated financial statements consider events that occurred through the date the consolidated financial statements were issued.

CRITICAL ACCOUNTING POLICIES

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

Securities are evaluated for other-than-temporary impairment by performing periodic reviews of individual securities in the investment portfolio. Greene County Bancorp, Inc. makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security, on which there is an unrealized loss, is impaired on an other-than-temporary basis. The Company considers many factors, including the severity and duration of the impairment; the intent and ability of the Company to hold the equity security for a period of time sufficient for a recovery in value; recent events specific to the issuer or industry; and for debt securities, the intent to sell the security, the likelihood to be required to sell the security before it recovers the entire amortized cost, external credit ratings and recent downgrades. The Company is required to record other-than-temporary impairment charges through earnings, if it has the intent to sell, or will more likely than not be required to sell an impaired debt security before a recovery of its amortized cost basis. In addition, the Company is required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit related write-downs to fair value must be recorded as decreases to accumulated other comprehensive income as long as the Company has no intent or requirement to sell an impaired security before a recovery of amortized cost basis.

Index

(2) Nature of Operations

Greene County Bancorp, Inc.'s primary business is the ownership and operation of its subsidiaries, Bank of Greene County and Greene Risk Management, Inc. Bank of Greene County has 15 full-service offices, an operations center and lending center located in its market area within the Hudson Valley Region of New York State. Bank of Greene County is primarily engaged in the business of attracting deposits from the general public in 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. 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 Bank of Greene County.

(3) Use of Estimates

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

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

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

(4) Securities

Securities at December 31, 2018 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government sponsored enterprises	$ 5,534	$ 15	$ 18	$ 5,531
State and political subdivisions	80,163	275	-	80,438
Mortgage-backed securities-residential	2,926	11	78	2,859
Mortgage-backed securities-multi-family	16,650	111	106	16,655

Corporate debt securities	1,766	-	57	1,709
Total securities available-for-sale	107,039	412	259	107,192
Securities held-to-maturity:				
U.S. government sponsored enterprises	9,248	-	166	9,082
State and political subdivisions	142,854	3,194	422	145,626
Mortgage-backed securities-residential	5,256	43	1	5,298
Mortgage-backed securities-multi-family	116,810	173	1,394	115,589
Corporate debt securities	1,471	-	28	1,443
Other securities	1,300	11	5	1,306
Total securities held-to-maturity	276,939	3,421	2,016	278,344
Total securities	$ 383,978	$ 3,833	$ 2,275	$ 385,536

Index

Securities at June 30, 2018 consisted of the following:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. government sponsored enterprises	$ 5,543	$ 18	$ 30	$ 5,531
State and political subdivisions	92,052	204	1	92,255
Mortgage-backed securities-residential	3,332	13	98	3,247
Mortgage-backed securities-multi-family	18,249	64	244	18,069
Corporate debt securities	1,771	-	67	1,704
Total securities available-for-sale	120,947	299	440	120,806
Securities held-to-maturity:				
U.S. government sponsored enterprises	9,245	-	278	8,967
State and political subdivisions	136,335	3,091	532	138,894
Mortgage-backed securities-residential	6,472	72	7	6,537
Mortgage-backed securities-multi-family	118,780	123	2,845	116,058
Corporate debt securities	1,466	11	9	1,468
Other securities	2,252	16	15	2,253
Total securities held-to-maturity	274,550	3,313	3,686	274,177
Total securities	$ 395,497	$ 3,612	$ 4,126	$ 394,983

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

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

	Less Than 12 Months			More Than 12 Months			Total		
(In thousands, except number of securities)	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
U.S. government sponsored enterprises	$ -	$ -	-	$ 982	$ 18	1	$ 982	$ 18	1
State and political subdivisions	-	-	-	-	-	-	-	-	-
Mortgage-backed securities-residential	1,023	65	2	1,171	13	2	2,194	78	4
Mortgage-backed securities-multi-family	1,733	8	1	6,338	98	3	8,071	106	4
Corporate debt securities	-	-	-	1,709	57	6	1,709	57	6
	2,756	73	3	10,200	186	12	12,956	259	15

Total securities available-for-sale									
Securities held-to-maturity:									
U.S. government sponsored enterprises	-	-	-	9,082	166	2	9,082	166	2
State and political subdivisions	23,876	268	139	14,115	154	105	37,991	422	244
Mortgage-backed securities-residential	1,193	1	3	-	-	-	1,193	1	3
Mortgage-backed securities-multi-family	55,470	765	25	26,105	629	18	81,575	1,394	43
Corporate debt securities	1,444	28	2	-	-	-	1,444	28	2
Other securities	-	-	-	897	5	1	897	5	1
Total securities held-to-maturity	81,983	1,062	169	50,199	954	126	132,182	2,016	295
Total securities	$84,739	$ 1,135	172	$60,399	$ 1,140	138	$145,138	$ 2,275	310

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, 2018.

	Less Than 12 Months			More Than 12 Months			Total		
(In thousands, except number of securities)	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
U.S. government sponsored enterprises	$969	$ 30	1	$-	$ -	-	$969	$ 30	1
State and political subdivisions	2,094	1	4	-	-	-	2,094	1	4
Mortgage-backed securities-residential	2,420	98	3	-	-	-	2,420	98	3
Mortgage-backed securities-multi-family	9,177	244	7	-	-	-	9,177	244	7
Corporate debt securities	1,450	65	6	254	2	1	1,704	67	7
Total securities available-for-sale	16,110	438	21	254	2	1	16,364	440	22
Securities held-to-maturity:									
U.S. government sponsored enterprises	7,018	227	1	1,949	51	1	8,967	278	2
State and political subdivisions	34,743	434	167	4,352	98	34	39,095	532	201
Mortgage-backed securities-residential	1,403	7	3	-	-	-	1,403	7	3
Mortgage-backed securities-multi-family	94,927	2,586	45	6,398	259	3	101,325	2,845	48
Corporate debt securities	457	9	1	-	-	-	457	9	1
Other securities	892	14	1	75	1	1	967	15	2
Total securities held-to-maturity	139,440	3,277	218	12,774	409	39	152,214	3,686	257
Total securities	$155,550	$ 3,715	239	$13,028	$ 411	40	$168,578	$ 4,126	279

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

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

Company considers the applicable factors described above and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

For debt securities, credit-related OTTI is recognized in earnings while noncredit related OTTI on securities not expected to be sold is recognized in other comprehensive income/loss (“OCI”). Credit-related OTTI is measured as the difference between the present value of an impaired security’s expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost less any credit-related losses recognized. For securities classified as held-to-maturity, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. 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, 2018. Management believes that the reasons for the decline in fair value are due to interest rates, widening credit spreads and market illiquidity at the reporting date.

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

Index

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

(In thousands)

Available-for-sale debt securities	Amortized Cost	Fair Value
Within one year	$ 80,415	$ 80,689
After one year through five years	4,534	4,549
After five years through ten years	2,514	2,440
After ten years	-	-
Total available-for-sale debt securities	87,463	87,678
Mortgage-backed securities	19,576	19,514
Total available-for-sale securities	107,039	107,192
Held-to-maturity debt securities		
Within one year	27,070	27,217
After one year through five years	64,118	64,954
After five years through ten years	45,826	46,465
After ten years	17,859	18,821
Total held-to-maturity debt securities	154,873	157,457
Mortgage-backed securities	122,066	120,887
Total held-to-maturity securities	276,939	278,344
Total debt securities	$ 383,978	$ 385,536

At December 31, 2018 and June 30, 2018, respectively, securities with an aggregate fair value of $374.7 million and $383.0 million were pledged as collateral for deposits in excess of FDIC insurance limits for various municipalities placing deposits with Greene County Commercial Bank. At December 31, 2018 and June 30, 2018, securities with an aggregate fair value of $1.7 million 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, 2018 or 2017.

Federal Home Loan Bank Stock

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

Index

(5) Loans and Allowance for Loan Losses

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

(In thousands)	December 31, 2018	June 30, 2018
Residential real estate:		
Residential real estate	$ 268,463	$ 255,848
Residential construction and land	7,875	9,951
Multi-family	22,626	14,961
Commercial real estate:		
Commercial real estate	300,725	283,935
Commercial construction	35,255	39,366
Consumer loan:		
Home equity	22,413	21,919
Consumer installment	5,344	5,017
Commercial loans	99,532	84,644
Total gross loans	762,233	715,641
Allowance for loan losses	(12,673)	(12,024)
Deferred fees and costs	810	814
Loans receivable, net	$ 750,370	$ 704,431

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, 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 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 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. 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. Bank of Greene County reviews its portfolio monthly to determine whether any assets require classification in accordance with applicable regulations.

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

Bank of Greene County's primary lending activity historically has been 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, 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, 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, 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 Bank of Greene County does not hold the first mortgage. 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. Bank of Greene County completes inspections during the construction phase prior to any disbursements. 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 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. Over the past few years, Bank of Greene County has shifted more focus on the origination of commercial loans including commercial real estate. Bank of Greene County has also formed relationships with other community banks within our region to participate in larger commercial loan relationships. These types of loans are generally considered to be riskier due to the size and complexity of the loan relationship. By entering into a participation agreement with the other bank, Bank of Greene County can obtain the loan relationship while limiting its exposure to credit loss. Management completes its due diligence in underwriting these loans and monitors the servicing of these loans.

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

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	$ 265,419	$586	$ 87	$ 2,371	$268,463
Residential construction and land	7,875	-	-	-	7,875
Multi-family	20,420	140	1,985	81	22,626
Commercial real estate	289,948	766	8,516	1,495	300,725
Commercial construction	35,079	-	-	176	35,255
Home equity	21,535	-	-	878	22,413

Consumer installment	5,314	7	-	23	5,344
Commercial loans	98,285	153	509	585	99,532
Total gross loans	$ 743,875	$ 1,652	$ 11,097	$ 5,609	$ 762,233

14

Index

Loan balances by internal credit quality indicator at June 30, 2018 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	$ 252,811	$577	$ 88	$ 2,372	$255,848
Residential construction and land	9,951	-	-	-	9,951
Multi-family	12,743	-	2,132	86	14,961
Commercial real estate	273,077	317	8,994	1,547	283,935
Commercial construction	39,190	-	-	176	39,366
Home equity	21,170	128	-	621	21,919
Consumer installment	4,969	30	-	18	5,017
Commercial loans	83,148	195	457	844	84,644
Total gross loans	$ 697,059	$1,247	$ 11,671	$ 5,664	$715,641

The Company had no loans classified doubtful or loss at December 31, 2018 or June 30, 2018.

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, 2018 and June 30, 2018. Loans on nonaccrual status totaled $3.6 million at December 31, 2018 of which $2.1 million were in the process of foreclosure. At December 31, 2018, there were 12 residential loans in the process of foreclosure totaling $1.5 million. Included in nonaccrual loans were $1.1 million of loans which were less than 90 days past due at December 31, 2018, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Loans on nonaccrual status totaled $3.5 million at June 30, 2018 of which $1.9 million were in the process of foreclosure. At June 30, 2018, there were 11 residential loans in the process of foreclosure totaling $1.2 million. Included in nonaccrual loans were $1.3 million of loans which were less than 90 days past due at June 30, 2018, but have a recent history of delinquency greater than 90 days past due.

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

(In thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non-accrual
Residential real estate	$ 2,819	$ 789	$ 1,084	$ 4,692	$263,771	$ 268,463	$ 1,843
Residential construction and land	-	-	-	-	7,875	7,875	-
Multi-family	-	140	-	140	22,486	22,626	-
Commercial real estate	1,728	934	710	3,372	297,353	300,725	1,247
Commercial construction	-	-	-	-	35,255	35,255	-
Home equity	21	149	265	435	21,978	22,413	414
Consumer installment	51	7	15	73	5,271	5,344	23
Commercial loans	601	153	-	754	98,778	99,532	87
Total gross loans	$ 5,220	$ 2,172	$ 2,074	$ 9,466	$752,767	$ 762,233	$ 3,614

15

Index

The following table sets forth information regarding delinquent and/or nonaccrual loans at June 30, 2018:

(In thousands)	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non-accrual
Residential real estate	$ 1,617	$ 458	$ 1,211	$ 3,286	$ 252,562	$ 255,848	$ 1,778
Residential construction and land	-	-	-	-	9,951	9,951	-
Multi-family	-	-	-	-	14,961	14,961	-
Commercial real estate	1,568	487	568	2,623	281,312	283,935	1,147
Commercial construction	-	-	-	-	39,366	39,366	-
Home equity	38	128	299	465	21,454	21,919	298
Consumer installment	3	30	8	41	4,976	5,017	18
Commercial loans	250	195	182	627	84,017	84,644	276
Total gross loans	$ 3,476	$ 1,298	$ 2,268	$ 7,042	$ 708,599	$ 715,641	$ 3,517

Bank of Greene County had no accruing loans delinquent more than 90 days at December 31, 2018 and $62,000 at June 30, 2018, 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, 2018	2017	For the six months ended December 31 2018	2017
Interest income that would have been recorded if loans had been performing in accordance with original terms	$ 58	$ 59	$ 129	$ 137
Interest income that was recorded on nonaccrual loans	23	31	55	65

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, 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 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 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.

Index

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

(In thousands)	As of December 31, 2018 Recorded Investment	Unpaid Principal	Related Allowance	For the three months ended December 31, 2018 Average Recorded Investment	Interest Income Recognized	For the six months ended December 31, 2018 Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Residential real estate	$ 280	$ 280	$ -	$ 158	$ -	$ 83	$ 3
Commercial real estate	1,141	1,141	-	1,145	7	970	15
Home equity	309	309	-	309	-	266	-
Commercial loans	152	152	-	153	-	155	-
Impaired loans with no allowance	1,882	1,882	-	1,765	7	1,474	18
With an allowance recorded:							
Residential real estate	1,570	1,570	221	1,614	13	1,757	36
Commercial real estate	-	-	-	-	-	182	-
Commercial construction	176	176	34				