GREENE COUNTY BANCORP INC
Form 10-K
September 28, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2017
OR
TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transaction period from ___________________ to ______________________

Commission File Number: 0-25165

GREENE COUNTY BANCORP, INC.
(Name of registrant as specified in its Charter)

United States	14-1809721
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

302 Main Street, Catskill, New York	12414
(Address of Principal Executive Office)	(Zip Code)

(518) 943-2600
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $0.10 per share	The Nasdaq Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. 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 December 31, 2016, there were issued and outstanding 8,502,614 shares of the Registrant's common stock of which 2,910,817 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of $22.90 on December 31, 2016, the aggregate value of stock held by non-affiliates was $66,658,000. As of September 12, 2017, there were issued and outstanding 8,502,614 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part II and III of this Form 10-K where indicated.

GREENE COUNTY BANCORP, INC. AND SUBSIDIARIES
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PART I

ITEM 1. Business

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual 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 annual 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,
(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 Greene County Bancorp, Inc.'s loan and investment portfolios,
(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.

Non-GAAP Financial Measures

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

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

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General

Greene County Bancorp, Inc. operates as the federally chartered holding company of The Bank of Greene County, a federally chartered savings bank. A majority of Greene County Bancorp, Inc.'s issued and outstanding common stock (54.2%) is held by Greene County Bancorp, MHC, a federally chartered mutual holding company. The remaining shares of Greene County Bancorp, Inc. are owned by public stockholders and The Bank of Greene County's Employee Stock Ownership Plan. The Bank of Greene County operates a limited-purpose subsidiary, Greene County Commercial Bank. The purpose of Greene County Commercial Bank is to serve local municipalities' banking needs. The Bank of Greene County also operates a real estate investment trust, Greene Property Holdings, Ltd., which beneficially owns mortgages originated through The Bank of Greene County. On December 30, 2014, Greene County Bancorp, Inc. formed Greene Risk Management, Inc. as a pooled captive insurance company subsidiary, incorporated in the State of Nevada, to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible.

Greene County Bancorp, Inc.

Greene County Bancorp, Inc. was organized in December of 1998 at the direction of the Board of Trustees of The Bank of Greene County (formerly Greene County Savings Bank) for the purpose of acting as the holding company of The Bank of Greene County. In 2001, Greene County Bancorp, Inc. converted its charter from a Delaware corporation regulated by the Board of Governors of the Federal Reserve System to a federal corporation regulated by the Office of Thrift Supervision. Effective in July 2011, the regulation of federally chartered savings and loan holding companies was transferred to the Federal Reserve Board under the Dodd-Frank Act. At June 30, 2017, Greene County Bancorp, Inc.'s assets consisted primarily of its investment in The Bank of Greene County and cash. At June 30, 2017, 3,893,350 shares of Greene County Bancorp, Inc.'s common stock, par value $0.10 per share, were held by the public, including executive officers and directors, 108,726 shares were held as Treasury stock and 4,609,264 shares were held by Greene County Bancorp, MHC, Greene County Bancorp, Inc.'s mutual holding company. Greene County Bancorp, Inc.'s principal business is overseeing and directing the business of The Bank of Greene County and monitoring its cash position.

At June 30, 2017, Greene County Bancorp, Inc. had consolidated assets of $982.3 million, consolidated total deposits of $859.5 million, consolidated borrowings from the Federal Home Loan Bank of New York (FHLB) of $29.6 million and consolidated equity of $83.5 million.

Greene County Bancorp, Inc.'s administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

The Bank of Greene County

The Bank of Greene County was organized in 1889 as The Building and Loan Association of Catskill, a New York-chartered savings and loan association. In 1974, The Bank of Greene County converted to a New York mutual savings bank under the name Greene County Savings Bank. In conjunction with the reorganization and the offering completed in December 1998, which resulted in the organization of Greene County Bancorp, Inc., Greene County Savings Bank changed its name to The Bank of Greene County. In November 2006, The Bank of Greene County converted its charter to a federal savings bank charter. The Bank of Greene County's deposits are insured by the Deposit Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum amount permitted by law.

The Bank of Greene County's principal business consists of attracting retail deposits from the general public in the areas surrounding its branches and investing those deposits, together with funds generated from operations and borrowings, primarily in residential mortgage loans, commercial real estate mortgage loans, consumer loans, home equity loans and commercial business loans. In addition, The Bank of Greene County invests a significant portion of its assets in investment securities and mortgage-backed securities. The Bank of Greene County's revenues are derived principally from the interest on its residential and commercial real estate mortgages, and to a lesser extent, from interest on consumer and commercial loans and securities, as well as from servicing fees and service charges and other fees collected on its deposit accounts. Through its affiliation with Fenimore Asset Management and Infinex Corporation, The Bank of Greene County offers investment alternatives for customers, which also contributes to the Bank’s revenues. Infinex Corporation acquired Essex National Securities LLP in 2016 allowing the Bank to rebrand these alternative investment services as Greene Investment Services. The Bank of Greene County's primary sources of funds are deposits, borrowings from the Federal Home Loan Bank of New York (FHLB), and principal and interest payments on loans and securities. At June 30, 2017, The Bank of Greene County, excluding its subsidiary Greene County Commercial Bank, had total assets of $693.6 million, total deposits of $575.1 million, borrowings from the FHLB of $29.6 million and total equity of $79.7 million.

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The Bank of Greene County's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene County Commercial Bank

Greene County Commercial Bank was formed in January 2004 as a New York State-chartered limited purpose commercial bank. Greene County Commercial Bank has the power to receive deposits only to the extent of accepting for deposit the funds of the United States and the State of New York and their respective agents, authorities and instrumentalities, and local governments as defined in Section 10(a)(1) of the New York General Municipal Law. At June 30, 2017, Greene County Commercial Bank had $320.5 million in assets, $289.6 million in total deposits, and $30.6 million in total equity.

Greene County Commercial Bank's administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene Property Holdings, Ltd.

Greene Property Holdings, Ltd. was formed in June 2011 as a New York corporation that elected under the Internal Revenue Code to be taxed as a real estate investment trust. The Bank of Greene County transferred beneficial ownership of certain mortgages and notes to Greene Property Holdings, Ltd. in exchange for 100% of the common stock of Greene Property Holdings, Ltd. The Bank of Greene County continues to service these mortgage customers pursuant to a management and servicing agreement with Greene Property Holdings, Ltd. At June 30, 2017, Greene Property Holdings, Ltd. had $452.9 million in assets, and $452.9 million in total equity.

Greene Property Holdings, Ltd.'s administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene Risk Management, Inc.

Greene Risk Management, Inc. was formed in December 2014 as a pooled captive insurance company subsidiary of Greene County Bancorp, Inc., incorporated in the State of Nevada. The purpose of this company is to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible. At June 30, 2017, Greene Risk Management, Inc. had $2.8 million in assets, and $1.9 million in total equity.

Greene Risk Management, Inc.'s administrative office is located at 101 Convention Center Drive, Suite 850, Las Vegas, NV 89109-2003. Its telephone number is (702) 949-0110.

Greene County Bancorp, MHC

Greene County Bancorp, MHC was formed in December 1998 as part of The Bank of Greene County's mutual holding company reorganization. In 2001, Greene County Bancorp, MHC converted from a state to a federal charter. The Federal Reserve Board regulates Greene County Bancorp, MHC. Greene County Bancorp, MHC owns 54.2% of the issued and outstanding common stock of Greene County Bancorp, Inc. Greene County Bancorp, MHC does not engage in any business activity other than to hold a majority of Greene County Bancorp, Inc.'s common stock and to invest any liquid assets of Greene County Bancorp, MHC, which amounted to $652,000, in cash and cash equivalents at June 30, 2017.

Greene County Bancorp, MHC's administrative office is located at 302 Main Street, Catskill, New York 12414-1317, and its telephone number at that address is (518) 943-2600.

Market Area

The Bank of Greene County is a community bank offering a variety of financial services to meet the needs of the communities it serves. The Bank of Greene County currently operates 13 full-service banking offices, operations center and lending center located in its market area within the Hudson Valley Region of New York State.

As of 2016 the Greene County population was approximately 49,000, Columbia County was approximately 63,000, Albany County was approximately 304,000 and Ulster County was approximately 182,000. Greene County is primarily rural, and the major industry consists of tourism associated with the several ski facilities and festivals located in the Catskill Mountains. Greene County has no concentrations of manufacturing industry. Greene County is contiguous to the Albany-Schenectady-Troy metropolitan statistical area. The close proximity of Greene County to the city of Albany has made it a "bedroom" community for persons working in the Albany capital area. Greene County government and the Coxsackie Correctional Facilities are the largest employers in the County. Other large employers within the Company’s market area include the Hunter Mountain and Ski Windham resort areas, LaFarge, Columbia Memorial Hospital, Taconic Farms, Ginsberg’s Foods, and the Catskill, Cairo-Durham, Chatham, Greenville, Coxsackie-Athens, Hudson City, and Ravena-Coeymans-Selkirk Central School Districts. Albany County’s economy is dependent on state government, health care services and higher education. Albany has also been growing in the area of technology jobs focusing on the areas of micro- and nanotechnology. Ulster County’s major industry consists of tourism with a number of state parks located within the Catskill Mountains and the Shawangunk Ridge. As such, local employment is primarily within the services industry as well as government and health services.

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Competition

The Bank of Greene County faces significant competition both in making loans and in attracting deposits. The Bank of Greene County's subsidiary Greene County Commercial Bank faces similar competition in attracting municipal deposits. The Bank of Greene County's market area has a high density of financial institutions, including online competitors, many of which are branches of significantly larger institutions that have greater financial resources than The Bank of Greene County, and all of which are competitors of The Bank of Greene County to varying degrees. The Bank of Greene County's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage-banking companies, credit unions, insurance companies and other financial service companies. The Bank of Greene County faces additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Competition has also increased as a result of the lifting of restrictions on the interstate operations of financial institutions.

Competition has increased as a result of the enactment of the Gramm-Leach-Bliley Act of 1999, which eased restrictions on entry into the financial services market by insurance companies and securities firms. Moreover, because this legislation permits banks, securities firms and insurance companies to affiliate, the financial services industry could experience further consolidation. This could result in a growing number of larger financial institutions competing in The Bank of Greene County's primary market area that offer a wider variety of financial services than The Bank of Greene County currently offers. The internet has also become a significant competitive factor for The Bank of Greene County and the overall financial services industry. Competition for deposits, for the origination of loans and the provision of other financial services may limit The Bank of Greene County's growth and adversely impact its profitability in the future.

Lending Activities

General. The principal lending activity of The Bank of Greene County is the origination, for retention in its portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by residential and commercial real estate primarily located within its primary market area. The Bank of Greene County also originates home equity loans, consumer loans and commercial business loans, and has increased its focus on all aspects of commercial lending. The Bank of Greene County also offers a variety of line of credit products.

The Bank of Greene County continues to utilize high quality underwriting standards in originating real estate loans. As such, it does not engage in sub-prime lending or other exotic loan products. At the time of origination, appraisals are obtained to ensure an adequate loan-to-value ratio of the underlying collateral. 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 or an event that would indicate a significant decline in the collateral value. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure collateral adequacy.

In an effort to manage the interest rate risk associated with its predominantly fixed-rate loan portfolio, The Bank of Greene County maintains high levels of liquidity. Cash, cash equivalents, long-term certificates of deposit and securities available-for-sale comprised 11.2% of total consolidated bank assets at June 30, 2017, all of which can be used for liquidity needs. The Bank of Greene County seeks to attract checking and other transaction accounts that generally have lower interest rate costs and tend to be less interest rate sensitive when interest rates rise to fund fixed-rate residential mortgages. Additionally, The Bank of Greene County originates shorter-term consumer loans and other adjustable-rate loans including many commercial loans in order to help mitigate interest rate risk.

The loan portfolio composition and loan maturity schedule are set forth in Part II, Item 7 Management's Discussion and Analysis of this Report.

Discussion regarding the credit quality of the loan portfolio is set forth in Part II, Item 7 Management’s Discussion and Analysis and in Part II, Item 8 Financial Statements and Supplementary Data, Note 4, Loans, of this Report.

Residential, Construction and Land Loans, and Multi-family Loans. The Bank of Greene County's primary lending activity is the origination of residential mortgage loans collateralized by property located in The Bank of Greene County’s primary market area. Residential mortgage loans refer to loans collateralized by one to four-family residences. By contrast, multi-family loans refer to loans collateralized by multi-family units, such as apartment buildings. For the year ended June 30, 2017, The Bank of Greene County originated residential mortgage loans with a loan-to-value ratio of 89.9% or less. The Bank of Greene County will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. For the year ended June 30, 2017, no residential mortgage loans were originated by The Bank of Greene County with private mortgage insurance. Generally, residential mortgage loans are originated for terms of up to 30 years. In recent years however, The Bank of Greene County has been successful in marketing and originating such loans with 10 and 15-year terms. The Bank of Greene County generally requires fire and casualty insurance, the establishment of a mortgage escrow account for the payment of real estate taxes, and hazard and flood insurance. The Bank of Greene County requires title insurance on most loans for the construction or purchase of residential properties collateralizing real estate loans made by The Bank of Greene County. Title insurance is not required on all mortgage loans, but is evaluated on a case by case basis.

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At June 30, 2017, virtually all of The Bank of Greene County's residential mortgage loans were conforming loans and, accordingly, were eligible for sale in the secondary mortgage market. However, generally the residential mortgage loans originated by The Bank of Greene County are retained in its portfolio and are not sold into the secondary mortgage market. To the extent fixed-rate residential mortgage loans are retained by The Bank of Greene County, it is exposed to increases in market interest rates, since the yields earned on such fixed-rate assets would remain fixed, while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County currently offers residential mortgage loans with fixed and adjustable interest rates. Originations of fixed-rate loans versus adjustable-rate loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, customer preference, The Bank of Greene County's interest rate gap position, and loan products offered by The Bank of Greene County's competitors. In the current low interest rate environment, most of our borrowers prefer fixed-rate loans to adjustable-rate loans. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that The Bank of Greene County's residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors.

The Bank of Greene County's adjustable-rate mortgage ("ARM") loans currently provide for maximum rate adjustments of 150 basis points per year and 600 basis points over the term of the loan. The Bank of Greene County offers ARM loans with initial interest rates that are below market, referred to as "teaser rates." However, in underwriting such loans, borrowers are qualified at the full index rate. Generally, The Bank of Greene County's ARM loans adjust annually. After origination, the interest rate on such ARM loans is reset based upon a contractual spread or margin above the average yield on one-year United States Treasury securities, adjusted to a constant maturity, as published weekly by the Federal Reserve Board.

ARM loans decrease the risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the terms of the ARM loans, and, therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. The Bank of Greene County's willingness and capacity to originate and hold in portfolio fixed rate residential mortgage loans has enabled it to expand customer relationships in the current historically low long-term interest rate environment where borrowers have generally preferred fixed rate mortgage loans. However, as noted above, to the extent The Bank of Greene County retains fixed rate residential mortgage loans in its portfolio, it is exposed to increases in market interest rates, since the yields earned on such fixed rate assets would remain fixed while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County's residential mortgage loans are generally originated by The Bank of Greene County's loan representatives operating in its branch offices through their contacts with existing or past loan customers, depositors of The Bank of Greene County, attorneys and accountants who refer loan applications from the general public, and local realtors. The Bank of Greene County has loan originators who call upon customers during non-banking hours and at locations convenient to the customer.

All residential mortgage loans originated by The Bank of Greene County include "due-on-sale" clauses, which give The Bank of Greene County the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage.

The Bank of Greene County originates construction-to-permanent loans to homeowners for the purpose of construction of primary and secondary residences. The Bank of Greene County issues a commitment and has one closing which encompasses both the construction phase and permanent financing. The construction phase is a maximum term of twelve months and the interest charged is the rate as stated in the commitment, with loan-to-value ratios of up to 85.0% (or up to 95.0% with private mortgage insurance), of the completed project. The Bank of Greene County also offers loans collateralized by undeveloped land. The acreage associated with such loans is limited. These land loans generally are intended for future sites of primary or secondary residences. The terms of vacant land loans generally have a ten-year maximum amortization.

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. 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.

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The Bank of Greene County originates a limited number of multi-family loans. Multi-family loans are generally collateralized by apartment buildings located in The Bank of Greene County's primary market area. The Bank of Greene County's underwriting practices and the risks associated with multi-family loans do not differ substantially from that of commercial real estate mortgage loans.

Commercial Real Estate Mortgages. We have increased our focus on commercial real estate mortgages and have developed a strong team of lenders and business development staff resulting in our continued growth in these portfolios. Office buildings, mixed-use properties and other commercial properties collateralize commercial real estate mortgages. The Bank of Greene County originates fixed- and adjustable-rate commercial real estate mortgage loans with maximum terms of up to 25 years.

In underwriting commercial real estate mortgage loans, The Bank of Greene County reviews the expected net operating income generated by the real estate to ensure that it is generally at least 110% of the amount of the monthly debt service; the age and condition of the collateral; the financial resources and income level of the borrower and any guarantors; and the borrower's business experience. The Bank of Greene County's policy is to require personal guarantees from all commercial real estate mortgage borrowers.

The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for commercial real estate mortgage loans. It is also The Bank of Greene County's policy to require hazard insurance on all commercial real estate mortgage loans. In addition, The Bank of Greene County may require borrowers to make payments to a mortgage escrow account for the payment of property taxes. Any exceptions to The Bank of Greene County's loan policies must be made in accordance with the limitations set out in each policy. Typically, the exception authority ranges from the Chief Lending Officer to the Board of Directors, depending on the size and type of loan involved.

Loans collateralized by commercial real estate mortgages generally are larger than residential loans and involve a greater degree of risk. Commercial real estate mortgage 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 mortgage loans makes them more difficult for management to monitor and evaluate.

Consumer Loans. The Bank of Greene County's consumer loans consist of direct loans on new and used automobiles, personal loans (either secured or unsecured), home equity loans, and other consumer installment loans (consisting of passbook loans, unsecured home improvement loans, recreational vehicle loans, and deposit account overdrafts). Consumer loans (other than home equity loans and deposit account overdrafts) are originated at fixed rates with terms to maturity of one to five years.

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 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.

The Bank of Greene County's underwriting procedures for consumer loans include an assessment of the applicant's credit history and an assessment of the applicant's ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral to the proposed loan amount. The Bank of Greene County underwrites its consumer loans internally, which The Bank of Greene County believes limits its exposure to credit risks associated with loans underwritten or purchased from brokers and other external sources. At this time, The Bank of Greene County does not purchase loans from any external sources.

The Bank of Greene County offers fixed- and adjustable-rate home equity loans that are collateralized by the borrower's residence. Home equity loans are generally underwritten with terms not to exceed 25 years and under the same criteria that The Bank of Greene County uses to underwrite residential fixed rate loans. Home equity loans may be underwritten with terms not to exceed 25 years and with a loan to value ratio of 80% when combined with the principal balance of the existing mortgage loan. The Bank of Greene County appraises the property collateralizing the loan at the time of the loan application (but not thereafter) in order to determine the value of the property collateralizing the home equity loans. 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.

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Commercial Loans. The Bank of Greene County also originates commercial loans with terms of up to 10 years at fixed and adjustable rates. The Bank of Greene County attributes growth in this portfolio to its ability to offer borrowers senior management attention as well as timely and local decision-making on commercial loan applications. The decision to grant a commercial loan depends primarily on the creditworthiness and cash flow of the borrower (and any guarantors) and secondarily on the value of and ability to liquidate the collateral, which may consist of receivables, inventory and equipment. A mortgage may also be taken for additional collateral purposes, but is considered secondary to the other collateral for commercial business loans. The Bank of Greene County generally requires annual financial statements, tax returns and personal guarantees from the commercial borrowers. The Bank of Greene County also generally requires an appraisal of any real estate that collateralizes the loan. The Bank of Greene County's commercial loan portfolio includes loans collateralized by inventory, fire trucks, other equipment, or real estate.

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-rate 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 Approval Procedures and Authority. The Board of Directors establishes the lending policies and loan approval limits of The Bank of Greene County. Loan officers generally have the authority to originate mortgage loans, consumer loans and commercial business loans up to amounts established for each lending officer. The Executive Committee or the full Board of Directors must approve all residential loans and commercial loans $1.5 million or greater.

The Board annually approves independent appraisers used by The Bank of Greene County. For larger loans, The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for all non-residential mortgage loans. It is The Bank of Greene County's policy to require hazard insurance on all mortgage loans.

Loan Origination Fees and Other Income. In addition to interest earned on loans, The Bank of Greene County receives loan origination fees. Such fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money.

In addition to loan origination fees, The Bank of Greene County also receives other income that consists primarily of deposit account service charges, ATM fees, debit card fees and loan payment late charges. The Bank of Greene County also installs, maintains and services merchant bankcard equipment for local retailers and is paid a percentage of the transactions processed using such equipment.

Loans to One Borrower. Federal savings banks are subject to the same loans to one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is collateralized by readily marketable collateral (generally, financial instruments and bullion, but not real estate).

At June 30, 2017, the largest aggregate amount loaned by The Bank of Greene County to one borrower consisted of six commercial mortgages with an outstanding balance of $11.2 million. This loan relationship was performing in accordance with its terms at June 30, 2017.

Securities Investment Activities

Given The Bank of Greene County's substantial portfolio of fixed-rate residential mortgage loans, The Bank of Greene County, and its subsidiary Greene County Commercial Bank, maintain high balances of liquid investments for the purpose of mitigating interest rate risk. The Board of Directors establishes the securities investment policy. This policy dictates that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and desired risk parameters. In pursuing these objectives, management considers the ability of an investment to provide earnings consistent with factors of quality, maturity, marketability and risk diversification.

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. As of June 30, 2017, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, and no private-label mortgage-backed securities or collateralized mortgage obligations were held in the securities portfolio. The Company's current securities investment strategy utilizes a risk management approach of diversified investing among three categories: short-, intermediate- and long-term. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk. The Company will only invest in high quality securities, as determined by management's analysis at the time of purchase. The Company does not engage in any derivative or hedging transactions, such as interest rate swaps or caps.

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Greene County Bancorp, Inc. has classified its investments in debt and equity securities as either available-for-sale or held-to-maturity. Available-for-sale securities are reported at fair value, with net unrealized gains and losses reflected in the accumulated other comprehensive income (loss) component of shareholders’ equity, net of applicable income taxes. Held-to-maturity securities are those debt securities which management has the intent and the Company has the ability to hold to maturity and balances are reported at amortized cost. The Company does not have trading securities in its portfolio.

The estimated fair values of debt securities at June 30, 2017 by contractual maturity are set forth in Part II, Item 7 Management’s Discussion and Analysis of this Report.

Additional discussion of management’s decisions with respect to shifting investments among the various investment portfolios described above and the level of mortgage-backed securities is set forth in Part II, Item 7 Management’s Discussion and Analysis of this Report.

Discussion related to the evaluation of the portfolio for other-than-temporary impairment is set forth in Part II, Item 8 Financial Statements and Supplementary Data, Note 1, Summary of significant accounting policies, and Note 3, Securities, of this Report.

Mortgage-Backed and Asset-Backed Securities. The Bank of Greene County and its subsidiary Greene County Commercial Bank purchases mortgage-backed securities in order to: (i) generate positive interest rate spreads with minimal administrative expense; (ii) lower The Bank of Greene County's credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae, and GNMA or other government sponsored enterprises; and (iii) increase liquidity. CMOs or collateralized mortgage obligations as well as other mortgage-backed securities generally are a type of mortgage-backed bond secured by the cash flow of a pool of mortgages. CMOs have regular principal and interest payments made by borrowers separated into different payment streams, creating several bonds that repay invested capital at different rates. The CMO bond may pay the investor at a different rate than the underlying mortgage pool. Often bonds classified as mortgage-backed securities are considered pass-through securities and payments include principal and interest in a manner that makes them self-amortizing. As a result there is no final lump-sum payment at maturity. The Company does not invest in private label mortgage-backed securities due to the potential for a higher level of credit risk.

The pooling of mortgages and the issuance of a security with an interest rate that is based on the interest rates of the underlying mortgages creates mortgage-backed securities. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages. The issuers of such securities (generally U.S. Government sponsored enterprises, including Fannie Mae, Freddie Mac and GNMA) pool and resell the participation interests in the form of securities to investors, such as The Bank of Greene County, and guarantee the payment of principal and interest to these investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. In addition, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize certain liabilities and obligations of The Bank of Greene County and its subsidiary Greene County Commercial Bank.

Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby altering the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event such securities are prepaid. In addition, the market value of such securities may be adversely affected by changes in interest rates. The Company has attempted to mitigate credit risk by limiting purchases of mortgage-backed securities to those offered by various government sponsored enterprises.

Management reviews prepayment estimates periodically to ensure that prepayment assumptions are reasonable considering the underlying collateral for the securities at issue and current interest rates and to determine the yield and estimated maturity of Company's mortgage-backed securities portfolio. However, the actual maturity of a security may be less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and thereby reduce the net yield on such securities. Although prepayments of underlying mortgages depend on many factors, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of declining mortgage interest rates, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that securities prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate of return. Conversely, in a rising interest rate environment prepayments may decline, thereby extending the estimated life of the security and depriving the Company of the ability to reinvest cash flows at the increased rates of interest.

Asset-backed securities are a type of debt security collateralized by various loans and assets including: automobile loans, equipment leases, credit card receivables, home equity and improvement loans, manufactured housing, student loans and other consumer loans. In the case of The Bank of Greene County, its portfolio of asset-backed securities consisted of one investment which is collateralized by home equity loans.

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Sources of Funds

General. Deposits, repayments and prepayments of loans and securities, proceeds from sales of securities, and proceeds from maturing securities and cash flows from operations are the primary sources of The Bank of Greene County's funds for use in lending, investing and for other general purposes.

Deposits. The Bank of Greene County and Greene County Commercial Bank offer a variety of deposit accounts with a range of interest rates and terms. The Bank of Greene County's deposit accounts consist of savings, NOW accounts, money market accounts, certificates of deposit and noninterest-bearing checking accounts. The Bank of Greene County also offers Individual Retirement Accounts (IRAs). Greene County Commercial Bank offers money market accounts, certificates of deposit and noninterest-bearing checking accounts and NOW accounts.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Deposits are obtained predominantly from the areas in which The Bank of Greene County's branch offices are located. The Bank of Greene County relies primarily on competitive pricing of its deposit products and customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect The Bank of Greene County's ability to attract and retain deposits. The Bank of Greene County uses traditional means of advertising its deposit products, including radio, television, print and social media. It generally does not solicit deposits from outside its market area. While The Bank of Greene County accepts certificates of deposit in excess of $100,000, they are not subject to preferential rates. The Bank of Greene County does not actively solicit such deposits, as they are more difficult to retain than core deposits. Historically, The Bank of Greene County has not used brokers to obtain deposits, but will use them to help manage the seasonality within the municipal deposit base in the most cost efficient manner.

Greene County Commercial Bank’s purpose is to attract deposits from local municipalities. Greene County Commercial Bank had $289.6 million in deposits at June 30, 2017.

Borrowed Funds. The Company maintains borrowing arrangements in the form of lines of credit through the Federal Home Loan Bank of New York (“FHLB”), the Federal Reserve Bank of New York (“FRB”), Atlantic Central Bankers Bank (“ACBB”), as well as one other depository institution. The Bank of Greene County may also obtain term borrowings from the FHLB. With the exception of the line of credit with ACBB, and the other depository institution, these borrowing arrangements are secured by residential mortgage loans or investment securities.

The Company has 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 letter of credit is issued to secure municipal transactional deposit accounts. These letters of credit are secured by residential mortgage and commercial real estate loans. The amount of funds available to the Company through the FHLB line of credit is reduced by any letters of credit outstanding. At June 30, 2017, there were no municipal letters of credit outstanding.

Additional discussion related to borrowings is set forth in Part II, Item 7 Management’s Discussion and Analysis and in Part II, Item 8 Financial Statements and Supplementary Data, Note 7 Borrowings of this Report.

Personnel

As of June 30, 2017, The Bank of Greene County had 136 full-time employees and 10 part-time employees. Greene County Bancorp, Inc. has no employees who are not also Bank employees. A collective bargaining group does not represent the employees, and The Bank of Greene County considers its relationship with its employees to be good.

Information

We make available free of charge through our website (www.tbogc.com) the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

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FEDERAL AND STATE TAXATION

Federal Taxation

General. Greene County Bancorp, Inc., The Bank of Greene County, Greene County Commercial Bank and Greene Risk Management, Inc. are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to these entities.

Method of Accounting. For federal income tax purposes, Greene County Bancorp, Inc., The Bank of Greene County and Greene County Commercial Bank currently report income and expenses on the accrual method of accounting and use a tax year ending June 30 for filing consolidated federal income tax returns.

Taxable Distributions and Recapture. At June 30, 2017, The Bank of Greene County had an unrecaptured pre-1988 Federal bad debt reserve of approximately $1.8 million for which no Federal income tax provision has been made. A deferred tax liability has not been provided on this amount as management does not intend to redeem stock, make distributions or take other actions that would result in recapture of the reserve.

Corporate Dividends-Received Deduction. Greene County Bancorp, MHC owns less than 80% of the outstanding common stock of Greene County Bancorp, Inc. Therefore, Greene County Bancorp, MHC is not permitted to join in the consolidated federal income tax return with Greene County Bancorp, Inc., The Bank of Greene County and Greene County Commercial Bank. Consequently, Greene County Bancorp, MHC is only eligible for an 80% dividends-received deduction in respect of dividends from Greene County Bancorp, Inc.

State Taxation

Effective with the taxable year ended June 30, 2017, Greene County Bancorp, MHC, Greene County Bancorp, Inc., The Bank of Greene County, Greene County Commercial Bank, Greene Risk Management and Greene Property Holdings, Ltd. report income on a combined fiscal year basis to New York State. The New York State franchise tax is imposed in an amount equal to the greater of 6.5% of Business Income, 0.125% of average Business Capital or a fixed dollar amount based on New York sourced gross receipts. All intercompany dividend distributions are eliminated in the calculation of Combined Business Income.

REGULATION

General

The Bank of Greene County is a federally chartered savings bank and Greene County Commercial Bank is a New York-chartered bank. The Federal Deposit Insurance Corporation (“FDIC”) through the DIF (“Deposit Insurance Fund”) insures their deposit accounts up to applicable limits. The Bank of Greene County and Greene County Commercial Bank are subject to extensive regulation by the Office of the Comptroller of the Currency (“OCC”) and the New York State Banking Department (the “Department”), respectively, as their chartering agencies, and by the FDIC, as their deposit insurer. The Bank of Greene County and Greene County Commercial Bank are required to file reports with, and are periodically examined by the OCC and the Department, respectively, as well as the FDIC concerning their activities and financial condition, and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other banking institutions. The Bank of Greene County is a member of the FHLB of New York and is subject to certain regulations by the Federal Home Loan Bank System. Both Greene County Bancorp, Inc. and Greene County Bancorp, MHC, as savings and loan holding companies, are subject to regulation and examination by the Federal Reserve Board (“FRB”) and are required to file reports with the

FRB.

The Dodd-Frank Act and the extensive new regulations implementing the Act, will significantly affect our business and operating results, and any future laws or regulations, whether enacted by Congress or implemented by the FDIC, the OCC or the FRB, could have a material adverse impact on The Bank of Greene County, Greene County Commercial Bank, Greene County Bancorp, Inc. or Greene County Bancorp, MHC.

Certain of the regulatory requirements applicable to The Bank of Greene County, Greene County Commercial Bank, Greene County Bancorp, Inc. and Greene County Bancorp, MHC are referred to below or elsewhere herein.

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Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act made significant changes to the current bank regulatory structure and affects the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act eliminated The Bank of Greene County's former primary federal regulator, the Office of Thrift Supervision, and requires The Bank of Greene County to be regulated by the OCC (the primary federal regulator for national banks). The Dodd-Frank Act also authorizes the FRB to supervise and regulate all savings and loan holding companies, including Greene County Bancorp, Inc. and Greene County Bancorp, MHC, in addition to bank holding companies that it regulates. As a result, the FRB's regulations applicable to bank holding companies, including holding company capital requirements, apply to savings and loan holding companies like Greene County Bancorp, Inc. and Greene County Bancorp, MHC. These capital requirements are substantially similar to the capital requirements currently applicable to The Bank of Greene County, as described in "Supervision and Regulation—Federal Banking Regulation—Capital Requirements." Moreover, Greene County Bancorp, MHC requires the approval of the FRB before it may waive the receipt of any dividends from Greene County Bancorp, Inc., and there is no assurance that the FRB will approve future dividend waivers or what conditions it may impose on such waivers. The Dodd-Frank Act also requires the FRB to set minimum capital levels for bank holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Bank holding companies with assets of less than $1 billion are exempt from these capital requirements. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as The Bank of Greene County, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor. Lastly, the Dodd-Frank Act increases stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

Many of the provisions of the Dodd-Frank Act have delayed effective dates and/or require implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau and mutual holding company dividend waivers, will increase our operating and compliance costs and restrict our ability to pay dividends.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and federal regulations issued thereunder. Under these laws and regulations, The Bank of Greene County may invest in mortgage loans secured by residential real estate without limitations as a percentage of assets and non-residential real estate loans which may not in the aggregate exceed 400% of capital, commercial business loans up to 20% of assets in the aggregate and consumer loans up to 35% of assets in the aggregate, certain types of debt securities and certain other assets. The Bank of Greene County also may establish subsidiaries that may engage in activities not otherwise permissible for The Bank of Greene County, including real estate investment and securities and insurance brokerage.

Capital Requirements. Federal regulations require savings associations to meet certain minimum capital standards. In July 2013, the Office of the Comptroller of the Currency and the other federal bank regulatory agencies issued a final rule that, effective January 1, 2015, revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act.

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The risk-based capital standard for savings associations requires the maintenance of a minimum common equity Tier 1 capital ratio of 4.5% of risk-weighted assets, a minimum Tier 1 capital ratio (common equity Tier 1 capital plus additional Tier 1 capital) of 6% of risk-weighted assets, and total capital of at least 8% of risk-weighted assets. The final rule requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The Bank of Greene County and Greene County Commercial Bank have exercised this one-time opt-out and therefore excluded unrealized gains and losses on certain "available-for-sale" securities holdings for purposes of calculating regulatory capital. Additional constraints have been imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interests. Common equity Tier 1 capital is composed of common stock and retained earnings, and includes a limited amount of minority interest and is reduced by goodwill and other intangibles, except mortgage servicing assets, deferred tax assets that arise from operating losses and tax credit carry-forwards, gain on sale in connection with a securitization exposure, certain defined benefit pension fund assets, investments in own shares, a limited amount of deferred tax assets arising from temporary differences that cannot be realized from net operating loss carrybacks and a limited amount of investments in the capital of unconsolidated financial institutions in the form of common stock. Additional Tier 1 capital includes non-cumulative perpetual preferred stock and a limited amount of tier 1 minority interest. Total capital includes Tier 1 capital plus total capital minority interest that was not included in Tier 1 capital, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 1250%, assigned by federal regulations based on the risks believed inherent in the type of asset. The new capital requirements assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property.

The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

At June 30, 2017, The Bank of Greene County's and Greene County Commercial Bank's capital exceeded all applicable minimal capital requirements.

Loans-to-One Borrower. A federal savings association generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of June 30, 2017, The Bank of Greene County was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Requirement. As a federal savings association, The Bank of Greene County must satisfy the qualified thrift lender, or "QTL", requirement by meeting one of two tests: the Home Owners' Loan Act ("HOLA") QTL test or the Internal Revenue Service (IRS) Domestic Building and Loan Association (DBLA) test. The federal savings association may use either test to qualify and may switch from one test to the other.

Under the HOLA QTL test, The Bank of Greene County must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

“Qualified thrift investments” include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. “Qualified thrift investments” also include 100% of an institution’s credit card loans, education loans and small business loans. The Bank of Greene County also may satisfy the QTL test by qualifying as a “domestic building and loan association” as defined in the Internal Revenue Code.

Under the IRS DBLA test, the Bank must meet the business operations test and the 60% of assets test. The business operations test requires that the federal savings association’s business consists primarily of acquiring the savings of the public (75% of its deposits, withdrawable shares, and other obligations must be held by the general public) and investing in loans (more than 75% of its gross income consists of interest on loans and government obligations and various other specified types of operating income that federal savings associations ordinarily earn). For the 60% of assets test, the Bank must maintain at least 60% of its total in “qualified investments” as of the close of the taxable year or, at the option of the taxpayer, may be computed on the basis of the average assets outstanding during the taxable year.

A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. During the year ended June 30, 2017, The Bank of Greene County opted to utilize the HOLA QTL test and satisfied the requirements of this test for the entire 12-month period.

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Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings association must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the association's net income for that year to date plus the association's retained net income for the preceding two years;
- the association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or OCC-imposed condition; or
- the association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a holding company must still file a notice with the OCC at least 30 days before its board of directors declares a dividend or approves a capital distribution.

The OCC may disapprove a notice or application if:

- the association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution, if after making such distribution the institution would be undercapitalized.

Liquidity. A federal savings association is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and related federal regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings association, the OCC is required to assess the association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications, such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. The Bank of Greene County received a "satisfactory" Community Reinvestment Act rating in its most recent examination.

Privacy Standards. The Bank of Greene County is subject to FDIC regulations regarding the privacy protection provisions of the Gramm-Leach-Bliley Act. These regulations require The Bank of Greene County to disclose its privacy policy, including identifying with whom it shares "non-public personal information" to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require The Bank of Greene County to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, The Bank of Greene County is required to provide its customers with the ability to "opt-out" of having The Bank of Greene County share their non-public personal information with unaffiliated third parties before it can disclose such information, subject to certain exceptions.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its "affiliates" is limited by OCC regulations and by Sections 23A and 23B of the Federal Reserve Act (the "FRA"). The term "affiliates" for these purposes generally means any company that controls, is controlled by, or is under common control with an institution. Greene County Bancorp, Inc. is an affiliate of The Bank of Greene County. In general, transactions with affiliates must be on terms that are as favorable to the association as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the association's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the association. In addition, OCC regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

The Bank of Greene County's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of The Bank of Greene County's capital. In addition, extensions of credit in excess of certain limits must be approved by The Bank of Greene County's Board of Directors.

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Enforcement. The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The Federal Deposit Insurance Corporation also has the authority to terminate deposit insurance or to recommend to the Comptroller of the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of the following five categories based on the association's capital:

- well-capitalized (at least 5% leverage capital, 6.5% common equity tier 1 risk-based capital, 8% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4.5% common equity tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 8% total risk-based capital, 6% Tier 1 risk-based capital, 4.5% common equity tier 1 risk based capital, or 4% leverage capital);
- significantly undercapitalized (less than 6% total risk-based capital, 4% Tier 1 risk-based capital, 3.0% common equity tier 1 risk based capital, or 3% leverage capital); and
- critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for an association that is "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date an association receives notice that it is "undercapitalized", "significantly undercapitalized" or "critically undercapitalized". The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the savings association will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the savings association. Any holding company for the savings association required to submit a capital restoration plan must guarantee the lesser of: an amount equal to 5% of the savings association's assets at the time it was notified or deemed to be undercapitalized by the OCC, or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OCC has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings association, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At June 30, 2017, The Bank of Greene County met the criteria for being considered “well-capitalized”.

Deposit Insurance. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

Effective April 1, 2011, the FDIC implemented a requirement of the Dodd-Frank Act to revise its assessment system so that it is based on each institution’s total assets less tangible capital, instead of deposits. The FDIC also revised its assessment schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest. Effective July 1, 2016, this assessment range was reduced to 1.5 to 40 basis points.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Neither The Bank of Greene County nor Greene County Commercial Bank believes that it is taking any action or is subject to any condition or violation that could lead to termination of its deposit insurance.

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All FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation ("FICO") for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended June 30, 2017, the annualized Financing Corporation assessment was equal to 0.55 basis points of total assets less tangible capital. For the fiscal year June 30, 2017, The Bank of Greene County, and its subsidiary Greene County Commercial Bank, jointly paid $46,000 related to the FICO bonds.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. The Bank of Greene County is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of New York, The Bank of Greene County is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its borrowings from the Federal Home Loan Bank, whichever is greater. As of June 30, 2017, The Bank of Greene County was in compliance with this requirement.

Federal Reserve System. The Federal Reserve Board regulations require savings associations to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At June 30, 2017, The Bank of Greene County was in compliance with these reserve requirements.

Other Regulations

Interest and other charges collected or contracted for by The Bank of Greene County are subject to state usury laws and federal laws concerning interest rates. The Bank of Greene County's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of The Bank of Greene County also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- The USA PATRIOT Act, which requires financial institutions to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

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Holding Company Regulation

General. Greene County Bancorp, MHC and Greene County Bancorp, Inc. are nondiversified savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, Greene County Bancorp, MHC and Greene County Bancorp, Inc. are registered with the FRB and are subject to FRB regulations, supervision and reporting requirements. In addition, the FRB has enforcement authority over Greene County Bancorp, Inc. and Greene County Bancorp, MHC, and their non-bank subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. As federal corporations, Greene County Bancorp, Inc. and Greene County Bancorp, MHC are generally not subject to state business organization laws.

Permitted Activities. Pursuant to Section 10(o) of the Home Owners' Loan Act and federal regulations and policy, a mutual holding company and a federally chartered mid-tier holding company such as Greene County Bancorp, Inc. may engage in the following activities: (i) investing in the stock of a savings association; (ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company; (iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings association; (iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association or associations share their home offices; (v) furnishing or performing management services for a savings association subsidiary of such company; (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company; (vii) holding or managing properties used or occupied by a savings association subsidiary of such company; (viii) acting as trustee under deeds of trust; (ix) any other activity (A) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director of the Federal Reserve Board, by regulation, prohibits or limits any such activity for savings and loan holding companies; or (B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987; (x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and (xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (xi) above, and has a period of two years to cease any nonconforming activities and divest any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including Greene County Bancorp, Inc. and Greene County Bancorp, MHC, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the FRB. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the FRB must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The FRB is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Historically, savings and loan holding companies have not been subject to specific regulatory capital requirements. The Dodd-Frank Act, however, required the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. On January 29, 2015, the Federal Reserve Bank Board revised the Small Bank Holding Company Policy Statement ("Policy Statement") to raise the total consolidated asset limit from $500 million to $1 billion, and expand the scope of the Policy Statement to include savings and loan holding companies (SLHCs). In conjunction with these revisions, the Board proposed changes to regulatory reports effective in 2015 to lessen the reporting burden on smaller institutions. Prior to these revisions, beginning on January 1, 2015, the top-tier savings and loan holding company, Greene County Bancorp, MHC would have been subject to the new regulatory capital reporting requirements. However, as a result of these revisions, the MHC has been exempted from the new regulatory capital reporting requirements.

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Dividends. The FRB has issued a policy statement regarding the payment of dividends by bank holding companies that applies to savings and loan holding companies as well. In general, the FRB's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. FRB guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Greene County Bancorp, Inc. to pay dividends or otherwise engage in capital distributions.

Source of Strength. The Dodd-Frank Act extended the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must issue regulations requiring that all bank and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Waivers of Dividends by Greene County Bancorp, MHC. Federal regulations require Greene County Bancorp, MHC to notify the FRB of any proposed waiver of its receipt of dividends from Greene County Bancorp, Inc. The Office of Thrift Supervision, the previous regulator for Greene County Bancorp, MHC, allowed dividend waivers where the mutual holding company's board of directors determined that the waiver was consistent with its fiduciary duties and the waiver would not be detrimental to the safety and soundness of the institution. The FRB has issued an interim final rule providing that, pursuant to a Dodd-Frank Act grandfathering provision, it may not object to dividend waivers under similar circumstances, but adding the requirement that a majority of the mutual holding company's members eligible to vote have approved a waiver of dividends by the company within 12 months prior to the declaration of the dividend being waived. The MHC received the approval of its members (depositors of The Bank of Greene County) and the non-objection of the Federal Reserve Bank of Philadelphia, to waive the MHC's receipt of quarterly cash dividends aggregating up to $0.40 per share to be declared by the Company for the four quarters ending March 31, 2018. The waiver of dividends beyond this period are subject to the MHC obtaining approval of its members at a special meeting of members and receive the non-objection of the Federal Reserve Bank of Philadelphia for such dividend waivers for the four quarters subsequent to the approval. Therefore, its ability to waive its right to receive dividends beyond this date cannot be reasonably determined at this time.

Conversion of Greene County Bancorp, MHC to Stock Form. Federal regulations permit Greene County Bancorp, MHC to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new stock holding company would be formed as the successor to Greene County Bancorp, Inc. (the "New Holding Company"), Greene County Bancorp, MHC's corporate existence would end, and certain depositors of The Bank of Greene County would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than Greene County Bancorp, MHC ("Minority Stockholders") would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in Greene County Bancorp, Inc. immediately prior to the Conversion Transaction. Under a provision of the Dodd-Frank Act applicable to Greene County Bancorp, MHC, Minority Stockholders would not be diluted because of any dividends waived by Greene County Bancorp, MHC (and waived dividends would not be considered in determining an appropriate exchange ratio), in the event Greene County Bancorp, MHC converts to stock form.

Commercial Bank Regulation

Our commercial bank, Greene County Commercial Bank, derives its authority primarily from the applicable provisions of the New York Banking Law and the regulations adopted under that law. Our commercial bank is limited in its investments and the activities that it may engage in to those permissible under applicable state law and those permissible for national banks and their subsidiaries, unless those investments and activities are specifically permitted by the Federal Deposit Insurance Act or the FDIC determines that the activity or investment would pose no significant risk to the deposit insurance fund. We limit our commercial bank activities to accepting municipal deposits and acquiring municipal and other securities.

Under New York Banking Law, our commercial bank is not permitted to declare, credit or pay any dividends if its capital stock is impaired or would be impaired as a result of the dividend. In addition, the New York Banking Law provides that our commercial bank cannot declare or pay dividends in any calendar year in excess of “net profits” for such year combined with “retained net profits” of the two preceding years, less any required transfer to surplus or a fund for the retirement of preferred stock, without prior regulatory approval.

Our commercial bank is subject to minimum capital requirements imposed by the FDIC that are substantially similar to the capital requirements imposed on The Bank of Greene County, discussed above. Capital requirements higher than the generally applicable minimum requirements may be established for a particular bank if the FDIC determines that a bank’s capital is, or may become, inadequate in view of the bank’s particular circumstances. Failure to meet capital guidelines could subject a bank to a variety of enforcement actions, including actions under the FDIC’s prompt corrective action regulations.

At June 30, 2017, our commercial bank met the criteria for being considered “well-capitalized.”

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Federal Securities Laws

Greene County Bancorp, Inc. common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Greene County Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Greene County Bancorp, Inc. common stock held by persons who are affiliates (generally officers, directors and principal shareholders) of Greene County Bancorp, Inc. may not be resold without registration or unless sold in accordance with certain resale restrictions. If Greene County Bancorp, Inc. meets specified current public information requirements, each affiliate of Greene County Bancorp, Inc. is able to sell in the public market, without registration, a limited number of shares in any three-month period.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted to address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Under Section 302(a) of the Sarbanes-Oxley Act, the Chief Executive Officer and Chief Financial Officer of Greene County Bancorp, Inc. are required to certify that its quarterly and annual reports filed with the Securities and Exchange Commission do not contain any untrue statement of a material fact. Rules promulgated under the Sarbanes-Oxley Act require that these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in our quarterly and annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls. Greene County Bancorp, Inc. has existing policies, procedures and systems designed to comply with these regulations, and is further enhancing and documenting such policies, procedures and systems to ensure continued compliance with these regulations.

Reports to Security Holders

Greene County Bancorp, Inc. files annual and current reports with the SEC on Forms 10-K, 10-Q and 8-K, respectively. Greene County Bancorp, Inc. also files proxy materials with the SEC.

The public may read and copy any materials filed by Greene County Bancorp, Inc. with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Greene County Bancorp, Inc. is an electronic filer. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the site is http://www.sec.gov.

ITEM 1A. Risk Factors

Not applicable to smaller reporting companies.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Greene County Bancorp, Inc. and The Bank of Greene County maintain their executive offices at the Administration Center, 302 Main Street, Catskill, New York. The Bank of Greene County also has an operations center and lending center located in Catskill, New York. The Bank of Greene County currently conducts its business through 13 full-service banking offices. We own ten branch offices and lease three branch offices located within Greene, Columbia, Albany and Ulster Counties. Greene County Commercial Bank conducts its business through the branch offices of The Bank of Greene County. In the opinion of management, the physical properties of our holding company and our various subsidiaries are suitable and adequate. For more information on our properties, see Notes 1, 5 and 14 set forth in Part II, Item 8 Financial Statements and Supplementary Data, of this Report.

ITEM 3. Legal Proceedings

Greene County Bancorp, Inc. and its subsidiaries are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business that, in the aggregate, involve amounts that are believed by management to be immaterial to the consolidated financial condition and consolidated results of operations of Greene County Bancorp, Inc.

ITEM 4. Mine Safety Disclosures

Not applicable.

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PART II

ITEM 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Greene County Bancorp, Inc.'s common stock is listed on the NASDAQ Capital Market under the symbol "GCBC". As of September 8, 2017 Greene County Bancorp, Inc. had 488 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms) and 8,502,614 shares outstanding. As of such date, Greene County Bancorp, MHC (the "MHC"), Greene County Bancorp, Inc.'s mutual holding company, held 4,609,264 shares of common stock or 54.2% of total shares outstanding. Consequently, shareholders other than the MHC held 3,893,350 shares.

Payment of dividends on Greene County Bancorp, Inc.'s common stock is subject to determination and declaration by the Board of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, Greene County Bancorp, Inc.'s results of operations, financial condition, tax considerations and general economic conditions. No assurance can be given that dividends will be declared or, if declared, what the amount of dividends will be, or whether such dividends, once declared, will continue. The Federal Reserve Board has adopted interim final regulations that impose significant conditions and restrictions on the ability of mutual holding companies to waive the receipt of dividends from their subsidiaries. The MHC received the approval of its members (depositors of The Bank of Greene County) and the non-objection of the Federal Reserve Bank of Philadelphia, to waive the MHC's receipt of quarterly cash dividends aggregating up to $0.40 per share to be declared by the Company for the four quarters ending March 31, 2018. The waiver of dividends beyond this period are subject to the MHC obtaining approval of its members at a special meeting of members and receive the non-objection of the Federal Reserve Bank of Philadelphia for such dividend waivers for the four quarters subsequent to the approval. Therefore, its ability to waive its right to receive dividends beyond this date cannot be reasonably determined at this time.

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The following table sets forth a summary of selected financial data at and for the fiscal quarter ends for the years ended June 30, 2017 and 2016. Closing market price information is stated at the quarter end dates indicated, and for periods prior to March 15, 2016 all information has been adjusted for a 2-for-1 stock split. *The MHC waived receipt of the dividends for the first, second and third quarters of fiscal 2017 and 2016.

Fiscal 2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price (NASDAQ:GCBC)				
High	$ 17.42	$ 25.20	$ 24.00	$ 29.00
Low	16.00	16.50	20.50	22.30
Close	16.67	22.90	23.35	27.20
Cash Dividends*	0.095	0.095	0.095	0.095
Fiscal 2016				
Market price (NASDAQ:GCBC)				
High	$ 14.80	$ 16.50	$ 21.25	$ 21.30
Low	13.50	13.75	15.24	15.84
Close	13.75	15.98	17.57	16.27
Cash Dividends*	0.0925	0.0925	0.0925	0.0925

There were no sales of unregistered securities during fiscal 2017 or 2016. On August 22, 2007, the Board of Directors authorized a stock repurchase program pursuant of up to 5% of its outstanding shares (excluding shares held by Greene County Bancorp, MHC, the Company's mutual holding company), or up to 184,692 shares, adjusted for a 2-for-1 stock split. As of June 30, 2017, the Company had repurchased 124,956 shares in accordance with the stock repurchase program. There were no shares repurchased during fiscal 2017, or 2016. The Company currently does not intend to repurchase any additional shares under this stock repurchase program.

As of June 30, 2017, the Company has adopted two equity-based compensation plans: the 2008 Stock Option Plan and the ESOP. The 2008 Stock Option Plan has been approved by stockholders of the Company and, except for the ESOP, the Company has not implemented any equity-based compensation program that has not been approved by Company stockholders.

Set forth below is certain information as of June 30, 2017 regarding equity-based compensation plans for directors and executive officers of the Company that have been approved by stockholders.

Plan	Number of securities to be issued upon exercise of outstanding options and rights	Weighted average exercise price	Number of securities remaining available for issuance under plan
2008 Stock Option Plan	37,770	$6.25	31,000

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ITEM 6. Selected Financial Data

The selected financial and operational data presented below at and for the years shown was derived from the audited consolidated financial statements of Greene County Bancorp, Inc. and should be read in conjunction with the consolidated financial statements presented elsewhere in this Report.

	At or for the Years Ended June 30,		
(Dollars in thousands, except per share amounts)	2017	2016	2015
SELECTED FINANCIAL CONDITION DATA:			
Total assets	$982,291	$868,781	$738,647
Loans receivable, net	624,187	522,764	443,496
Securities available-for-sale	91,483	100,123	86,034
Securities held-to-maturity	223,830	204,935	169,000
Deposits	859,535	738,887	622,717
Shareholders' equity	83,521	74,301	66,920
AVERAGE BALANCES:			
Total assets	913,423	795,819	703,515
Interest-earning assets	895,659	777,539	685,172
Loans receivable, net	577,854	476,356	419,793
Securities	300,270	281,308	250,247
Deposits	786,923	690,995	610,170
Borrowings	38,760	27,835	24,760
Shareholders' equity	78,518	70,669	64,222
SELECTED OPERATIONS DATA:			
Total interest income	33,459	28,802	25,700
Total interest expense	3,077	2,581	2,302
Net interest income	30,382	26,221	23,398
Provision for loan losses	1,911	1,673	1,556
Net interest income after provision for loan losses	28,471	24,548	21,842
Total noninterest income	6,424	5,965	5,697
Total noninterest expense	19,967	18,871	18,032
Income before provision for income taxes	14,928	11,642	9,507
Provision for income taxes	3,741	2,679	2,318
Net income	11,187	8,963	7,189
FINANCIAL RATIOS:			
Return on average assets[1]	1.22 %	1.13 %	1.02 %
Return on average shareholders' equity[2]	14.25	12.68	11.19
Noninterest expenses to average total assets	2.19	2.37	2.56
Average interest-earning assets to average interest-bearing liabilities	121.66	121.70	120.78
Net interest rate spread[3]	3.32	3.30	3.34
Net interest margin[4]	3.39	3.37	3.41
Efficiency ratio[5]	54.25	58.63	61.98
Shareholders' equity to total assets, at end of period	8.50	8.55	9.06
Average shareholders' equity to average assets	8.60	8.88	9.13
Dividend payout ratio[6]	28.79	34.91	42.35
Actual dividends declared to net income[7]	17.16	20.69	25.01
Nonperforming assets to total assets, at end of period	0.45	0.43	0.75
Nonperforming loans to net loans, at end of period	0.58	0.65	1.06
Allowance for loan losses to nonperforming loans	302.72	278.72	173.53
Allowance for loan losses to total loans receivable	1.74	1.79	1.81

Book value per share[8,9]	$9.82	$8.77	$7.92
Basic earnings per share[9]	1.32	1.06	0.85
Diluted earnings per share[9]	1.31	1.06	0.85
OTHER DATA:			
Closing market price of common stock[9]	$27.20	$16.27	$14.25
Number of full-service offices	13	13	13
Number of full-time equivalent employees	144	137	133

1 Ratio of net income to average total assets.
2 Ratio of net income to average shareholders’ equity.
3 The difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
4 Net interest income as a percentage of average interest-earning assets.
5 Noninterest expense divided by the sum of net interest income and noninterest income.
6 Dividends per share divided by basic earnings per share. This calculation does not take into account the waiver of dividends by Greene County Bancorp, MHC.
7 Dividends declared divided by net income.
8 Shareholders’ equity divided by outstanding shares.
9 Prior periods restated for comparability to reflect the 2-for-1 stock split effective March 15, 2016

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Greene County Bancorp, Inc. (the "Company") is the holding company for The Bank of Greene County (the "Bank"), a community-based bank offering a variety of financial services to meet the needs of the communities it serves. The Bank of Greene County is a federally chartered savings bank. The Bank of Greene County's principal business is attracting deposits from customers within its market area and investing those funds primarily in loans, with excess funds used to invest in securities. The Bank of Greene County currently operates 13 full-service branches, an administration office, a lending center, and an operations center in New York's Hudson Valley Region. In June 2004, Greene County Commercial Bank ("GCCB") was opened for the limited purpose of servicing local municipalities. GCCB is a subsidiary of The Bank of Greene County, and is a New York State-chartered commercial bank. Greene County Bancorp, Inc.'s stock is traded on the NASDAQ Capital Market under the symbol "GCBC." Greene County Bancorp, MHC is a mutual holding company that owns 54.2% of the Company's outstanding common stock. In June 2011, Greene Property Holdings, Ltd. was formed as a New York corporation that has elected under the Internal Revenue Code to be a real estate investment trust. Greene Properties Holding, Ltd. is a subsidiary of The Bank of Greene County. Certain mortgages and notes held by The Bank of Greene County were transferred to and are beneficially owned by Greene Property Holdings, Ltd. The Bank of Greene County continues to service these loans. In December 2014, Greene Risk Management, Inc. was formed as a Nevada corporation that is operating as a pooled captive insurance company. The purpose of this company is to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible.

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.

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.

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Management of Credit Risk

Management considers credit risk to be an important risk factor affecting the financial condition and operating results of Greene County Bancorp, Inc. The potential for loss associated with this risk factor is managed through a combination of policies approved by Greene County Bancorp, Inc.'s Board of Directors, the monitoring of compliance with these policies, and the periodic reporting and evaluation of loans with problem characteristics. Policies relate to the maximum amount that can be granted to a single borrower and such borrower's related interests, the aggregate amount of loans outstanding by type in relation to total assets and capital, loan concentrations, loan-to-collateral value ratios, approval limits and other underwriting criteria. Policies also exist with respect to the rating of loans, determination of when loans should be placed on a nonperforming status and the factors to be considered in establishing Greene County Bancorp, Inc.'s allowance for loan losses. Management also considers credit risk when evaluating potential and current holdings of securities. Credit risk is a critical component in evaluating corporate debt securities. Greene County Bancorp, Inc. has purchased municipal securities as part of its strategy based on the fact that such securities can offer a higher tax-equivalent yield than other similar investments.

Management of Interest Rate Risk

While Greene County Bancorp, Inc.'s loan portfolio is subject to risks associated with the local economy, Greene County Bancorp, Inc.'s most significant form of market risk is interest rate risk because most of Greene County Bancorp, Inc.'s assets and liabilities are sensitive to changes in interest rates. Greene County Bancorp, Inc.'s assets consist primarily of mortgage loans, which have longer maturities than Greene County Bancorp, Inc.'s liabilities, which consist primarily of deposits. Greene County Bancorp, Inc. does not engage in any derivative-based hedging transactions, such as interest rate swaps and caps. Due to the complex nature and additional risk often associated with derivative hedging transactions, such as counterparty risk, it is Greene County Bancorp, Inc.'s policy to continue its strategy of mitigating interest rate risk through balance sheet composition. Greene County Bancorp, Inc.'s interest rate risk management program focuses primarily on evaluating and managing the composition of Greene County Bancorp, Inc.'s assets and liabilities in the context of various interest rate scenarios. Tools used to evaluate and manage interest rate risk include measuring net interest income sensitivity ("NII"), economic value of equity ("EVE") sensitivity and GAP analysis. These standard interest rate risk measures are described more fully below. Factors beyond management's control, such as market interest rates and competition, also have an impact on interest income and interest expense.

In recent years, Greene County Bancorp, Inc. has followed the following strategies to manage interest rate risk:

(i) maintaining a high level of liquid interest-earning assets such as short-term interest-earning deposits and various investment securities;
(ii) maintaining a high concentration of less interest-rate sensitive and lower-costing core deposits;
(iii) originating consumer installment loans that have up to five-year terms but that have significantly shorter average lives due to early prepayments;
(iv) originating adjustable-rate commercial real estate mortgage loans and commercial loans; and
(v) where possible, matching the funding requirements for fixed-rate residential mortgages with lower-costing core deposits.

By investing in liquid securities, which can be sold to take advantage of interest rate shifts, and originating adjustable rate commercial real estate and commercial loans with shorter average durations, Greene County Bancorp, Inc. believes it is better positioned to react to changes in market interest rates. Investments in short-term securities, however, generally bear lower yields than longer-term investments. Thus, these strategies may result in lower levels of interest income than would be obtained by investing in longer-term fixed-rate investments.

Net Interest Income Analysis. One of the most significant measures of interest risk is net interest income sensitivity ("NII"). NII is the measurement of the sensitivity of Greene County Bancorp, Inc.'s net interest income to changes in interest rates and is computed for instantaneous rate shocks and a series of rate ramp assumptions. The net interest income sensitivity can be viewed as the exposure to changes in interest rates in the balance sheet as of the report date. The net interest income sensitivity measure does not take into account any future change to the balance sheet. Greene County Bancorp, Inc. has a relatively low level of NII sensitivity and is well within policy limits in all positive rate shock scenarios. This means that Greene County Bancorp, Inc.'s income exposure to rising rates is projected to be relatively low.

The analysis of NII sensitivity is limited by the fact that it does not take into account any future changes in the balance sheet. Therefore, Greene County Bancorp, Inc. also performs dynamic modeling which utilizes a projected balance sheet and income statement based on budget and planning assumptions and then stress tests those projections in various economic environments and interest rate scenarios. In each economic scenario that is modeled, assumptions pertaining to growth volumes, income, expenses and asset quality are adjusted based on what the likely impact of the economic scenario will be. By incorporating the Company's financial projections into the analysis, Greene County Bancorp, Inc. can better understand the impact that the implementation of those plans would have on its overall interest rate risk, and thereby better manage its interest rate risk position.

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EVE Analysis. Economic value of equity ("EVE") is defined as the present value of all future asset cash flows less the present value of all future liability cash flows, or an estimate of the value of the entire balance sheet. The EVE measure is limited in that it does not take into account any future change to the balance sheet. The following table presents Greene County Bancorp, Inc.'s EVE. The EVE table indicates the market value of assets less the market value of liabilities at each specific rate shock environment. These calculations were based upon assumptions believed to be fundamentally sound, although they may vary from assumptions utilized by other financial institutions. The information set forth below is based on data that included all financial instruments as of June 30, 2017. Assumptions made by Greene County Bancorp, Inc. relate to interest rates, loan prepayment rates, core deposit duration, and the market values of certain assets and liabilities under the various interest rate scenarios. Actual maturity dates were used for fixed rate loans and certificate accounts. Securities were scheduled at either maturity date or next scheduled call date based upon judgment of whether the particular security would be called based upon the current interest rate environment, as it existed on June 30, 2017. Variable rate loans were scheduled as of their next scheduled interest rate repricing date. Additional assumptions made in the preparation of the EVE table include prepayment rates on loans and mortgage-backed securities. For each interest-bearing core deposit category, a discounted cash flow based upon the decay of each category was calculated and a discount rate applied based on the FHLB fixed rate advance term nearest the average life of the category. The noninterest-bearing category does not use a decay assumption, and the 24 month FHLB advance rate was used as the discount rate. The EVE at "Par" represents the difference between Greene County Bancorp, Inc.'s estimated value of assets and value of liabilities assuming no change in interest rates. The EVE for a decrease of 100, 200 and 300 basis points have been excluded since they would not be meaningful in the interest rate environment as of June 30, 2017.

The following sets forth Greene County Bancorp, Inc.'s EVE as of June 30, 2017.

Changes in Market Interest Rates (Basis Points)

(Dollars in thousands)	Company EVE	$ Change From Par	% Change From Par	EVE Ratio[1]	Change[2]
+300bp	$127,897	$(21,552)	(14.42)%	13.72%	(118)bps
+200bp	138,193	(11,256)	(7.53)	14.45	(45)
+100bp	146,285	(3,164)	(2.12)	14.92	2
PAR	149,449	-	-	14.90	-

[1] Calculated as the estimated EVE divided by the present value of total assets.

[2] Calculated as the excess (deficiency) of the EVE ratio assuming the indicated change in interest rates over the estimated EVE ratio assuming no change in interest rates.

The prolonged low rate environment continues to increase EVE sensitivity across the industry, as the low yield on assets increases price sensitivity to large rate shocks. EVE sensitivity will increase further as rates rise and loans and investments lose value and move out the sensitivity curve. Greene County Bancorp, Inc.'s EVE modeling projects that the EVE will decrease in instantaneous rate shocks, however, the level of sensitivity resulting from these rate shocks is within the Company's policy limits and regulatory guidance. In anticipation of rising interest rates from the current historical low rate environment, Greene County Bancorp, Inc. has implemented several strategies to help mitigate the negative impact on EVE that would result from rising interest rates. These strategies include shortening the average duration of assets and lengthening the average duration of its liabilities.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE require the making of certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates.

Gap Analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring a company’s interest rate sensitivity “gap.” An asset or liability is deemed to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an institution with a negative gap position generally would not be in as favorable a position, compared with an institution with a positive gap, to invest in higher yielding assets. The resulting yield on the institution’s assets generally would increase at a slower rate than the increase in its cost of interest-bearing liabilities. Conversely, during a period of falling interest rates, an institution with a negative gap would tend to experience a repricing of its assets at a slower rate than its interest-bearing liabilities which, consequently, would generally result in its net interest income growing at a faster rate than an institution with a positive gap position. At June 30, 2017, Greene County Bancorp, Inc.’s cumulative one-year and three-year gap positions, the difference between the amount of interest-earning assets maturing or repricing within one year and three years and interest-bearing liabilities maturing or repricing within one year and three years, as a percentage of total interest-earning assets were positive 17.58% and 19.34% respectively.

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Certain shortcomings are inherent in this method of analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. It should also be noted that interest-bearing core deposit categories, which have no stated maturity date, have an assumed decay rate applied to create a cash flow on those deposit categories for gap purposes. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets such as adjustable-rate loans have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. Further, in the event of changes in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. Finally, the ability of many borrowers to service their adjustable-rate loans may decrease in the event of an interest rate increase.

FINANCIAL OVERVIEW

Net income for the year ended June 30, 2017 amounted to $11.2 million, or $1.32 per basic and $1.31 per diluted share, as compared to $9.0 million, or $1.06 per basic and diluted share, for the year ended June 30, 2016, an increase of $2.2 million, or 24.8%. The increase in net income was primarily the result of increases of $4.2 million in net interest income and $459,000 in noninterest income, which were partially offset by increases of $1.1 million in both provision for income taxes and noninterest expense. The change in net interest income resulted from growth in interest-earning assets when comparing the years ended June 30, 2017 and 2016. Growth in interest-earning assets was within both investment securities and loans. Growth in loans was primarily in commercial real estate mortgages and commercial loans which are generally higher yielding assets. Net interest rate spread increased two basis points to 3.32% for the year ended June 30, 2017 as compared to 3.30% for the year ended June 30, 2016. Net interest margin also increased two basis points to 3.39% for the year ended June 30, 2017 as compared to 3.37% for the year ended June 30, 2016. Changes in noninterest income and noninterest expense are more fully explained within the Comparison of Operating Results for the Years Ended June 30, 2017 and 2016 contained herein.

Total assets grew $113.5 million, or 13.1%, to $982.3 million at June 30, 2017 as compared to $868.8 million at June 30, 2016. Net loans increased $101.4 million, or 19.4%, to $624.2 million at June 30, 2017 as compared to $522.8 million at June 30, 2016. Securities classified as available-for-sale and held-to-maturity increased $10.2 million, or 3.3%, to $315.3 million at June 30, 2017 as compared to $305.1 million at June 30, 2016. Deposits grew $120.6 million, or 16.3%, to $859.5 million at June 30, 2017 as compared to $738.9 million at June 30, 2016. Total shareholders' equity amounted to $83.5 million and $74.3 million at June 30, 2017 and 2016, respectively, or 8.5% and 8.6% of total assets, respectively.

Comparison of Financial Condition as of June 30, 2017 and 2016

SECURITIES

Securities available-for-sale and held-to-maturity increased $10.2 million, or 3.3%, to $315.3 million at June 30, 2017 as compared to $305.1 million at June 30, 2016. Securities purchases totaled $115.3 million during the year ended June 30, 2017 and consisted of $97.4 million of state and political subdivision securities, $6.0 million of U.S. government sponsored enterprises securities, and $11.9 million of mortgage-backed securities. Principal pay-downs and maturities during the year ended June 30, 2017 amounted to $103.2 million, of which $16.8 million were mortgage-backed securities, $83.1 million were state and political subdivision securities, $2.0 million were U.S. government sponsored enterprises securities, and $1.3 million were corporate debt securities. Greene County Bancorp, Inc. holds 55.2% of its securities portfolio at June 30, 2017 in 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.

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(Dollars in thousands)	At June 30, 2017 Carrying Amount	Percent of total	2016 Carrying Amount	Percent of total	2015 Carrying Amount	Percent of total
Securities available-for-sale:						
U.S. government sponsored enterprises	$4,717	1.5 %	$4,891	1.6 %	$7,855	3.1 %
State and political subdivisions	58,112	18.4	60,499	19.8	39,582	15.5
Mortgage-backed securities-residential	4,913	1.5	6,540	2.1	7,942	3.1
Mortgage-backed securities-multi-family	20,765	6.6	23,879	7.8	25,735	10.1
Asset-backed securities	1	0.0	5	0.0	9	0.0
Corporate debt securities	2,791	1.0	4,157	1.4	4,774	1.9
Total debt securities	91,299	29.0	99,971	32.7	85,897	33.7
Equity securities	184	0.1	152	0.1	137	0.1
Total securities available-for-sale	91,483	29.1	100,123	32.8	86,034	33.8
Securities held-to-maturity:						
U.S. government sponsored enterprises	6,000	1.9	2,000	0.7	2,000	0.8
State and political subdivisions	115,805	36.7	99,040	32.5	81,501	31.9
Mortgage-backed securities-residential	10,798	3.4	13,543	4.4	17,468	6.8
Mortgage-backed securities-multi-family	88,702	28.1	87,204	28.6	67,239	26.4
Corporate debt securities	1,000	0.3	1,000	0.3	-	-
Other securities	1,525	0.5	2,148	0.7	792	0.3
Total securities held-to-maturity	223,830	70.9	204,935	67.2	169,000	66.2
Total securities	$315,313	100.0 %	$305,058	100.0 %	$255,034	100.0 %

Investment Maturity Schedule

The estimated fair value of debt securities at June 30, 2017 by contractual maturity are shown below. Asset-backed and mortgage-backed securities balances are presented based on final maturity date and do not reflect the expected cash flows from monthly principal repayments. 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. No tax-equivalent adjustments were made in calculating the weighted average yield.

(Dollars in thousands)	In One Year or Less	After One Year through Five Years	After Five Years through Ten Years	After Ten Years	Total
Securities available-for-sale:					
U.S. government sponsored enterprises	$ -	$ 4,717	$ -	$ -	$4,717
State and political subdivisions	58,112	-	-	-	58,112
Mortgage-backed securities-residential	2	360	1,028	3,523	4,913
Mortgage-backed securities-multi-family	-	16,965	3,800	-	20,765
Asset-backed securities	-	-	1	-	1
Corporate debt securities	2,529	262	-	-	2,791
Total debt securities	60,643	22,304	4,829	3,523	91,299
Equity securities	-	-	-	184	184
Total securities available-for-sale	60,643	22,304	4,829	3,707	91,483
Securities held-to-maturity:					
U.S. government sponsored enterprises	-	1,982	3,965	-	5,947
State and political subdivisions	17,497	54,981	33,901	12,765	119,144
Mortgage-backed securities-residential	54	5,741	4,062	1,213	11,070

Mortgage-backed securities-multi-family	-	38,163	51,599	-	89,762
Corporate debt securities	-	-	995	-	995
Other securities	145	750	554	85	1,534
Total securities held-to-maturity	17,696	101,617	95,076	14,063	228,452
Total securities	$ 78,339	$ 123,921	$ 99,905	$ 17,770	$ 319,935
Weighted Average Yield	1.85 %	2.66 %	2.47 %	3.06 %	2.42 %

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LOANS

Net loans receivable increased to $624.2 million at June 30, 2017 from $522.8 million at June 30, 2016, an increase of $101.4 million, or 19.4%. The loan growth experienced during the period consisted primarily of $65.3 million in commercial real estate loans, $8.3 million in commercial construction loans, $11.7 million in commercial loans, $5.3 million in multi-family real estate loans, $10.3 million in residential real estate loans, and $1.6 million in residential construction loans. The continued low interest rate environment and, we believe, strong customer satisfaction from personal service, continued to enhance loan growth. If long term rates begin to rise, the Company anticipates some reduced 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 in the Company's market areas, however, 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.

Loan Portfolio Composition

Set forth below is selected information concerning the composition of The Bank of Greene County's loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and costs, unearned discounts and allowances for losses) as of the dates indicated.

	At June 30, 2017		2016		2015		2014		2013	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans:										
Residential real estate	$245,331	38.67 %	$234,992	44.23 %	$226,648	50.28 %	$227,373	56.02 %	$212,526	58.09 %
Residential construction and land	7,160	1.13	5,575	1.05	3,621	0.81	3,005	0.74	2,691	0.74
Multi-family	9,199	1.45	3,918	0.74	4,287	0.95	4,059	1.00	5,511	1.51
Commercial real estate	257,964	40.67	192,678	36.27	142,323	31.57	114,066	28.11	91,482	25.00
Commercial construction	28,430	4.48	20,159	3.79	8,936	1.98	1,558	0.38	3,523	0.96
Total real estate loans	548,084	86.40	457,322	86.08	385,815	85.59	350,061	86.25	315,733	86.30
Consumer loans										
Home equity	21,076	3.32	20,893	3.93	21,019	4.66	20,578	5.07	20,371	5.57
Consumer installment[(1)]	4,790	0.76	4,350	0.82	4,123	0.92	4,208	1.04	4,078	1.12
	25,866	4.08	25,243	4.75	25,142	5.58	24,786	6.11	24,449	6.69

Total consumer loans										
Commercial loans	60,381	9.52	48,725	9.17	39,798	8.83	30,994	7.64	25,657	7.01
Total consumer loans and commercial loans	86,247	13.60	73,968	13.92	64,940	14.41	55,780	13.75	50,106	13.70
Total gross loans	634,331	100.00%	531,290	100.00%	450,755	100.00%	405,841	100.00%	365,839	100.00%
Less:										
Allowance for loan losses	(11,022)		(9,485)		(8,142)		(7,419)		(7,040)	
Deferred fees and costs	878		959		883		887		627	
Total loans receivable, net	$624,187		$522,764		$443,496		$399,309		$359,426	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

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Loan Maturity Schedule

The following table sets forth certain information as of June 30, 2017 regarding the amount of loans maturing or re-pricing in The Bank of Greene County's portfolio. Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather than the period in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due. Lines of credit with no specified maturity date are included in the category “within one year.”

(In thousands)	Within 1 Year	1 Year Through 3 Years	3 Years Through 5 Years	5 Years Through 10 Years	Beyond 10 Years	Total
Residential real estate	$4,671	$5,586	$23,352	$58,156	$153,566	$245,331
Residential construction and land	6,645	149	61	305	-	7,160
Multi-family	655	1,319	1,854	3,586	1,785	9,199
Commercial real estate	55,679	33,783	65,829	80,255	22,418	257,964
Commercial construction	18,807	9,623	-	-	-	28,430
Consumer loans	16,721	1,912	3,837	3,356	40	25,866
Commercial loans	27,336	3,438	11,229	18,211	167	60,381
Total loan portfolio	$130,514	$55,810	$106,162	$163,869	$177,976	$634,331

The total amount of the above loans that mature or are due after June 30, 2018 that have fixed interest rates is $340.5 million while the total amount of loans that mature or are due after such date that have adjustable interest rates is $163.3 million. The interest rate risk implications of The Bank of Greene County’s substantial preponderance of fixed-rate loans is discussed in detail above within the section Management of Interest Rate Risk.

Potential Problem Loans

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 and other assets 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. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." For further discussion regarding how management determines when a loan should be classified see Part II, Item 8 Financial Statements and Supplemental Data, Note 4, Loans of this Report. At June 30, 2017, The Bank of Greene County had $5.7 million of loans classified as substandard, and $555,000 of loans designated as special mention. No loans were classified as either doubtful or loss at June 30, 2017.

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. For further discussion and detail regarding the Allowance for Loan Losses and impaired loans please refer to Part II, Item 8 Financial Statements and Supplemental Data, Note 4 Loans of this Report. 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.

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Analysis of Nonaccrual Loans, Nonperforming Assets and Restructured Loans

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

	At June 30,				
(Dollars in thousands)	2017	2016	2015	2014	2013
Nonaccrual loans:					
Residential real estate	$1,240	$1,207	$1,087	$2,473	$3,599
Multi-family	-	-	-	-	463
Commercial real estate	1,452	1,899	2,964	2,775	2,018
Commercial construction	176	-	-	-	-
Home equity	218	18	169	339	51
Consumer installment	10	-	-	-	-
Commercial	476	202	388	312	195
Total nonaccrual loans	3,572	3,326	4,608	5,899	6,326
Accruing loans delinquent 90 days or more:					
Residential real estate	69	77	84	266	559
Total accruing loans delinquent 90 days or more	69	77	84	266	559
Foreclosed real estate:					
Residential real estate	-	61	847	473	100
Residential construction & land	-	65	-	-	-
Commercial real estate	799	244	-	-	196
Total foreclosed real estate	799	370 847	847	473	296
Total nonperforming assets	$4,440	$3,773	$5,539	$6,638	$7,181
Troubled debt restructuring:					
Nonperforming (included above)	$932	$1,645	$2,002	$3,093	$1,518
Performing (accruing and excluded above)	916	934	965	1,504	1,261
Nonperforming assets to total assets	0.45 %	0.43 %	0.75 %	0.98 %	1.13 %
Nonperforming loans to net loans	0.58 %	0.65 %	1.06 %	1.54 %	1.92 %

The table below details additional information related to nonaccrual loans:

	For the years ended June 30,		
(In thousands)	2017	2016	2015
Interest income that would have been recorded if loans had been performing in accordance with original terms	$ 227	$ 247	$ 340
Interest income that was recorded on nonaccrual loans	148	142	250

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

	For the years ended June 30,		
(In thousands)	2017	2016	2015
Balance of impaired loans, with a valuation allowance	$ 2,071	$ 1,947	$ 2,399
Allowances relating to impaired loans included in allowance for loan losses	436	330	451
Balance of impaired loans, without a valuation allowance	1,181	1,295	1,792
Average balance of impaired loans for the years ended	3,335	3,363	6,139
Interest income recorded on impaired loans during the years ended	137	122	251

Nonperforming assets amounted to $4.4 million at June 30, 2017 and $3.8 million at June 30, 2016, an increase of $667,000, or 17.7%, and total impaired loans amounted to $3.3 million at June 30, 2017 compared to $3.2 million at June 30, 2016, an increase of $10,000, or 0.3%.

Loans on nonaccrual status totaled $3.6 million at June 30, 2017 of which $1.6 million were in the process of foreclosure. Included in nonaccrual loans were $1.9 million of loans which were less than 90 days past due at June 30, 2017, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were $179,000 of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with The Bank of Greene County 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 of Greene County 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. 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. This level and category of nonaccrual loans with recent delinquency history remained consistent at $1.9 million at the end of fiscal years 2017 and 2016.

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.

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Analysis of allowance for loan losses activity

	At or for the Years Ended June 30,				
(Dollars in thousands)	2017	2016	2015	2014	2013
Balance at the beginning of the period	$9,485	$8,142	$7,419	$7,040	$6,177
Charge-offs:					
Residential real estate	90	-	390	420	421
Multi-family	-	-	-	24	-
Commercial real estate	39	162	133	309	233
Home equity	-	-	121	44	-
Consumer installment	270	245	236	215	246
Commercial loans	66	20	48	205	71
Total loans charged off	465	427	928	1,217	971
Recoveries:					
Residential real estate	-	-	6	10	-
Multi-family	-	-	-	7	-
Commercial real estate	-	17	-	-	-
Consumer installment	88	78	61	75	88
Commercial loans	3	2	28	4	-
Total recoveries	91	97	95	96	88
Net charge-offs	374	330	833	1,121	883
Provisions charged to operations	1,911	1,673	1,556	1,500	1,746
Balance at the end of the period	$11,022	$9,485	$8,142	$7,419	$7,040
Net charge-offs to average loans outstanding	0.06 %	0.07 %	0.20 %	0.29 %	0.26 %
Net charge-offs to nonperforming assets	8.42	8.75	15.04	16.89	12.30
Allowance for loan losses to nonperforming loans	302.72	278.72	173.53	120.34	102.25
Allowance for loan losses to total loans receivable	1.74	1.79	1.81	1.83	1.92
Net charge-offs to average assets	0.04	0.04	0.12	0.17	0.14

Allocation of Allowance for Loan Losses

The following table sets forth the allocation of the allowance for loan losses by loan category at the dates indicated. The allowance is allocated to each loan category based on historical loss experience and economic conditions.

	At June 30,									
	2017		2016		2015		2014		2013	
(Dollars in thousands)	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans
Residential real estate	$2,289	38.7 %	$2,396	44.2 %	$2,454	50.3 %	$2,731	56.1 %	$2,627	58.1 %
	89	1.1	75	1.1	50	0.8	42	0.7	37	0.7

Residential construction and land										
Multi-family	43	1.4	22	0.7	40	0.9	59	1.0	139	1.5
Commercial real estate	5,589	40.7	4,541	36.3	3,699	31.6	2,936	28.1	2,476	25.0
Commercial construction	687	4.5	502	3.8	233	2.0	38	0.4	392	1.0
Home equity	234	3.3	309	3.9	314	4.7	361	5.1	275	5.6
Consumer installment	231	0.8	228	0.8	223	0.9	240	1.0	222	1.1
Commercial loans	1,680	9.5	1,412	9.2	1,129	8.8	811	7.6	809	7.0
Unallocated	180	-	-	-	-	-	201	-	63	-
Totals	$11,022	100.0 %	$9,485	100.0 %	$8,142	100.0 %	$7,419	100.0 %	$7,040	100.0 %

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PREMISES AND EQUIPMENT

Premises and equipment amounted to $13.6 million at June 30, 2017 and $14.2 million at June 30, 2016. Purchases totaled $76,000 during the year ended June 30, 2017. Depreciation for the year ended June 30, 2017 totaled $637,000. There were no disposals of premise and equipment during the fiscal year ended June 30, 2017.

OTHER ASSETS

Other assets, consisting primarily of accrued interest receivable, foreclosed real estate and prepaid expenses, totaled $8.6 million at June 30, 2017, compared to $5.9 million at June 30, 2016, an increase of $2.7 million. This increase was due to a $423,000 increase in accrued interest receivable, a $429,000 increase in foreclosed real estate, a $1.6 million increase in accrued income taxes receivable, and a $413,000 increase in net deferred taxes receivable. This increase was partially offset by a $158,000 decrease in prepaid expenses. The increase in accrued income taxes receivable was the result of estimated tax payments of $5.5 million made during the year ended June 30, 2017.

Real estate acquired as a result of foreclosure, or in-substance foreclosure, is classified as foreclosed real estate ("FRE") until such time as it is sold. When real estate is classified as FRE, it is recorded at its fair value, less estimated costs of disposal establishing a new cost basis. Upon transfer to FRE, if the value of the property is less than the loan, less any related specific loan loss provisions, the difference is charged against the allowance for loan losses. Any subsequent write-down of FRE is charged against earnings. FRE totaled $370,000 at June 30, 2016 and consisted of four properties, consisting of residential real estate, commercial real estate and land. Three new loans were added to FRE during the year ended June 30, 2017, five properties were sold, and one property was written down based on an updated appraisal value. This activity resulted in recognizing net losses totaling $73,000 during the period. FRE totaled $799,000 at June 30, 2017, and consisted of two properties.

DEPOSITS

Total deposits increased to $859.5 million at June 30, 2017 from $738.9 million at June 30, 2016, an increase of $120.6 million, or 16.3%. Noninterest-bearing deposits increased $7.7 million, or 8.7%, NOW deposits increased $83.0 million, or 26.8%, money market deposits increased $6.9 million, or 6.1%, savings deposits increased $20.0 million, or 11.3% and certificates of deposit increased $3.1 million, or 6.1% when comparing June 30, 2017 and 2016. These increases were the result of a $66.9 million increase in municipal deposits at Greene County Commercial Bank, a $48.7 million increase in retail and business accounts, and a $5.0 million increase in brokered certificates of deposit. The increase in deposits was the result of growth in new account relationships from our newest branch location in Kingston, as well as merger activity of competitors within our market, and tax collections by our municipal customers. Included within certificates of deposits at June 30, 2017 and 2016 were $15.0 million and $10.0 million in brokered certificates of deposit, respectively.

	At June 30,								
	2017			2016			2015		
(Dollars in thousands)	Amount	Percent		Amount	Percent		Amount	Percent	
Transaction and savings deposits:									
Noninterest-bearing deposits	$95,929	11.2	%	$88,254	11.9	%	$73,678	11.8	%
Certificates of deposit	53,742	6.3		50,666	6.9		43,121	6.9	
Savings deposits	197,288	22.9		177,309	24.0		163,927	26.3	
Money market deposits	119,806	13.9		112,905	15.3		103,405	16.7	
NOW deposits	392,770	45.7		309,753	41.9		238,586	38.3	
Total deposits	$859,535	100.0	%	$738,887	100.0	%	$622,717	100.0	%

The amount of certificates of deposit by time remaining to maturity as of June 30, 2017 is set forth in Part II, Item 8 Financial Statements and Supplemental Data, Note 6, Deposits of this Report.

BORROWINGS

Total borrowings from the Federal Home Loan Bank ("FHLB") decreased $16.8 million to $29.6 million at June 30, 2017 compared to $46.4 million at June 30, 2016. Borrowings from overnight advances decreased $19.2 million to $6.9 million at June 30, 2017 from $26.1 million at June 30, 2016. Long-term borrowings increased $2.4 million to $22.7 million at June 30, 2017 from $20.3 million at June 30, 2016. The Bank's level of long-term borrowing has been maintained to strengthen its overall interest rate risk position, to help mitigate the potential negative impact of rising interest rates. The Company's borrowing agreements are discussed further within Part II, Item 8 Financial Statements and Supplemental Data, Note 7 Borrowings of this Report.

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The table below details additional information related to short-term and long-term borrowings for the years ended June 30,

(Dollars in thousands)	2017		2016	
Short-term borrowings				
Average outstanding balance	$16,906		$7,962	
Interest expense	130		45	
Weighted average interest rate during the year	0.77	%	0.57	%
Weighted average interest rate at end of year	1.28	%	0.61	%
Long-term borrowings				
Average outstanding balance	$21,854		$19,873	
Interest expense	335		295	
Weighted average interest rate during the year	1.53	%	1.48	
Weighted average interest rate at end of year	1.60	%	1.48	

OTHER LIABILITIES

Other liabilities, consisting primarily of accrued liabilities and totaled $9.7 million at June 30, 2017, compared to $9.2 million at June 30, 2016, an increase of $492,000. This increase was due primarily to increased accrued expenses for various employee benefit plans, including short-term and long-term incentive plans, and supplemental executive retirement plan. For further information regarding these changes, see Part II, Item 8 Financial Statements and Supplemental Data, Note 9 Employee Benefits Plans and Note 10 Stock Based Compensation of this Report.

SHAREHOLDERS' EQUITY

Shareholders' equity increased to $83.5 million at June 30, 2017 from $74.3 million at June 30, 2016, as net income of $11.2 million and a $267,000 increase in accumulated other comprehensive loss for the year, were partially offset by dividends declared and paid of $1.9 million. The remaining change in equity, representing a $220,000 increase, was the result of options exercised under the Company's 2008 Stock Option Plan.

Selected Equity Data:	At June 30,			
	2017		2016	
Shareholders' equity to total assets, at end of period	8.50	%	8.55	%
Book value per share	$9.82		$8.77	
Closing market price of common stock	$27.20		$16.27	

	For the years ended June 30,			
	2017		2016	
Average shareholders' equity to average assets	8.60	%	8.88	%
Dividend payout ratio[1]	28.79	%	34.91	%
Actual dividends paid to net income[2]	17.16	%	20.69	%

[1] The 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. Dividends were paid to the MHC during the quarters ended June 30, 2017 and 2016. The MHC waived its right to receive dividends in all other periods during fiscal 2017 and 2016. 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.

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Comparison of Operating Results for the Years Ended June 30, 2017 and 2016

Average Balance Sheet

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the years ended June 30, 2017 and 2016. 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 are 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.

	Fiscal Years Ended June 30,					
	2017			2016		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-earning Assets:						
Loans receivable[1]	$ 588,107	$ 25,884	4.40 %	$ 484,999	$ 22,118	4.56 %
Securities[2]	300,270	7,413	2.47	281,308	6,559	2.33
Interest-earning bank balances and federal funds	4,843	38	0.78	9,351	48	0.51
FHLB stock	2,439	124	5.08	1,881	77	4.09
Total interest-earning assets	895,659	33,459	3.74 %	777,539	28,802	3.70 %
Cash and due from banks	8,584			7,978		
Allowance for loan losses	(10,253)			(8,643)		
Other noninterest-earning assets	19,433			18,945		
Total assets	$ 913,423			$ 795,819		
Interest-Bearing Liabilities:						
Savings and money market deposits	$ 304,482	$ 960	0.32 %	$ 281,401	$ 878	0.31 %
NOW deposits	350,502	1,332	0.38	285,420	1,054	0.37
Certificates of deposit	42,466	320	0.75	44,252	309	0.70
Borrowings	38,760	465	1.20	27,835	340	1.22
Total interest-bearing liabilities	736,210	3,077	0.42 %	638,908	2,581	0.40 %
Noninterest-bearing deposits	89,473			79,922		
Other noninterest-bearing liabilities	9,222			6,320		
Shareholders' equity	78,518			70,669		
Total liabilities and equity	$ 913,423			$ 795,819		
Net interest income		$ 30,382			$ 26,221	
Net interest rate spread			3.32 %			3.30 %
Net earnings assets	$ 159,449			$ 138,631		
Net interest margin			3.39 %			3.37 %
Average interest-earning assets to average interest-bearing liabilities	121.66 %			121.70 %		

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

2 Includes tax-free securities, mortgage-backed securities, asset-backed securities and long term certificates of deposit.

Taxable-equivalent net interest income and net interest margin

	For the year ended June 30,	
(Dollars in thousands)	2017	2016
Net interest income (GAAP)	$ 30,382	$ 26,221
Tax-equivalent adjustment(1)	2,210	1,922
Net interest income (fully taxable-equivalent)	$ 32,592	$ 28,143
Average interest-earning assets	$ 895,659	$ 777,539
Net interest margin (fully taxable-equivalent)	3.64 %	3.62 %

[1] 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. The rate used for this adjustment was approximately 34% for federal income taxes and 3.32% and 3.63% for New York State income taxes for the twelve months ended June 30, 2017 and 2016, respectively.

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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.

	Years Ended June 30,					
	2017 versus 2016			2016 versus 2015		
	Increase/(Decrease) Due To		Total Increase/	Increase/(Decrease) Due To		Total Increase/
(In thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
Interest-earning Assets:						
Loans receivable, net[1]	$4,565	$(799)	$ 3,766	$2,634	$(435)	$ 2,199
Securities[2]	452	402	854	736	130	866
Interest-earning bank balances and federal funds	(29)	19	(10)	16	14	30
FHLB stock	26	21	47	7	-	7
Total interest-earning assets	5,014	(357)	4,657	3,393	(291)	3,102
Interest-Bearing Liabilities:						
Savings and money market deposits	59	23	82	48	-	48
NOW deposits	249	29	278	189	(25)	164
Certificates of deposit	(12)	23	11	(10)	9	(1)
Borrowings	131	(6)	125	36	32	68
Total interest-bearing liabilities	427	69	496	263	16	279
Net change in net interest income	$4,587	$(426)	$ 4,161	$3,130	$(307)	$ 2,823

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1 Calculated net of deferred loan fees, loan discounts, and loans in process.
2 Includes tax-free securities, mortgage-backed securities, asset-backed securities and long term certificates of deposit.

As the above table shows, net interest income for the fiscal year ended June 30, 2017 has been affected most significantly by the increase in the volume of loans and securities which has been partially offset by a decrease in yields on loans. Net interest rate spread increased two basis points to 3.32% for the fiscal year ended June 30, 2017 as compared to 3.30% for the fiscal year ended June 30, 2016. Net interest margin increased two basis points to 3.39% for the fiscal year ended June 30, 2017 as compared to 3.37% for the fiscal year ended June 30, 2016.

INTEREST INCOME

Interest income for the year ended June 30, 2017 amounted to $33.5 million as compared to $28.8 million for the year ended June 30, 2016, an increase of $4.7 million, or 16.3%. The increase in average loan and securities balances and the increase in securities yields had the greatest impact on interest income when comparing the years ended June 30, 2017 and 2016, which were offset by a decrease in the yield on loans. Interest income is derived from loans, securities and other interest-earning assets. Total average interest-earning assets increased to $895.7 million for the year ended June 30, 2017 as compared to $777.5 million for the year ended June 30, 2016, an increase of $118.2 million, or 15.2%. The yield earned on such assets increased four basis points to 3.74% for the year ended June 30, 2017 as compared to 3.70% for the year ended June 30, 2016.

Interest income earned on loans amounted to $25.9 million for the year ended June 30, 2017 as compared to $22.1 million for the year ended June 30, 2016. Average loans outstanding increased $103.1 million, or 21.3%, to $588.1 million for the year ended June 30, 2017 as compared to $485.0 million for the year ended June 30, 2016. The yield on such loans decreased 16 basis points to 4.40% for the year ended June 30, 2017 as compared to 4.56% for the year ended June 30, 2016. At June 30, 2017, approximately 42.1% of the loan portfolio was adjustable rate, of which a large portion is tied to the Prime Rate. However, many of these loans have interest rate floors, which are intended to lessen the impact of any future interest rate reductions within this portfolio.

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Interest income earned on securities (excluding FHLB stock) increased to $7.4 million for the year ended June 30, 2017 as compared to $6.6 million for the year ended June 30, 2016. The average balance of securities increased $19.0 million to $300.3 million for the year ended June 30, 2017 as compared to $281.3 million for the year ended June 30, 2016. The average yield on such securities increased 14 basis points to 2.47% for the year ended June 30, 2017 as compared to 2.33% for the year ended June 30, 2016. No adjustments were made to tax-effect the income for the state and political subdivision securities, which often carry a lower yield because of the offset expected from income tax benefits gained from holding such securities. Adjusting for this tax effect, the tax equivalent yield on securities was 3.16% for the year ended June 30, 2017 as compared to 2.97% for the year ended June 30, 2016.

Interest income earned on federal funds and interest-earning deposits amounted to $38,000 for the year ended June 30, 2017 as compared to $48,000 for the year ended June 30, 2016. The average balance of federal funds and interest-earning deposits decreased $4.5 million during this same period. Dividends on FHLB stock increased to $124,000 for the year ended June 30, 2017 as compared to $77,000 for the year ended June 30, 2016.

INTEREST EXPENSE

Interest expense for the year ended June 30, 2017 amounted to $3.1 million as compared to $2.6 million for the year ended June 30, 2016, an increase of $496,000, or 19.2%. This increase was the result of an increase in the average balance of interest-bearing liabilities, as well as higher rates paid on average deposits. Total average interest-bearing liabilities increased to $736.2 million for the year ended June 30, 2017 as compared to $638.9 million for the year ended June 30, 2016, an increase of $97.3 million, or 15.2%. Much of this increase related to NOW accounts and borrowings. With the recent increases in short-term rates by the Federal Reserve Board, the overall rate paid on interest-bearing liabilities increased two basis points to 0.42% for the year ended June 30, 2017 compared to 0.40% for the year ended June 30, 2016.

Interest expense paid on savings and money market accounts amounted to $960,000 for the year ended June 30, 2017 as compared to $878,000 for the year ended June 30, 2016, an increase of $82,000, or 9.3%. The rate paid on savings and money market accounts increased to 0.32% for the year ended June 30, 2017 compared to 0.31% for the years ended June 30, 2016. The average balance of savings and money market accounts increased by $23.1 million to $304.5 million for the year ended June 30, 2017 as compared to $281.4 million for the year ended June 30, 2016.

Interest expense paid on NOW accounts amounted to $1.3 million and $1.1 million for the years ended June 30, 2017 and 2016, respectively. The average balance of NOW accounts increased to $350.5 million for the year ended June 30, 2017 as compared to $285.4 million for the year ended June 30, 2016, an increase of $65.1 million. The average rate paid on NOW accounts increased one basis point to 0.38% for the year ended June 30, 2017 as compared to 0.37% for the year ended June 30, 2016.

Interest expense paid on certificates of deposit amounted to $320,000 for the year ended June 30, 2017 as compared to $309,000 for the year ended June 30, 2016, a decrease of $11,000. The average rate paid on certificates of deposit increased five basis points to 0.75% for the year ended June 30, 2017 as compared to 0.70% for the year ended June 30, 2016. The average balance on certificates of deposit decreased to $42.5 million for the year ended June 30, 2017 as compared to $44.3 million for the year ended June 30, 2016. The rate paid on certificates of deposit has increased as a result of an increase in balances within the five-year maturity category. The Bank has promoted its five-year certificate of deposit product during the years ended June 30, 2017 and 2016 in order to lock in the rate on lower costing liabilities as part of its overall interest rate risk strategy.

Interest expense on borrowings amounted to $465,000 for the year ended June 30, 2017 as compared to $340,000 for the year ended June 30, 2016, as the rate paid on such borrowings decreased two basis points to 1.20% from 1.22% during the period. The average balance of borrowings increased $11.0 million to $38.8 million for the year ended June 30, 2017 as compared to $27.8 million for the year ended June 30, 2016.

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 $1.9 million and $1.7 million for the years ended June 30, 2017 and 2016, respectively. The level of provision has increased as the result of the growth in commercial real estate and commercial loans, as well as an increase in nonperforming loans and loans adversely classified. Loans designated special mention or watch and loans adversely classified as substandard increased $838,000 to $7.5 million at June 30, 2017 compared to $6.6 million at June 30, 2016. Nonperforming loans amounted to $3.6 million and $3.4 million at June 30, 2017 and 2016, respectively. At June 30, 2017, nonperforming assets were 0.45% of total assets and nonperforming loans were 0.58% of net loans. Net charge-offs amounted to $374,000 and $330,000 for the years ended June 30, 2017 and 2016, respectively, an increase of $44,000. The level of allowance for loan losses to total loans receivable decreased to 1.74% at June 30, 2017 compared to 1.79% at June 30, 2016. We have not originated “no documentation” mortgage loans and our loan portfolio does not include any mortgage loans that we classify as sub-prime.

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NONINTEREST INCOME

(Dollars in thousands)	For the Years ended June 30,		Change from Prior Year	
Noninterest income:	2017	2016	Amount	Percent
Service charges on deposit accounts	$3,164	$2,880	$ 284	9.86 %
Debit card fees	2,041	1,824	217	11.90
Investment services	329	383	(54)	(14.10)
E-commerce fees	129	97	32	32.99
Other operating income	761	781	(20)	(2.56)
Total noninterest income	$6,424	$5,965	$ 459	7.69 %

Noninterest income increased $459,000, or 7.7%, to $6.4 million for the year ended June 30, 2017 as compared to $6.0 million for the year ended June 30, 2016. This increase was 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.

NONINTEREST EXPENSE

(Dollars in thousands)	For the Years ended June 30,		Change from Prior Year	
Noninterest expense:	2017	2016	Amount	Percent
Salaries and employee benefits	$11,672	$10,490	$ 1,182	11.27 %
Occupancy expense	1,549	1,432	117	8.17
Equipment and furniture expense	485	537	(52)	(9.68)
Service and data processing fees	1,973	1,912	61	3.19
Computer software, supplies and support	608	443	165	37.25
Advertising and promotion	387	373	14	3.75
FDIC insurance premiums	380	417	(37)	(8.87)
Legal and professional fees	875	1,023	(148)	(14.47)
Other	2,038	2,244	(206)	(9.18)
Total noninterest expense	$19,967	$18,871	$ 1,096	5.81 %

Noninterest expense increased $1.1 million, or 5.8%, to $20.0 million for the year ended June 30, 2017 as compared to $18.9 million for the year ended June 30, 2016. Salaries and employee benefits expenses increased $1.2 million when comparing the years ended June 30, 2017 and 2016, respectively, primarily due to additional staffing within our lending department and customer service center. Occupancy expense increased $117,000 when comparing the years ended June 30, 2017 and 2016, respectively, and was the result of higher costs for snow removal and utilities. Service and data processing fees also increased $61,000 and computer software, supplies and support increased $165,000 when comparing the years ended June 30, 2017 and 2016, respectively, as a result of an upgrade to a new online banking platform during the second quarter of fiscal 2016. Partially offsetting these increases were decreases in legal and professional fees, lower FDIC insurance premiums resulting from a decrease in premium rates, and lower expenses related to foreclosed real estate included in other expenses.

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 25.1% for the year ended June 30, 2017, compared to 23.0% for the year ended June 30, 2016. 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. The effective tax rate has increased due to a higher proportion of taxable income compared to tax exempt income.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity resources. Greene County Bancorp, Inc.'s primary sources of funds are deposits and proceeds from principal and interest payments on loans and securities, as well as lines of credit and term borrowing facilities available through the Federal Home Loan Bank as needed. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, mortgage prepayments, and borrowings are greatly influenced by general interest rates, economic conditions and competition.

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Greene County Bancorp, Inc.'s most liquid assets are cash and cash equivalent accounts. The levels of these assets are dependent on Greene County Bancorp, Inc.'s operating, financing, lending and investing activities during any given period. At June 30, 2017, cash and cash equivalents totaled $16.3 million, or 1.7% of total assets.

Greene County Bancorp, Inc.'s primary investing activities are the origination of residential and commercial real estate mortgage loans, other consumer and commercial loans, and the purchase of securities. Loan originations exceeded repayments by $104.5 million and $81.7 million and purchases of securities totaled $115.3 million and $123.4 million for the years ended June 30, 2017 and 2016, respectively. These activities were funded primarily through deposit growth, and principal payments on loans and securities. Loan sales did not provide an additional source of liquidity during the years ended June 30, 2017 and 2016, as Greene County Bancorp, Inc. originated loans for retention in its portfolio.

Greene County Bancorp, Inc. experienced a net increase in total deposits of $120.6 million and $116.2 million for the years ended June 30, 2017 and 2016, respectively. The level of interest rates and products offered by local competitors are some factors affecting deposit flows. The Company continues to benefit from consolidation of other depository institutions within its market area and has successfully launched several marketing campaigns aimed at different segments of the market.

Greene County Bancorp, Inc. monitors its liquidity position on a daily basis. Excess short-term liquidity is usually invested in overnight federal funds. In the event Greene County Bancorp, Inc. requires funds beyond its ability to generate them internally, additional sources of funds are available through the use of FHLB advance programs made available to The Bank of Greene County. During the year ended June 30, 2017, The Bank of Greene County's maximum borrowing from FHLB reached $72.0 million and the minimum amounted to $20.3 million. The $29.6 million borrowing at June 30, 2017 consisted of $6.9 million in overnight borrowings and $22.7 million in term borrowings with maturities ranging between 2017 through 2022. The liquidity position can be significantly impacted on a daily basis by funding needs associated with Greene County Commercial Bank. These funding needs are also impacted by the collection of taxes and state aid for the municipalities using the services of Greene County Commercial Bank.

Off-balance sheet arrangements. In the normal course of business the Company is party to certain financial instruments, which in accordance with accounting principles generally accepted in the United States, are not included in its Consolidated Statements of Condition. These transactions include commitments to fund new loans and unused portions of lines of credit and are undertaken to accommodate the financing needs of the Company's customers. Loan commitments are agreements by the Company to lend monies at a future date. These loan commitments are subject to the same credit policies and reviews as the Company's loans. Because most of these loan commitments expire within one year from the date of issue, the total amount of these loan commitments as of June 30, 2017, are not necessarily indicative of future cash requirements. The Bank of Greene County's unfunded loan commitments and unused lines of credit are as follows at June 30, 2017 and 2016:

(In thousands)	2017	2016
Unfunded loan commitments	$41,082	$41,383
Unused lines of credit	51,440	30,636
Total commitments	$92,522	$72,019

Greene County Bancorp, Inc. anticipates that it will have sufficient funds available to meet current loan commitments. Certificates of deposit scheduled to mature in one year or less from June 30, 2017 totaled $34.7 million. Based upon Greene County Bancorp, Inc.'s experience and its current pricing strategy, management believes that a significant portion of such deposits will remain with Greene County Bancorp, Inc.

The Company has 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 letter of credit is issued to secure municipal transactional deposit accounts. These letters of credit are secured by residential and commercial real estate mortgage loans. The amount of funds available to the Company through the FHLB line of credit is reduced by any letters of credit outstanding. At June 30, 2017, there were no municipal letters of credit outstanding.

Capital resources. At June 30, 2017 and 2016, The Bank of Greene County and Greene County Commercial Bank exceeded all of their regulatory capital requirements, as illustrated in Part II, Item 8 Financial Statements and Supplementary Data Note 17. Regulatory Matters of this Report. Shareholders' equity represented 8.5% and 8.6% of total consolidated assets at June 30, 2017 and 2016, respectively.

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IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements of Greene County Bancorp, Inc. and notes thereto, presented elsewhere herein, have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of Greene County Bancorp, Inc.'s operations. Unlike most industrial companies, nearly all the assets and liabilities of Greene County Bancorp, Inc. are monetary. As a result, interest rates have a greater impact on Greene County Bancorp, Inc.'s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements which may impact the Company's financial statements are discussed within Part II, Item 8 Financial Statements and Supplementary Data, Note 1 Summary of significant accounting policies of this Report.

UNAUDITED QUARTERLY FINANCIAL DATA

The following table sets forth a summary of selected financial data at and for the years ended June 30, 2017 and 2016 and quarter ends within those years.

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
The year ended June 30, 2017				
Loans receivable, net	$ 548,889	$ 591,327	$ 606,651	$ 624,187
Deposits	772,595	775,065	845,189	859,535
Interest income	7,814	8,484	8,411	8,750
Interest expense	727	753	784	813
Net interest income	7,087	7,731	7,627	7,937
Provision for loan losses	543	586	343	439
Noninterest income	1,549	1,612	1,582	1,681
Noninterest expense	4,754	4,788	5,023	5,402
Income before provision for income taxes	3,339	3,969	3,843	3,777
Net income	2,507	2,926	2,897	2,857
Basic earnings per share[1]	0.30	0.34	0.34	0.34
Diluted earnings per share[1]	0.30	0.34	0.34	0.34
The year ended June 30, 2016				
Loans receivable, net	$ 460,458	$ 478,204	$ 493,131	$ 522,764
Deposits	664,308	669,189	750,309	738,887
Interest income	6,863	7,136	7,263	7,540
Interest expense	614	626	652	689
Net interest income	6,249	6,510	6,611	6,851
Provision for loan losses	374	343	421	535
Noninterest income	1,484	1,531	1,418	1,532
Noninterest expense	4,558	4,680	4,804	4,829
Income before provision for income taxes	2,801	3,018	2,804	3,019

Net income	2,150	2,320	2,161	2,332
Basic earnings per share[1]	0.25	0.27	0.26	0.28
Diluted earnings per share[1]	0.25	0.27	0.25	0.28

[1]Amounts in period during the six months ended December 31, 2015 have been restated for comparability to reflect the 2-for-1 stock split effective March 15, 2016.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

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ITEM 8. Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

The management of Greene County Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Greene County Bancorp Inc.'s internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Greene County Bancorp, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2017. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on our assessment, we believe that, as of June 30, 2017, the Company's internal control over financial reporting was effective based on those criteria.

/s/ Donald E Gibson	/s/ Michelle Plummer
Donald E. Gibson	Michelle Plummer, CPA
President and Chief Executive Officer	Executive Vice President, Chief Operating Officer and Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Greene County Bancorp, Inc.
Catskill, New York

We have audited the accompanying consolidated statements of financial condition of Greene County Bancorp, Inc. and Subsidiaries (the “Company”) as of June 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greene County Bancorp, Inc. and Subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania
September 28, 2017

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Greene County Bancorp, Inc.
Consolidated Statements of Financial Condition
As of June 30, 2017 and 2016
(In thousands, except share and per share amounts)

ASSETS	2017	2016
Total cash and cash equivalents	$16,277	$15,895
Long term certificates of deposit	2,145	2,210
Securities available-for-sale, at fair value	91,483	100,123
Securities held-to-maturity, at amortized cost (fair value $228,452 at June 30, 2017; $214,058 at June 30, 2016)	223,830	204,935
Federal Home Loan Bank stock, at cost	2,131	2,752
Loans	634,331	531,290
Allowance for loan losses	(11,022)	(9,485)
Unearned origination fees and costs, net	878	959
Net loans receivable	624,187	522,764
Premises and equipment, net	13,615	14,176
Accrued interest receivable	4,033	3,610
Foreclosed real estate	799	370
Prepaid expenses and other assets	3,791	1,946
Total assets	$982,291	$868,781
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest-bearing deposits	$95,929	$88,254
Interest-bearing deposits	763,606	650,633
Total deposits	859,535	738,887
Borrowings from Federal Home Loan Bank, short-term	6,900	26,100
Borrowings from Federal Home Loan Bank, long-term	22,650	20,300
Accrued expenses and other liabilities	9,685	9,193
Total liabilities	898,770	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 at June 30, 2017 and 2016; Outstanding – 8,502,614 shares at June 30, 2017, and 8,475,614 shares at June 30, 2016	861	861
Additional paid-in capital	10,990	10,872
Retained earnings	73,072	63,805
Accumulated other comprehensive loss	(992)	(725)
Treasury stock, at cost 108,726 shares at June 30, 2017, and 135,726 shares at June 30, 2016	(410)	(512)
Total shareholders' equity	83,521	74,301
Total liabilities and shareholders' equity	$982,291	$868,781

See notes to consolidated financial statements

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Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Years Ended June 30, 2017 and 2016
(In thousands, except share and per share amounts)

	2017	2016
Interest income:		
Loans	$25,884	$22,118
Investment securities - taxable	605	566
Mortgage-backed securities	3,420	3,080
Investment securities - tax exempt	3,512	2,990
Interest-bearing deposits and federal funds sold	38	48
Total interest income	33,459	28,802
Interest expense:		
Interest on deposits	2,612	2,241
Interest on borrowings	465	340
Total interest expense	3,077	2,581
Net interest income	30,382	26,221
Provision for loan losses	1,911	1,673
Net interest income after provision for loan losses	28,471	24,548
Noninterest income:		
Service charges on deposit accounts	3,164	2,880
Debit card fees	2,041	1,824
Investment services	329	383
E-commerce fees	129	97
Other operating income	761	781
Total noninterest income	6,424	5,965
Noninterest expense:		
Salaries and employee benefits	11,672	10,490
Occupancy expense	1,549	1,432
Equipment and furniture expense	485	537
Service and data processing fees	1,973	1,912
Computer software, supplies and support	608	443
Advertising and promotion	387	373
FDIC insurance premiums	380	417
Legal and professional fees	875	1,023
Other	2,038	2,244
Total noninterest expense	19,967	18,871
Income before provision for income taxes	14,928	11,642
Provision for income taxes	3,741	2,679
Net income	$11,187	$8,963
Basic earnings per share	$1.32	$1.06
Basic average shares outstanding	8,495,022	8,459,327
Diluted earnings per share	$1.31	$1.06

Diluted average shares outstanding	8,513,129	8,476,292
Dividends per share	$0.38	$0.37

See notes to consolidated financial statements

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Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Years ended June 30, 2017 and 2016
(In thousands)

	2017	2016
Net income	$11,187	$8,963
Other comprehensive income:		
Unrealized holding (losses) gains on available-for-sale securities, net of income tax (benefit) expense of ($392) and $328, respectively	(612)	520
Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of $1 and $6, respectively	2	9
Pension actuarial gain (loss), net of income tax expense (benefit) of $158 and ($340)	221	(539)
Amortization of pension actuarial losses recognized in salaries and benefits, net of income taxes of $75 and $52, respectively	122	83
Total other comprehensive (loss) income net of taxes	(267)	73
Comprehensive income	$10,920	$9,036

See notes to consolidated financial statements

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Greene County Bancorp, Inc.
Consolidated Statements of Changes in Shareholders’ Equity
For the Years Ended June 30, 2017 and 2016
(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		76			117	193
Tax benefit of stock based compensation		6				6
2-for-1 stock split	430	(430)				-
Dividends declared			(1,854)			(1,854)
Net income			8,963			8,963
Other comprehensive income, net of taxes				73		73
Balance at June 30, 2016	861	10,872	63,805	(725)	(512)	74,301
Options exercised		67			102	169
Tax benefit of stock based compensation		51				51
Dividends declared			(1,920)			(1,920)
Net income			11,187			11,187
Other comprehensive income, net of taxes				(267)		(267)
Balance at June 30, 2017	$ 861	$ 10,990	$ 73,072	$ (992)	$ (410)	$ 83,521

See notes to consolidated financial statements.

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Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016
(In thousands)

	2017	2016
Cash flows from operating activities:		
Net Income	$11,187	$8,963
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	637	629
Deferred income tax benefit	(259)	(714)
Net amortization of premiums and discounts	825	716
Net amortization of deferred loan costs and fees	457	393
Provision for loan losses	1,911	1,673
Loss on sale of foreclosed real estate	73	177
Excess tax benefit from stock based compensation	(51)	(6)
Net (decrease) increase in accrued income taxes	(1,559)	597
Net increase in accrued interest receivable	(422)	(584)
Net decrease in prepaid expenses and other assets	158	202
Net increase in other liabilities	1,091	1,535
Net cash provided by operating activities	14,048	13,581
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	69,041	47,939
Purchases of securities	(68,194)	(65,364)
Principal payments on securities	6,724	3,996
Securities held-to-maturity:		
Proceeds from maturities	17,308	13,376
Purchases of securities	(47,105)	(58,003)
Principal payments on securities	10,145	8,179
Net redemption (purchase) of Federal Home Loan Bank Stock	621	(258)
Purchase of long term certificate of deposit	(425)	(1,225)
Maturity of long term certificate of deposit	490	245
Net increase in loans receivable	(104,505)	(81,718)
Proceeds from sale of foreclosed real estate	212	684
Purchases of premises and equipment	(76)	(290)
Net cash used in investing activities	(115,764)	(132,439)
Cash flows from financing activities:		
Net (decrease) increase in short-term FHLB advances	(19,200)	3,200
Proceeds from long-term FHLB advances	4,850	1,500
Repayment of long-term FHLB advances	(2,500)	-
Payment of cash dividends	(1,920)	(1,854)
Proceeds from issuance of stock options	169	193
Excess tax benefit from stock based compensation	51	6
Net increase in deposits	120,648	116,170
Net cash provided by financing activities	102,098	119,215
Net increase in cash and cash equivalents	382	357

Cash and cash equivalents at beginning of year	15,895	15,538
Cash and cash equivalents at end of year	$16,277	$15,895
Non-cash investing activities:		
Foreclosed loans transferred to other real estate	$714	$384
Cash paid during period for:		
Interest	$3,059	$2,571
Income taxes	$5,559	$2,795

See notes to consolidated financial statements

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Greene County Bancorp, Inc.
Notes to Consolidated Financial Statements

Note 1. Summary of significant accounting policies

Basis of Presentation

The consolidated financial statements include the accounts of Greene County Bancorp, Inc. (the "Company") and its subsidiaries, The Bank of Greene County (the "Bank") and Greene Risk Management, Inc., and the Bank's subsidiaries Greene County Commercial Bank and Greene Property Holdings, Ltd. All material inter-company accounts and transactions have been eliminated. Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform to the current year's presentation. These reclassifications had no effect on net income or shareholders' equity as previously reported. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These consolidated financial statements consider events that occurred through the date the consolidated financial statements were issued.

Nature of Operations

Greene County Bancorp, Inc.'s primary business is the ownership and operation of its subsidiaries. The Bank of Greene County has 13 full-service offices and an operations center located in its market area consisting of the Hudson Valley of New York. 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 County Commercial Bank's primary business is to attract deposits from, and provide banking services to, local municipalities. Greene Property Holdings, Ltd. was formed as a New York corporation that has elected under the Internal Revenue Code to be a real estate investment trust. Currently, certain mortgages and loan notes held by The Bank of Greene County are transferred and beneficially owned by Greene Property Holdings, Ltd. The Bank of Greene County continues to service these loans. Greene Risk Management, Inc. was formed in December 2014 as a pooled captive insurance company subsidiary of Greene County Bancorp, Inc., incorporated in the State of Nevada. The purpose of this company is to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible.

Charter

Greene County Bancorp, Inc. and its parent mutual holding company (the "MHC") are federally chartered and regulated and examined by the Federal Reserve Board. The Bank of Greene County, the subsidiary of Greene County Bancorp, Inc., is also federally chartered and regulated and examined by the Office of the Comptroller of the Currency (the "OCC").

Greene County Commercial Bank is a New York State-chartered financial institution, regulated and examined by the New York State Banking Department. Greene Property Holdings, Ltd. is a New York corporation.

As a federal savings association, The Bank of Greene County must satisfy the qualified thrift lender, or "QTL", requirement by meeting one of two tests: the Home Owners' Loan Act ("HOLA") QTL test or the Internal Revenue Service (IRS) Domestic Building and Loan Association (DBLA) test. The federal savings association may use either test to qualify and may switch from one test to the other.

Under the HOLA QTL test, The Bank of Greene County must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

"Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. "Qualified thrift investments" also include 100% of an institution's credit card loans, education loans and small business loans. The Bank of Greene County also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code.

Under the IRS DBLA test, the Bank must meet the business operations test and the 60% of assets test. The business operations test requires that the federal savings association's business consists primarily of acquiring the savings of the public (75% of its deposits, withdrawable shares, and other obligations must be held by the general public) and investing in loans (more than 75% of its gross income consists of interest on loans and government obligations and various other specified types of operating income that federal savings associations ordinarily earn). For the 60% of assets test, the Bank must maintain at least 60% of its total in "qualified investments" as of the close of the taxable year or, at the option of the taxpayer, may be computed on the basis of the average assets outstanding during the taxable year.

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A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. During the years ended June 30, 2017 and 2016, The Bank of Greene County opted to utilize the HOLA QTL test and satisfied the requirements of this test for the entire 12-month period.

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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at other financial institutions, investments (with original maturity of three months or less), and overnight federal funds sold. The amounts of interest-bearing deposits included as cash equivalents at June 30, 2017 and 2016 were $6.1 million and $6.0 million, respectively.

Securities

Greene County Bancorp, Inc. has classified its investments in debt and equity securities as either available-for-sale or held-to-maturity. Available-for-sale securities are reported at fair value, with net unrealized gains and losses reflected in the accumulated other comprehensive income (loss) component of shareholders’ equity, net of applicable income taxes. Held-to-maturity securities are those debt securities which management has the intent the ability to hold to maturity and are reported at amortized cost. The Company does not have trading securities in its portfolio.

Realized gains or losses on security transactions are reported in earnings and computed using the specific identification cost basis. Fair values of securities are based on quoted market prices, where available. Valuation of securities is further described in Note 16, Fair Value Measurements and Fair Value of Financial Instruments. Amortization of bond premiums and accretion of bond discounts are amortized over the expected life of the securities using the interest method.

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.

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For debt securities, credit-related OTTI is recognized in earnings while noncredit related OTTI on securities not expected to be sold is recognized in other comprehensive income/loss (“OCI”). Credit-related OTTI is measured as the difference between the present value of an impaired security’s expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost less any credit-related losses recognized. For securities classified as held-to-maturity, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in earnings.

Loans

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees and costs. Interest on loans is accrued and credited to income based upon the principal amount outstanding. Unearned discount on installment loans is recognized as income over the term of the loan, principally using a method that approximates the effective yield method. Nonrefundable loan fees and related direct costs are deferred and amortized over the life of the loan as an adjustment to loan yield using the effective interest method.

Allowance for Loan Losses

The allowance for loan losses is maintained by a provision for loan losses charged to expense, reduced by net charge-offs and increased by recoveries of loans previously charged off. The level of the allowance is based on management’s evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, payment status of the loan and economic conditions. The Bank of Greene County considers smaller balance residential mortgages, home equity loans, commercial real estate, business 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 real estate mortgage and business 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 agreements. The measurement of impaired loans is generally based on the fair value of the underlying collateral, less estimated costs to sell. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. As a result, the level of impaired loans may only be a portion of nonaccrual loans. Loans that are delinquent or slow paying may not be impaired. 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.

Income Recognition on Impaired and Nonaccrual loans

The Bank of Greene County generally places a loan, including impaired loans, on nonaccrual status when it is specifically determined to be impaired or when principal and interest is delinquent for 90 days or more. Any unpaid interest previously accrued on these loans is reversed from income. When a loan is specifically determined to be impaired, collection of interest and principal are generally applied as a reduction to principal outstanding until the collection of the remaining balance is reasonably assured. Interest income on all nonaccrual loans is recognized on a cash basis.

Foreclosed Real Estate (FRE)

FRE consists of properties acquired through mortgage loan foreclosure proceedings or in full or partial satisfaction of loans. FRE is initially recorded at fair value (less estimated costs to sell) at the date the collateral is acquired establishing a new cost basis and any shortfall is charged to the allowance for loan losses at this time. Subsequently, management reviews the value of FRE and write-downs, if any, are charged to expense. All expenses and income related to FRE are included in consolidated results of operations as part of noninterest expense.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using principally the straight-line method over the estimated useful lives of the related assets (39 years for building and improvements, 3-8 years for furniture and equipment). Maintenance and repairs are typically charged to expense when incurred. Gains and losses from sales or other dispositions of premises and equipment are included in consolidated results of operations. Leasehold improvements are amortized over the lesser of the related terms of the leases or their useful life.

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Treasury Stock

Common stock repurchases are recorded at cost and then held as treasury stock. From time to time, Greene County Bancorp, Inc. may repurchase shares of common stock under an approved plan if, in its judgment, such shares are an attractive investment, in view of the current price at which the common stock is trading relative to Greene County Bancorp, Inc.'s earnings per share, book value per share and general market and economic factors. The Company has a stock repurchase program which allows for the repurchase of up to 184,692 shares. As of June 30, 2017, 124,956 shares had been repurchased under this plan. The Company currently does not intend to repurchase any additional shares under this stock repurchase program. Common stock may also be acquired in order to have shares available for issuance under the Stock Option Plans. For more information regarding these plans see Note 10, Stock-Based Compensation of this Report. No repurchases of stock were made during the year ended June 30, 2017 or 2016.

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 years ended June 30, 2017 or 2016.

Advertising

Greene County Bancorp, Inc. follows a policy of charging the costs of advertising to expense as incurred. Advertising costs included in other operating expenses were $387,000 and $373,000 for the years ended June 30, 2017 and 2016, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under lines of credit. Such financial instruments are recorded when they are funded.

Income Taxes

Provisions for income taxes are based on taxes currently payable or refundable and deferred income taxes on temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and liabilities are reported at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled.

Earnings Per Share (EPS)

Basic EPS 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. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for either the basic or diluted earnings per share calculations.

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Impact of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standard Update ("ASU) (ASU 2014-09) to amend its guidance on "Revenue from Contracts with Customers (Topic 606). The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance under GAAP when it becomes effective. In August, 2015, the FASB issued an amendment (ASU 2015-14) which defers the effective date of this new guidance by one year. More detailed implementation guidance on Topic 606 was issued in March 2016 (ASU 2016-08), April 2016 (ASU 2016-10), May 2016 (ASU 2016-12), December 2016 (ASU 2016-20) and February 2017 (ASU 2017-05), 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 adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

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 ASU will result in a gross up of the Consolidated Statements of Financial Condition for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. The Company is evaluating the significance and other effects of adoption on the consolidated financial statements and related disclosures. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations. Branch building leases have been reviewed and are considered immaterial to the financial statements; there are no equipment leases to consider.

In March 2016, the FASB issued an Update (ASU 2016-09) to its guidance on “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. This amendment is intended to simplify the accounting for stock compensation. The areas for simplification in this Update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. 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.

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

In August 2016, the FASB issued an Update (ASU 2016-15) which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. The amendment covers the following cash flows: Cash payments for debt prepayment or extinguishment costs will be classified in financing activities. Upon settlement of zero-coupon bonds and bonds with insignificant cash coupons, the portion of the payment attributable to imputed interest will be classified as an operating activity, while the portion of the payment attributable to principal will be classified as a financing activity. Cash paid by an acquirer that isn't soon after a business combination for the settlement of a contingent consideration liability will be separated between financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date will be classified in financing activities; any excess will be classified in operating activities. Cash paid soon after the business combination will be classified in investing activities. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (that is, the nature of the loss). Cash proceeds from lump-sum settlements will be classified based on the nature of each loss included in the settlement. Cash proceeds received from the settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies will be classified as cash inflows from investing activities. Cash payments for premiums on COLI and BOLI may be classified as cash outflows for investing, operating, or a combination of both. A transferor's beneficial interest obtained in a securitization of financial assets will be disclosed as a noncash activity, and cash received from beneficial interests will be classified in investing activities. Distributions received from equity method investees will be classified using either a cumulative earnings approach or a look- through approach as an accounting policy election. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the potential impact of adoption of this ASU on our consolidated results of operations or financial position.

In November 2016, the FASB issued an Update (ASU 2016-18) to its guidance on “Statement of Cash Flows (Topic 230) Restricted Cash addresses diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. The ASU requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows. ASU 2016-18 is effective for the fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption is permitted provided all amendments are adopted in the same period. Management is evaluating the effect that this guidance will have on consolidated financial statements and disclosures.

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

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

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

Note 2. Balances at other banks

The Bank of Greene County is required to maintain certain reserves of vault cash and/or deposits with the Federal Reserve Bank. The amount of this reserve requirement, included in cash and due from banks, was $2.1 million and $1.7 million at June 30, 2017 and 2016, respectively.

Note 3. Securities

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 June 30, 2017, 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.

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The Company's current securities investment strategy utilizes a risk management approach of diversified investing among three categories: short-, intermediate- and long-term. The emphasis of this approach is to increase overall investment securities yields while managing interest rate risk. The Company will only invest in high quality securities as determined by management's analysis at the time of purchase. The Company does not engage in any derivative or hedging transactions, such as interest rate swaps or caps.

Securities at June 30, 2017 consisted of the following:

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

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

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

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

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.

	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:									
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

Management evaluated these securities considering the factors as outlined in Note 1 of these consolidated financial statements, and based on this evaluation, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2017. 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 year ended June 30, 2017 or 2016. During the years ended June 30, 2017 and 2016, there were no sales of securities and no gains or losses were recognized. There were no other-than-temporary impairment losses recognized during the years ended June 30, 2017 and 2016.

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The estimated fair values of debt securities at June 30, 2017, 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	$ 60,387	$ 60,641
After one year through five years	4,829	4,979
After five years through ten years	-	-
After ten years	-	-
Total available-for-sale debt securities	65,216	65,620
Mortgage-backed and asset-backed securities	25,213	25,679
Equity securities	62	184
Total available-for-sale securities	90,491	91,483
Held-to-maturity debt securities		
Within one year	17,403	17,642
After one year through five years	56,441	57,713
After five years through ten years	38,309	39,415
After ten years	12,177	12,850
Total held-to-maturity debt securities	124,330	127,620
Mortgage-backed	99,500	100,832
Total held-to-maturity securities	223,830	228,452
Total securities	$ 314,321	$ 319,935

As of June 30, 2017 and 2016, respectively, securities with an aggregate fair value of $305.7 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 June 30, 2017 and 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 years ended June 30, 2017 or 2016.

Note 4. Loans

Loan segments and classes at June 30, 2017 and 2016 are summarized as follows:

	At June 30,	
(In thousands)	2017	2016
Residential real estate:		
Residential real estate	$245,331	$234,992
Residential construction and land	7,160	5,575
Multi-family	9,199	3,918
Commercial real estate:		
Commercial real estate	257,964	192,678
Commercial construction	28,430	20,159
Consumer loan:		
Home equity	21,076	20,893
Consumer installment	4,790	4,350
Commercial loans	60,381	48,725
Total gross loans	634,331	531,290

Allowance for loan losses	(11,022)	(9,485)
Deferred fees and costs	878	959
Loans receivable, net	$624,187	$522,764

At June 30, 2017 and 2016, loans to related parties including officers and directors were immaterial as a percentage of our loan portfolio.

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Credit Quality Indicators

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality and profitability of the Company's loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship's credit risk. Consistent with regulatory guidelines, The Bank of Greene County provides for the classification of loans considered being of lesser quality. Such ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a full loss reserve and/or charge-off is not warranted. Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." Management also maintains a listing of loans designated "Watch." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk.

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

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

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

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.

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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 June 30, 2017 are shown below.

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

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 June 30, 2017 or 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 June 30, 2017 and 2016. Loans on nonaccrual status totaled $3.6 million at June 30, 2017 of which $1.6 million were in the process of foreclosure. At June 30, 2017, there were twelve residential loans in the process of foreclosure totaling $967,000. Included in nonaccrual loans were $1.9 million of loans which were less than 90 days past due at June 30, 2017, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were $179,000 of loans which were making payments pursuant to forbearance agreements. 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.

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

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

The 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							