

GREENE COUNTY BANCORP INC  
Form 10-K  
September 28, 2015

---

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, 2015

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

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

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

---

---

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

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

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

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

As of December 31, 2014, there were issued and outstanding 4,218,857 shares of the Registrant's common stock of which 1,460,686 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of \$30.10 on December 31, 2014, the aggregate value of stock held by non-affiliates was \$43,967,000. As of September 11, 2015, there were issued and outstanding 4,224,457 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2015 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  
FORM 10-K

Index

Part I		
Item 1.	<u>Business</u>	4-21
Item 1A.	<u>Risk Factors</u>	21
Item 1B.	<u>Unresolved Staff Comments</u>	21
Item 2.	<u>Properties</u>	22
Item 3.	<u>Legal Proceedings</u>	23
Item 4.	<u>Mine Safety Disclosures</u>	23
Part II		
Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23-24
Item 6.	<u>Selected Financial Data</u>	25
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26-43
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 8.	<u>Financial Statements and Supplementary Data</u>	45-82
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	82
Item 9A.	<u>Controls and Procedures</u>	82
Item 9B.	<u>Other Information</u>	82
Part III		
Item 10.	<u>Directors, Executive Officers, and Corporate Governance</u>	82
Item 11.	<u>Executive Compensation</u>	82
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	82
Item 13.	<u>Certain Relationships and Related Transactions and Director Independence</u>	82
Item 14.	<u>Principal Accountant Fees and Services</u>	83
Part IV		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	83
	<u>Signatures</u>	84
Exhibit 21.0	Subsidiaries of Greene County Bancorp, Inc.	
Exhibit 23.1	Consent of Independent Registered Public Accounting Firm – BDO USA, LLP	

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

- Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Statement of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 101 Extensible Business Reporting Language (XBRL)
-

Index

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.

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 (54.6%) 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, 2015, Greene

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

County Bancorp, Inc.'s assets consisted primarily of its investment in The Bank of Greene County and cash. At June 30, 2015, 1,917,725 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, 83,313 shares were held as Treasury stock and 2,304,632 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, 2015, Greene County Bancorp, Inc. had consolidated assets of \$738.6 million, consolidated total deposits of \$622.7 million, consolidated borrowings from the Federal Home Loan Bank of New York (FHLB) of \$41.7 million and consolidated equity of \$66.9 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.

Index

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 one to four-family 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 Essex Corporation, The Bank of Greene County offers investment alternatives for customers, which also contributes to the Bank's revenues. 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, 2015, The Bank of Greene County, excluding its subsidiary Greene County Commercial Bank, had total assets of \$601.2 million, total deposits of \$449.4 million, borrowings from the FHLB of \$41.7 million and total equity of \$65.7 million.

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, 2015, Greene County Commercial Bank had \$222.3 million in assets, \$174.0 million in total deposits, \$27.6 million in borrowings from The Bank of Greene County, and \$20.4 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, 2015, Greene Property Holdings, Ltd. had \$311.4 million in assets, and \$311.4 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, 2015, Greene Risk Management, Inc. had \$1.7 million in assets, and \$723,000 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.

Index

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 54.6% 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 \$360,000, in cash and cash equivalents at June 30, 2015.

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 2014 the Greene County population was approximately 48,000, Columbia County was approximately 62,000 and Albany County was approximately 308,000. 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. The 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-Coeyman 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. During the fiscal year ended June 30, 2015, The Bank of Greene County expanded its market area south of Greene County into Ulster County with the opening of a branch office in Kingston, New York. As of 2014, the Ulster County population was approximately 180,000. 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.

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.

## Index

The Bank of Greene County continues to utilize conservative 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 and securities available-for-sale comprised 13.7% of total consolidated bank assets at June 30, 2015, 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 Multifamily 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 single-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, 2015, 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, 2015, less than one percent of the residential mortgage loans originated by The Bank of Greene County were originated 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.

At June 30, 2015, 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. Single-family 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 single-family 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.

Index

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 89.9% (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 amortization and a five-year balloon payment.

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.

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 which, we believe, has resulted in our 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 title and 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.

## Index

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 20 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 20 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.

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 over \$1.0 million.

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.

## Index

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). The Bank of Greene County's policy provides that loans to one borrower (or related borrowers) should not exceed 10% of The Bank of Greene County's capital and reserves.

At June 30, 2015, the largest aggregate amount loaned by The Bank of Greene County to one borrower consisted of three commercial mortgages with an outstanding balance of \$5.2 million. This loan relationship was performing in accordance with its terms at June 30, 2015.

## 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, 2015, 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.

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, 2015 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.

## Index

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 on one investment which is collateralized by home equity loans.

## 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.

Greene County Commercial Bank's purpose is to attract deposits from local municipalities. Greene County Commercial Bank had \$174.0 million in deposits at June 30, 2015.

**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"), and 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.

## Index

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 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, 2015, 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, 2015, The Bank of Greene County had 124 full-time employees and 12 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](http://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.

## 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, 2015, 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

Greene County Bancorp, Inc., The Bank of Greene County and Greene County Commercial Bank report income on a combined fiscal year basis to New York State. The New York State franchise tax on banking corporations is imposed in an amount equal to the greater of (a) 7.1% of the "entire net income" allocable to New York State, (b) 3.0% of the "alternative entire net income" allocable to New York State, (c) 0.01% of the average value of assets allocable to New York State, or (d) \$250. Entire net income is based on federal taxable income, subject to certain modifications. Alternative entire net income is equal to entire net income without certain modifications. Greene County Bancorp, MHC files a separate New York State franchise tax return. Similar to the federal rules, Greene County Bancorp, Inc., The Bank of Greene County and Greene County Commercial Bank file a combined New York State franchise tax report and inter-company dividends will be eliminated. As long as Greene County Bancorp, MHC owns more than 50.0% of the common stock of Greene County Bancorp, Inc., it is entitled to a full exclusion from taxation of dividend income related to subsidiary capital.

## Index

Effective with the tax year 2015, Greene County Bancorp, Inc.'s fiscal year ended June 30, 2016, the NYS tax rules have changed to eliminate the alternative entire net income tax, change the assets tax to a capital tax and increase the fixed dollar minimum tax. Management does not believe these changes will have a material impact on our consolidated results of operations or financial position.

## 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.

### 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.

## Index

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.

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 will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

At June 30, 2015, The Bank of Greene County's and Greene County Commercial Bank's capital exceeded all applicable minimal capital requirements.

## Index

**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, 2015, The Bank of Greene County was in compliance with the loans-to-one borrower limitations.

**Qualified Thrift Lender Test.** As a federal savings association, The Bank of Greene County must satisfy the qualified thrift lender, or “QTL”, test. Under the 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.

A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. At June 30, 2015, The Bank of Greene County satisfied this test.

**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.

## Index

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.

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).

## Index

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, 2015, 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.

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.

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, 2015, the annualized Financing Corporation assessment was equal to 0.63 basis points of total assets less tangible capital. For the fiscal year June 30, 2015, The Bank of Greene County, and its subsidiary Greene County Commercial Bank, jointly paid \$39,000 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, 2015, 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, 2015, 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;

Index

· 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 21<sup>st</sup> 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.

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.

## Index

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, requires 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.

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 \$0.80 per share to be declared by the Company for the four quarters ending December 31, 2015. 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.

Index

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, 2015, our commercial bank met the criteria for being considered “well-capitalized.”

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.

20

---

Index

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.

IndexITEM 2. Properties

The Bank of Greene County currently conducts its business through 13 full-service banking offices, and operations center and lending center. Both 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 following table sets forth The Bank of Greene County's offices as of June 30, 2015.

Location	Leased or Original Year		Date of Lease Expiration	Net Book Value (Dollars in thousands)
	Owned	Leased or Acquired		
Administration Office <sup>(1)</sup> 302 Main Street, Catskill, NY 12414	Owned	1999	---	\$ 646
Operations Center 288 Main Street, Catskill, NY 12414	Owned	2006	---	\$ 1,333
Lending Center 341 Main Street, Catskill, NY 12414	Owned	2013	---	\$ 721
Main Branch <sup>(1)</sup> Main & Church Streets, Catskill, NY 12414	Owned	1963	---	\$ 390
Coxsackie Branch 2 Technology Drive, W. Coxsackie, NY 12192	Owned	2005	---	\$ 1,652
Cairo Branch 230 Matthew Simons Road, Cairo, NY 12413	Owned	2005	---	\$ 1,721
Chatham Branch Route 66, Chatham, NY 12037	Owned	2006	---	\$ 1,622
Germantown Branch 4266 State Route 9G, Germantown, NY 12526	Owned	2010	---	\$ 554
Greenville Branch Route 32, Greenville, NY 12083	Owned	1997	---	\$ 721
Greenport Branch 160 Fairview Avenue, Hudson, NY 12534	Leased	2006	31-Dec-16	\$ 272
Hudson Branch 21 North 7 <sup>th</sup> Street, Hudson, NY 12534	Leased	2004	31-Oct-16	\$ -
Ravena Branch 2494 U.S., Route 9W, Ravena, NY 12143	Owned	2009	---	\$ 1,451
Tannersville Branch Main Street, Tannersville, NY 12485	Owned	2000	---	\$ 938

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

Westerlo Branch					
Routes 141 & 143, Westerlo, NY 12193	Leased	2001		30-Nov-20	\$ 4
Catskill Commons Branch					
100 Catskill Commons, Catskill, NY 12414	Owned	2006		---	\$ 1,807
Kingston Branch					
2 Miron Lane, Kingston, NY 12401	Leased	2014		14-Sep-18	\$ 60

(1)Includes adjacent parking lot and long term storage building.

IndexITEM 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.

PART IIITEM 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, 2015 Greene County Bancorp, Inc. had 14 registered market makers, 493 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms) and 4,224,457 shares outstanding. As of such date, Greene County Bancorp, MHC (the "MHC"), Greene County Bancorp, Inc.'s mutual holding company, held 2,304,632 shares of common stock or 54.6% of total shares outstanding. Consequently, shareholders other than the MHC held 1,919,825 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 \$0.80 per share to be declared by the Company for the four quarters ending December 31, 2015. 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.

The following table sets forth a summary of selected financial data at and for the fiscal quarter ends for the years ended June 30, 2015 and 2014. Closing market price information is stated at the quarter end dates indicated.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2015				
Market price (NASDAQ:GCBC)				
High	\$ 27.00	\$ 30.87	\$ 30.10	\$ 31.00
Low	25.25	25.32	27.50	25.20
Close	26.98	30.10	28.50	28.49
Cash Dividends	0.18	0.18	0.18	0.18

Fiscal 2014

Market price (NASDAQ:GCBC)

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

High	\$ 32.54	\$ 28.00	\$ 28.00	\$ 26.99
Low	21.00	24.30	24.97	25.50
Close	28.26	26.00	25.70	26.55
Cash Dividends	0.175	0.175	0.175	0.175

There were no sales of unregistered securities during fiscal 2015 or 2014. 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 92,346 shares. As of June 30, 2015, the Company had repurchased 62,478 shares in accordance with the stock repurchase program. There were no shares repurchased during fiscal 2015, or 2014. The Company currently does not intend to repurchase any additional shares under this stock repurchase program.

Index

As of June 30, 2015, 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, 2015 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	47,835	\$12.50	15,500

IndexITEM 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.

(Dollars in thousands, except per share amounts)	At or for the Years Ended June 30,		
	2015	2014	2013
<b>SELECTED FINANCIAL CONDITION DATA:</b>			
Total assets	\$738,647	\$674,161	\$633,605
Loans receivable, net	443,496	399,309	359,426
Securities available-for-sale	86,034	56,151	69,644
Securities held-to-maturity	169,000	181,946	176,519
Deposits	622,717	589,574	558,439
Shareholders' equity	66,920	61,200	56,108
<b>AVERAGE BALANCES:</b>			
Total assets	703,515	658,796	618,829
Interest-earning assets	685,172	641,033	599,910
Loans receivable, net	419,793	382,759	343,620
Securities	250,247	236,220	235,554
Deposits	610,170	582,185	551,285
Borrowings	24,760	15,243	9,612
Shareholders' equity	64,222	58,394	54,656
<b>SELECTED OPERATIONS DATA:</b>			
Total interest income	25,700	23,788	24,060
Total interest expense	2,302	2,387	2,817
Net interest income	23,398	21,401	21,243
Provision for loan losses	1,556	1,500	1,746
Net interest income after provision for loan losses	21,842	19,901	19,497
Total noninterest income	5,608	5,280	4,995
Total noninterest expense	17,943	16,116	15,449
Income before provision for income taxes	9,507	9,065	9,043
Provision for income taxes	2,318	2,537	2,672
Net income	7,189	6,528	6,371
<b>FINANCIAL RATIOS:</b>			
Return on average assets <sup>1</sup>	1.02	% 0.99	% 1.03
Return on average shareholders' equity <sup>2</sup>	11.19	11.18	11.66
Noninterest expenses to average total assets	2.55	2.45	2.50
Average interest-earning assets to average interest-bearing liabilities	120.78	119.25	117.80
Net interest rate spread <sup>3</sup>	3.34	3.27	3.46
Net interest margin <sup>4</sup>	3.41	3.34	3.54
Efficiency ratio <sup>5</sup>	61.86	60.40	58.88
Shareholders' equity to total assets, at end of period	9.06	9.08	8.86
Average shareholders' equity to average assets	9.13	8.86	8.83
Dividend payout ratio <sup>6</sup>	42.35	45.16	46.05
Actual dividends declared to net income <sup>7</sup>	25.01	20.45	33.40
Nonperforming assets to total assets, at end of period	0.75	0.98	1.13
Nonperforming loans to net loans, at end of period	1.06	1.54	1.92
Allowance for loan losses to nonperforming loans	173.53	120.34	102.25
Allowance for loan losses to total loans receivable	1.81	1.83	1.92

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

Book value per share <sup>8</sup>	\$15.85	\$14.52	\$13.38
Basic earnings per share	1.70	1.55	1.52
Diluted earnings per share	1.69	1.54	1.51
OTHER DATA:			
Closing market price of common stock	\$28.49	\$26.55	\$21.50
Number of full-service offices	13	12	12
Number of full-time equivalent employees	136	124	124

---

<sup>1</sup> Ratio of net income to average total assets.

<sup>2</sup> Ratio of net income to average shareholders' equity.

<sup>3</sup> The difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

<sup>4</sup> Net interest income as a percentage of average interest-earning assets.

<sup>5</sup> Noninterest expense divided by the sum of net interest income and noninterest income.

<sup>6</sup> 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.

<sup>7</sup> Dividends declared divided by net income.

<sup>8</sup> Shareholders' equity divided by outstanding shares.

Index

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 54.6% 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.

Index

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 rate 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.

Index

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, 2015. 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, 2015. 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, 2015.

The following sets forth Greene County Bancorp, Inc.’s EVE as of June 30, 2015.

## Changes in Market Interest Rates (Basis Points)

(Dollars in thousands)	Company EVE	% Change		EVE Ratio <sup>1</sup>	Change <sup>2</sup>
		\$ Change From Par	From Par		
+300 bp	\$90,931	\$(17,373)	(16.04 )	13.06 %	(125 ) bps
+200 bp	98,609	(9,695 )	(8.95 )	13.76	(55 )
+100 bp	105,047	(3,257 )	(3.01 )	14.25	(6 )
PAR	108,304	-	-	14.31	-

<sup>1</sup> Calculated as the estimated EVE divided by the present value of total assets.

<sup>2</sup> 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 decreasing 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, 2015, 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 12.89% and 17.53% respectively.

Index

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, 2015 amounted to \$7.2 million or \$1.70 per basic and \$1.69 per diluted share as compared to \$6.5 million or \$1.55 per basic and \$1.54 per diluted share for the year ended June 30, 2014, an increase of \$661,000, or 10.1%. The increase in net income was primarily the result of an increase of \$2.0 million in net interest income, an increase of \$328,000 in noninterest income, and a decrease in provision for income taxes of \$219,000 which was partially offset by a \$1.8 million increase in noninterest expense. The change in net interest income resulted from growth in interest-earning assets when comparing the years ended June 30, 2015 and 2014. Growth in interest-earning assets was largely within loans, primarily commercial real estate mortgages and commercial loans which are generally higher yielding assets. As a result, net interest rate spread increased 7 basis points to 3.34% for the year ended June 30, 2015 as compared to 3.27% for the year ended June 30, 2014. Net interest margin also increased 7 basis points to 3.41% for the year ended June 30, 2015 as compared to 3.34% for the year ended June 30, 2014. Changes in noninterest income and noninterest expense are more fully explained within the Comparison of Operating Results for the Years Ended June 30, 2015 and 2014 contained herein.

Total assets grew \$64.4 million, or 9.6%, to \$738.6 million at June 30, 2015 as compared to \$674.2 million at June 30, 2014. Net loans increased \$44.2 million, or 11.1%, to \$443.5 million at June 30, 2015 as compared to \$399.3 million at June 30, 2014. Securities classified as available-for-sale and held-to-maturity increased \$16.9 million to \$255.0 million at June 30, 2015 as compared to \$238.1 million at June 30, 2014. Deposits grew \$33.1 million, or 5.6%, to \$622.7 million at June 30, 2015 as compared to \$589.6 million at June 30, 2014. Total shareholders' equity amounted to \$66.9 million and \$61.2 million at June 30, 2015 and 2014, respectively, or 9.1% of total assets.

Comparison of Financial Condition as of June 30, 2015 and 2014

## SECURITIES

Securities available-for-sale and held-to-maturity increased \$16.9 million, or 7.1%, to \$255.0 million at June 30, 2015 as compared to \$238.1 million at June 30, 2014. Securities purchases totaled \$68.5 million during the year ended June 30, 2015 and consisted of \$62.7 million of state and political subdivision securities, and \$5.8 million of mortgage-backed securities. Principal pay-downs and maturities amounted to \$51.3 million, of which \$13.6 million were mortgage-backed securities, \$34.4 million were state and political subdivision securities, \$3.0 million were U.S. government agency securities, and \$250,000 were corporate debt securities. Greene County Bancorp, Inc. holds 47.4% of its securities portfolio at June 30, 2015 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.



Index

(Dollars in thousands)	At June 30, 2015		2014		2013	
	Carrying Amount	Percent of total	Carrying Amount	Percent of total	Carrying Amount	Percent of total
Securities available-for-sale:						
U.S. government sponsored enterprises	\$7,855	3.1 %	\$10,898	4.5 %	\$12,989	5.3 %
State and political subdivisions	39,582	15.5	1,347	0.6	1,858	0.7
Mortgage-backed securities-residential	7,942	3.1	9,545	4.0	7,533	3.1
Mortgage-backed securities-multi-family	25,735	10.1	29,018	12.2	41,919	17.0
Asset-backed securities	9	0.0	13	0.0	16	0.0
Corporate debt securities	4,774	1.9	5,170	2.2	5,176	2.1
Total debt securities	85,897	33.7	55,991	23.5	69,491	28.2
Equity securities and other	137	0.1	160	0.1	153	0.1
Total securities available-for-sale	86,034	33.8	56,151	23.6	69,644	28.3
Securities held-to-maturity:						
U.S. treasury securities	-	-	-	-	5,500	2.2
U.S. government sponsored enterprises	2,000	0.8	2,000	0.8	2,999	1.2
State and political subdivisions	81,501	31.9	91,634	38.5	82,801	33.7
Mortgage-backed securities-residential	17,468	6.8	22,785	9.6	29,077	11.8
Mortgage-backed securities-multi-family	67,239	26.4	64,605	27.1	55,086	22.4
Other securities	792	0.3	922	0.4	1,056	0.4
Total securities held-to-maturity	169,000	66.2	181,946	76.4	176,519	71.7
Total securities	\$255,034	100.0 %	\$238,097	100.0 %	\$246,163	100.0 %

Investment Maturity Schedule

The estimated fair value of debt securities at June 30, 2015 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.

(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	\$3,008	\$4,277	\$570	\$-	\$7,855
State and political subdivisions	38,451	1,131	-	-	39,582
Mortgage-backed securities-residential	-	377	608	6,957	7,942
Mortgage-backed securities-multi-family	744	2,915	22,076	-	25,735
Asset-backed securities	-	-	9	-	9
Corporate debt securities	513	4,261	-	-	4,774
Total debt securities	42,716	12,961	23,263	6,957	85,897
Equity securities and other	-	-	-	137	137
Total securities available-for-sale	42,716	12,961	23,263	7,094	86,034
Securities held-to-maturity:					
U.S. government sponsored enterprises	-	-	1,951	-	1,951
State and political subdivisions	12,514	44,962	18,140	7,835	83,451

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

Mortgage-backed securities-residential	934	5,859	7,606	3,837	18,236
Mortgage-backed securities-multi-family	1,039	5,005	61,520	-	67,564
Other securities	40	210	406	118	774
Total securities held-to-maturity	14,527	56,036	89,623	11,790	171,976
Total securities	\$57,243	\$68,997	\$112,886	\$18,884	\$258,010
Weighted Average Yield	1.59 %	2.58 %	2.36 %	3.22 %	2.31 %

30

---

Index

## LOANS

Net loans receivable increased to \$443.5 million at June 30, 2015 from \$399.3 million at June 30, 2014, an increase of \$44.2 million, or 11.1%. The loan growth experienced during the year consisted primarily of \$28.3 million in commercial real estate loans, \$8.0 million in construction loans, \$441,000 in home equity loans, \$228,000 in multi-family loans and \$8.8 million in commercial loans, and was partially offset by a \$725,000 decrease in residential mortgage loans, and an increase of \$723,000 in the allowance for loan losses. 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.

	2015		2014		At June 30, 2013		2012		2011	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans:										
Residential real estate	\$226,648	50.28 %	\$227,373	56.02 %	\$212,526	58.09 %	\$193,378	58.17 %	\$181,612	59.42 %
Residential construction and land	3,621	0.81	3,005	0.74	2,691	0.74	2,156	0.65	3,731	1.22
Multi-family	4,287	0.95	4,059	1.00	5,511	1.51	5,522	1.66	6,048	1.98
Commercial real estate	142,323	31.57	114,066	28.11	91,482	25.00	80,794	24.30	63,860	20.90
Commercial construction	8,936	1.98	1,558	0.38	3,523	0.96	2,034	0.61	2,014	0.66
Total real estate loans	385,815	85.59	350,061	86.25	315,733	86.30	283,884	85.39	257,265	84.18
Consumer loans										
Home equity	21,019	4.66	20,578	5.07	20,371	5.57	22,808	6.86	25,559	8.37
Consumer installment <sup>(1)</sup>	4,123	0.92	4,208	1.04	4,078	1.12	4,070	1.22	4,008	1.31
	25,142	5.58	24,786	6.11	24,449	6.69	26,878	8.08	29,567	9.68

Total consumer loans										
Commercial loans	39,798	8.83	30,994	7.64	25,657	7.01	21,688	6.53	18,788	6.14
Total consumer loans and commercial loans	64,940	14.41	55,780	13.75	50,106	13.70	48,566	14.61	48,355	15.82
Total gross loans	450,755	100.00%	405,841	100.00%	365,839	100.00%	332,450	100.00%	305,620	100.00%
Less: Allowance for loan losses	(8,142 )		(7,419 )		(7,040 )		(6,177 )		(5,069 )	
Deferred fees and costs	883		887		627		478		495	
Total loans receivable, net	\$443,496		\$399,309		\$359,426		\$326,751		\$301,046	

---

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

IndexLoan Maturity Schedule

The following table sets forth certain information as of June 30, 2015 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."

	Within 1 Year	1 Year Through 3 Years	3 Years Through 5 Years	5 Years Through 10 Years	Beyond 10 Years	Total
(In thousands)						
Residential real estate	\$4,006	\$4,617	\$10,888	\$48,526	\$158,611	\$226,648
Residential construction and land	3,224	-	108	289	-	3,621
Multi-family	651	639	1,892	380	725	4,287
Commercial real estate	17,431	14,914	46,473	37,305	26,200	142,323
Commercial construction	8,936	-	-	-	-	8,936
Consumer loans	15,390	1,801	3,908	3,939	104	25,142
Commercial loans	20,625	2,611	5,457	9,898	1,207	39,798
Total loan portfolio	\$70,263	\$24,582	\$68,726	\$100,337	\$186,847	\$450,755

The total amount of the above loans that mature or are due after June 30, 2016 that have fixed interest rates is \$294.2 million while the total amount of loans that mature or are due after such date that have adjustable interest rates is \$86.3 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, 2015, The Bank of Greene County had \$5.6 million of loans classified as substandard, and \$1.9 million of loans designated as special mention. No loans were classified as either doubtful or loss at June 30, 2015.

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. Loans that are either delinquent a minimum of 60 days or are on nonaccrual status, and are not individually considered impaired, are either designated as 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.

IndexAnalysis of Nonaccrual Loans, Nonperforming Assets and Restructured Loans

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

(Dollars in thousands)	At June 30,				
	2015	2014	2013	2012	2011
Nonaccrual loans:					
Residential real estate	\$1,087	\$2,473	\$3,599	\$4,206	\$3,074
Multi-family	-	-	463	431	577
Commercial real estate	2,964	2,775	2,018	1,868	2,171
Commercial construction	-	-	-	-	238
Home equity	169	339	51	60	49
Consumer installment	-	-	-	25	41
Commercial	388	312	195	303	144
Total nonaccrual loans	4,608	5,899	6,326	6,893	6,294
Accruing loans delinquent 90 days or more:					
Residential real estate	84	266	559	83	-
Home equity	-	-	-	41	-
Total accruing loans delinquent 90 days or more	84	266	559	124	-
Foreclosed real estate:					
Residential real estate	847	473	100	60	363
Commercial real estate	-	-	196	200	80
Total foreclosed real estate	847	473	296	260	443
Total nonperforming assets	\$5,539	\$6,638	\$7,181	\$7,277	\$6,737
Troubled debt restructuring:					
Nonperforming (included above)	\$2,002	\$3,093	\$1,518	\$835	\$585
Performing (accruing and excluded above)	965	1,504	1,261	569	546
Nonperforming assets to total assets	0.75 %	0.98 %	1.13 %	1.23 %	1.23 %
Nonperforming loans to net loans	1.06 %	1.54 %	1.92 %	2.15 %	2.09 %

The table below details additional information related to nonaccrual loans:

(In thousands)	For the years ended June 30,		
	2015	2014	2013
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$340	\$352	\$433
Interest income that was recorded on nonaccrual loans	250	128	158

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



Index

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

(In thousands)	For the years ended June 30,		
	2015	2014	2013
Balance of impaired loans, with a valuation allowance	\$2,399	\$6,075	\$6,051
Allowances relating to impaired loans included in allowance for loan losses	451	869	1,179
Balance of impaired loans, without a valuation allowance	1,792	763	1,635
Average balance of impaired loans for the years ended	6,139	7,495	7,969
Interest income recorded on impaired loans during the years ended	251	229	324

Nonperforming assets amounted to \$5.5 million at June 30, 2015 and \$6.6 million at June 30, 2014, a decrease of \$1.1 million, or 16.7%, and total impaired loans amounted to \$4.2 million at June 30, 2015 compared to \$6.8 million at June 30, 2014, a decrease of \$2.6 million, or 38.2%.

Loans on nonaccrual status totaled \$4.6 million at June 30, 2015 of which \$1.2 million were in the process of foreclosure. Included in nonaccrual loans were \$2.6 million of loans which were less than 90 days past due at June 30, 2015, 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 \$276,000 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 \$5.9 million at June 30, 2014 of which \$3.0 million were in the process of foreclosure. Included in nonaccrual loans were \$922,000 of loans which were less than 90 days past due at June 30, 2014, but have a recent history of delinquency greater than 90 days past due.

**ALLOWANCE FOR LOAN LOSSES**

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

that loss can be reasonably estimated. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to expense) and recoveries of loans previously charged off and is reduced by charge-offs.

IndexAnalysis of allowance for loan losses activity

(Dollars in thousands)	At or for the Years Ended June 30,				
	2015	2014	2013	2012	2011
Balance at the beginning of the period	\$7,419	\$7,040	\$6,177	\$5,069	\$4,024
Charge-offs:					
Residential real estate	390	420	421	208	140
Multi-family	-	24	-	-	200
Commercial real estate	133	309	233	212	106
Home equity	121	44	-	-	-
Consumer installment	236	215	246	280	232
Commercial loans	48	205	71	67	9
Total loans charged off	928	1,217	971	767	687
Recoveries:					
Residential real estate	6	10	-	7	-
Multi-family	-	7	-	-	-
Consumer installment	61	75	88	82	95
Commercial loans	28	4	-	2	9
Total recoveries	95	96	88	91	104
Net charge-offs	833	1,121	883	676	583
Provisions charged to operations	1,556	1,500	1,746	1,784	1,628
Balance at the end of the period	\$8,142	\$7,419	\$7,040	\$6,177	\$5,069
Net charge-offs to average loans outstanding	0.20 %	0.29 %	0.26 %	0.22 %	0.20 %
Net charge-offs to nonperforming assets	15.04	16.89	12.30	9.29	8.65
Allowance for loan losses to nonperforming loans	173.53	120.34	102.25	88.03	80.54
Allowance for loan losses to total loans receivable	1.81	1.83	1.92	1.86	1.66
Net charge-offs to average assets	0.12	0.17	0.14	0.12	0.11

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.

	2015		2014		At June 30, 2013		2012		2011	
	Amount of loss allowance	Percent of loans in each category to total loans	Amount of loss allowance	Percent of loans in each category to total loans	Amount of loss allowance	Percent of loans in each category to total loans	Amount of loss allowance	Percent of loans in each category to total loans	Amount of loss allowance	Percent of loans in each category to total loans
(Dollars in thousands)										
Residential real estate	\$2,454	50.3 %	\$2,731	56.1 %	\$2,627	58.1 %	\$2,163	58.2 %	\$1,767	59.4 %
Residential construction and	50	0.8	42	0.7	37	0.7	19	0.6	27	1.2

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

land										
Multi-family	40	0.9	59	1.0	139	1.5	337	1.7	410	2.0
Commercial real										
estate	3,699	31.6	2,936	28.1	2,476	25.0	2,076	24.3	1,859	20.9
Commercial										
construction	233	2.0	38	0.4	392	1.0	407	0.6	89	0.7
Home equity	314	4.7	361	5.1	275	5.6	187	6.9	186	8.4
Consumer										
installment	223	0.9	240	1.0	222	1.1	207	1.2	203	1.3
Commercial loans	1,129	8.8	811	7.6	809	7.0	645	6.5	528	6.1
Unallocated	-	-	201	-	63	-	136	-	-	-
Totals	\$8,142	100.0 %	\$7,419	100.0 %	\$7,040	100.0 %	\$6,177	100.0 %	\$5,069	100.0 %

35

---

Index

## PREMISES AND EQUIPMENT

Premises and equipment amounted to \$14.5 million at June 30, 2015 and \$14.3 million at June 30, 2014. Purchases totaled \$753,000 during the year ended June 30, 2015 and primarily consisted of renovations of our new lending center and the leasehold improvements associated with our new Kingston branch, which were both opened in the quarter ended March 31, 2015. Depreciation for the year ended June 30, 2015 totaled \$545,000. There were no disposals of premise and equipment during the fiscal year ended June 30, 2015. During the fiscal year ended June 30, 2014 the Company disposed of furniture and equipment that was no longer in use. The original cost of these assets totaled \$3.2 million and they were fully depreciated at the time of disposal.

## OTHER ASSETS

Other assets, consisting primarily of accrued interest receivable, foreclosed real estate and prepaid expenses, totaled \$6.3 million at June 30, 2015, compared to \$6.8 million at June 30, 2014, a decrease of \$488,000. This decrease was primarily the result of a decrease of \$2.0 million in prepaid income taxes partially offset by an increase of \$316,000 in accrued interest receivable, a \$374,000 increase in foreclosed real estate, and a \$783,000 increase in other prepaid expenses. The increase in other prepaid expenses consisted of prepaid rent, and computer licensing fees, as well as, prepaid insurance premiums related to Greene Risk Management, Inc., the Company's captive insurance subsidiary.

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 foreclosed real estate, it is recorded at its fair value, less estimated costs of disposal establishing a new cost basis. 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. During the year ended June 30, 2015, nine properties were transferred to FRE at a total fair value of \$1.4 million. Subsequent write-downs of properties held in FRE during the year ended June 30, 2015 totaled \$180,000. Also during this period, six properties were sold for a total of \$844,000, at a net gain on sale of \$44,000. At June 30, 2015, The Bank of Greene County had eight properties held in foreclosed real estate totaling \$847,000.

## DEPOSITS

Total deposits increased to \$622.7 million at June 30, 2015 from \$589.6 million at June 30, 2014, an increase of \$33.1 million, or 5.6%. The growth in deposits was primarily in checking and money market products. Noninterest-bearing deposits increased \$5.9 million, or 8.8%, NOW deposits increased \$17.9 million, or 8.1%, and money market deposits increased \$16.4 million, or 18.7%, when comparing June 30, 2015 and 2014. These increases were partially offset by a decrease in savings deposits of \$1.3 million, or 0.8%, and a continued decline in certificate of deposit balances, which decreased \$5.8 million, or 11.8%, when comparing June 30, 2015 and 2014.

The amount of certificates of deposit by time remaining to maturity as of June 30, 2015 is set forth in Part II, Item 8 Financial Statements and Supplemental Data, Note 6, Deposits of this Report.

(Dollars in thousands)	At June 30,		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
Transaction and savings deposits:						
Noninterest-bearing deposits	\$73,359	11.8 %	\$67,446	11.5 %	\$57,926	10.4 %
Certificates of deposit	43,121	6.9	48,900	8.3	56,181	10.1
Savings deposits	163,927	26.3	165,227	28.0	160,004	28.6
Money market deposits	103,724	16.7	87,363	14.8	85,685	15.3
NOW deposits	238,586	38.3	220,638	37.4	198,643	35.6

Total deposits	\$622,717	100.0 %	\$589,574	100.0 %	\$558,439	100.0 %
----------------	-----------	---------	-----------	---------	-----------	---------

**BORROWINGS**

Total borrowings from the Federal Home Loan Bank (“FHLB”) increased \$24.0 million to \$41.7 million at June 30, 2015 compared to \$17.7 million at June 30, 2014. Borrowings from overnight advances increased \$19.7 million to \$22.9 million at June 30, 2015 from \$3.2 million at June 30, 2014. Term borrowings increased \$4.3 million to \$18.8 million at June 30, 2015 from \$14.5 million at June 30, 2014. The Bank has recently increased its level of long-term borrowing 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.

Index

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

(Dollars in thousands)	2015	2014
Average outstanding balance	\$6,766	\$5,582
Interest expense	27	20
Weighted average interest rate during the year	0.41 %	0.35 %
Weighted average interest rate at end of year	0.38 %	0.42 %

## OTHER LIABILITIES

Other liabilities, consisting primarily of accrued liabilities and a net deferred tax liability, totaled \$7.3 million at June 30, 2015, compared to \$5.7 million at June 30, 2014, an increase of \$1.6 million. This increase was due primarily to increased accrued expenses for various employee benefit plans, including the defined benefit pension plan, 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. Also contributing to the increase in other liabilities was a \$423,000 increase in the liability associated with the unearned premiums and loss reserves related to Greene Risk Management, Inc., the Company's captive insurance subsidiary.

## SHAREHOLDERS' EQUITY

Shareholders' equity increased to \$66.9 million at June 30, 2015 from \$61.2 million at June 30, 2014, as net income of \$7.2 million, and a \$252,000 decrease in accumulated other comprehensive loss for the year, was partially offset by dividends declared and paid of \$1.8 million. The remaining change in equity, representing a \$77,000 increase, was the result of options exercised under the Company's 2008 Stock Option Plan.

Index

## Comparison of Operating Results for the Years Ended June 30, 2015 and 2014

## Average Balance Sheet

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the years ended June 30, 2015 and 2014. 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.

(Dollars in thousands)	Fiscal Years Ended June 30,			2014			
	2015			Average	2014		
	Average	Interest	Average	Average	Interest	Average	
	Outstanding	Earned/Paid	Yield/Rate	Outstanding	Earned/Paid	Yield/Rate	
	Balance			Balance			
Interest-earning Assets:							
Loans receivable <sup>1</sup>	\$427,506	\$ 19,919	4.66	% \$389,870	\$ 18,521	4.75	%
Securities <sup>2</sup>	250,247	5,693	2.28	236,220	5,172	2.19	
Interest-earning bank balances and federal funds	5,703	18	0.32	13,518	40	0.30	
FHLB stock	1,716	70	4.08	1,425	55	3.86	
Total interest-earning assets	685,172	25,700	3.75	% 641,033	23,788	3.71	%
Cash and due from banks	7,456			6,968			
Allowance for loan losses	(7,713 )			(7,111 )			
Other noninterest-earning assets	18,600			17,906			
Total assets	\$703,515			\$658,796			
Interest-Bearing Liabilities:							
Savings and money market deposits	\$264,121	\$ 830	0.31	% \$253,626	\$ 939	0.37	%
NOW deposits	232,576	890	0.38	217,204	945	0.44	
Certificates of deposit	45,836	310	0.68	51,503	338	0.66	
Borrowings	24,760	272	1.10	15,243	165	1.08	
Total interest-bearing liabilities	567,293	2,302	0.41	% 537,576	2,387	0.44	%
Noninterest-bearing deposits	67,637			59,852			
Other noninterest-bearing liabilities	4,363			2,974			
Shareholders' equity	64,222			58,394			
Total liabilities and equity	\$703,515			\$658,796			
Net interest income		\$ 23,398			\$ 21,401		
Net interest rate spread			3.34	%		3.27	%
Net earnings assets	\$117,879			\$103,457			
Net interest margin			3.41	%		3.34	%
Average interest-earning assets to average interest-bearing liabilities	120.78	%		119.25	%		

<sup>1</sup>Calculated net of deferred loan fees and costs, loan discounts, and loans in process.

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



Index

## Rate / Volume Analysis

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

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

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

(In thousands)	Years Ended June 30,					
	2015 versus 2014			2014 versus 2013		
	Increase/(Decrease) Due To		Total Increase/ (Decrease)	Increase/(Decrease) Due To		Total Increase/ (Decrease)
Interest-earning Assets:						
Loans receivable, net <sup>1</sup>	\$1,755	\$(357)	\$ 1,398	\$1,963	\$(1,611)	\$ 352
Securities <sup>2</sup>	308	213	521	16	(637 )	(621 )
Interest-earning bank balances and federal funds	(25 )	3	(22 )	2	(4 )	(2 )
FHLB stock	12	3	15	9	(10 )	(1 )
Total interest-earning assets	2,050	(138)	1,912	1,990	(2,262)	(272 )
Interest-Bearing Liabilities:						
Savings and money market deposits	40	(149)	(109 )	80	(273 )	(193 )
NOW deposits	70	(125)	(55 )	80	(132 )	(52 )
Certificates of deposit	(38 )	10	(28 )	(91 )	(60 )	(151 )
Borrowings	104	3	107	86	(120 )	(34 )
Total interest-bearing liabilities	176	(261)	(85 )	155	(585 )	(430 )
Net change in net interest income	\$1,874	\$123	\$ 1,997	\$1,835	\$(1,677)	\$ 158

<sup>1</sup> Calculated net of deferred loan fees, loan discounts, and loans in process.

<sup>2</sup> 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, 2015 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 and was complemented by the decrease in rates paid on interest-bearing liabilities. Net interest rate spread increased 7 basis points to 3.34% for the fiscal year ended June 30, 2015 as compared to 3.27% for the fiscal year ended June 30, 2014. Net interest margin increased 7 basis points to 3.41% for the fiscal year ended June 30, 2015 as compared to 3.34% for the fiscal year ended June 30, 2014.

Index

## INTEREST INCOME

Interest income for the year ended June 30, 2015 amounted to \$25.7 million as compared to \$23.8 million for the year ended June 30, 2014, an increase of \$1.9 million, or 8.0%. 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, 2015 and 2014, which was 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 \$685.2 million for the year ended June 30, 2015 as compared to \$641.0 million for the year ended June 30, 2014, an increase of \$44.2 million, or 6.9%. The yield earned on such assets increased 4 basis points to 3.75% for the year ended June 30, 2015 as compared to 3.71% for the year ended June 30, 2014.

Interest income earned on loans amounted to \$19.9 million for the year ended June 30, 2015 as compared to \$18.5 million for the year ended June 30, 2014. Average loans outstanding increased \$37.6 million, or 9.6%, to \$427.5 million for the year ended June 30, 2015 as compared to \$389.9 million for the year ended June 30, 2014. The yield on such loans decreased 9 basis points to 4.66% for the year ended June 30, 2015 as compared to 4.75% for the year ended June 30, 2014. At June 30, 2015, approximately 31.1% 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.

Interest income earned on securities (excluding FHLB stock) increased to \$5.7 million for the year ended June 30, 2015 as compared to \$5.2 million for the year ended June 30, 2014. The average balance of securities increased \$14.0 million to \$250.2 million for the year ended June 30, 2015 as compared to \$236.2 million for the year ended June 30, 2014. The average yield on such securities increased 9 basis points to 2.28% for the year ended June 30, 2015 as compared to 2.19% for the year ended June 30, 2014. 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.

Interest income earned on federal funds and interest-earning deposits amounted to \$18,000 for the year ended June 30, 2015 as compared to \$40,000 for the year ended June 30, 2014. The average balance of federal funds and interest-earning deposits decreased \$7.8 million during this same period. Dividends on FHLB stock increased to \$70,000 for the year ended June 30, 2015 as compared to \$55,000 for the year ended June 30, 2014.

## INTEREST EXPENSE

Interest expense for the year ended June 30, 2015 amounted to \$2.3 million as compared to \$2.4 million for the year ended June 30, 2014, a decrease of \$85,000, or 3.6%. This decrease was the result of a decrease in the average rate paid on deposits, which was complemented by a shift in the mix of interest-bearing liabilities out of higher costing certificates of deposits to lower costing checking and savings deposits. Interest expense includes interest on deposits and borrowings. The rate paid on such liabilities decreased 3 basis points to 0.41% for the year ended June 30, 2015 as compared to 0.44% for the year ended June 30, 2014. Total average interest-bearing liabilities increased to \$567.3 million for the year ended June 30, 2015 as compared to \$537.6 million for the year ended June 30, 2014, an increase of \$29.7 million, or 5.5%.

Interest expense paid on savings and money market accounts amounted to \$830,000 for the year ended June 30, 2015 as compared to \$939,000 for the year ended June 30, 2014, a decrease of \$109,000, or 11.6%. The rate paid on savings and money market accounts decreased 6 basis points to 0.31% for the year ended June 30, 2015 as compared to 0.37% for the year ended June 30, 2014. The average balance of savings and money market accounts increased by \$10.5 million to \$264.1 million for the year ended June 30, 2015 as compared to \$253.6 million for the year ended June 30, 2014.

Interest expense paid on NOW accounts amounted to \$890,000 and \$945,000 for the years ended June 30, 2015 and 2014, respectively. The average balance of NOW accounts increased to \$232.6 million for the year ended June 30, 2015 as compared to \$217.2 million for the year ended June 30, 2014, an increase of \$15.4 million. The average rate paid on NOW accounts decreased 6 basis points to 0.38% for the year ended June 30, 2015 as compared to 0.44% for the year ended June 30, 2014.

Interest expense paid on certificates of deposit amounted to \$310,000 for the year ended June 30, 2015 as compared to \$338,000 for the year ended June 30, 2014, a decrease of \$28,000. The average rate paid on certificates of deposit increased 2 basis points to 0.68% for the year ended June 30, 2015 as compared to 0.66% for the year ended June 30, 2014. The average balance on certificates of deposit decreased to \$45.8 million for the year ended June 30, 2015 as compared to \$51.5 million for the year ended June 30, 2014. 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 year ended June 30, 2015 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 \$272,000 for the year ended June 30, 2015 as compared to \$165,000 for the year ended June 30, 2014, as the rate paid on such borrowings increased 2 basis points to 1.10% from 1.08% for these same periods. The average balance of borrowings increased \$9.6 million to \$24.8 million for the year ended June 30, 2015 as compared to \$15.2 million for the year ended June 30, 2014.

Index

## 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 \$1.6 million and \$1.5 million for the years ended June 30, 2015 and 2014, respectively. The level of provision has remained flat as the result of the growth in commercial real estate and commercial loans, which has been offset by a continued decline in delinquencies and loans adversely classified. Delinquencies decreased \$3.7 million to \$4.3 million at June 30, 2015 compared to \$8.0 million at June 30, 2014. Loans designated special mention or watch and loans adversely classified as substandard decreased \$1.9 million to \$8.2 million at June 30, 2015 compared to \$10.1 million at June 30, 2014. The level of allowance for loan losses to total loans receivable decreased to 1.81% at June 30, 2015 compared to 1.83% at June 30, 2014. Net charge-offs amounted to \$833,000 and \$1.1 million for the years ended June 30, 2015 and 2014, respectively, a decrease of \$288,000. Nonperforming loans amounted to \$4.7 million at June 30, 2015 and \$6.2 million at June 30, 2014. At June 30, 2015, nonperforming assets were 0.75% of total assets and nonperforming loans were 1.06% of net loans. We have not originated “no documentation” mortgage loans and our loan portfolio does not include any mortgage loans that we classify as sub-prime.

## NONINTEREST INCOME

(Dollars in thousands)	For the Years		Change from	
	ended June 30,		Prior Year	
Noninterest income:	2015	2014	Amount	Percent
Service charges on deposit accounts	\$2,779	\$2,558	\$221	8.64 %
Debit card fees	1,694	1,565	129	8.24
Investment services	403	424	(21)	(4.95)
E-commerce fees	101	96	5	5.21
Other operating income	631	637	(6)	(0.94)
Total noninterest income	\$5,608	\$5,280	\$328	6.21 %

Noninterest income amounted to \$5.6 million and \$5.3 million for the year ended June 30, 2015 and 2014, respectively, an increase of \$328,000. The increase was primarily the result of higher fees earned on debit cards and service charges on deposit accounts. The Company has continued to increase the number of checking accounts, which has resulted in the issuance of more debit cards to customers, and consequently a higher number of debit card transactions processed.

## NONINTEREST EXPENSE

(Dollars in thousands)	For the Years		Change from	
	ended June 30,		Prior Year	
Noninterest expense:	2015	2014	Amount	Percent
Salaries and employee benefits	\$9,855	\$9,281	\$574	6.18 %
Occupancy expense	1,548	1,322	226	17.10
Equipment and furniture expense	524	436	88	20.18
Service and data processing fees	1,714	1,452	262	18.04
Computer software, supplies and support	522	400	122	30.50
Advertising and promotion	294	278	16	5.76
FDIC insurance premiums	404	371	33	8.89
Legal and professional fees	1,037	822	215	26.16
Other	2,045	1,754	291	16.59
Total noninterest expense	\$17,943	\$16,116	\$1,827	11.34 %

Noninterest expense increased \$1.8 million, or 11.3%, to \$17.9 million for the year ended June 30, 2015 as compared to \$16.1 million for the year ended June 30, 2014. As can be seen in the chart above, all expense categories increased when comparing these periods. The increase in salaries and employees benefits was in part due to normal increases in salaries as well as an increase in the number of employees resulting from the opening of a new branch location, as well as an increase in expenses related to various benefit plans when comparing the years ended June 30, 2015 and 2014. The increase in occupancy expense and equipment and furniture expense is also the result of the opening of a new branch location as well as the relocation of lending operations to a new building. The increase in service and data processing fees were the result of higher debit card processing fees. During the year ended June 30, 2014, the Company had paid reduced fees as a result of renegotiation of the contract between the Company and its vendor. These incentives have since expired, resulting in the higher fees paid during the year ended June 30, 2015. The increase in computer software, supplies and support was the result of a fee paid to one of the Company's vendors related to the renegotiation of the contract for support services. The increase in legal and professional fees was the result of implementation costs associated with the formation of the Company's pooled captive insurance subsidiary, which was established in December 2014. This newly formed company, Greene Risk Management, Inc., was formed as a subsidiary of Greene County Bancorp, Inc. 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. Included in other expenses were write-downs on foreclosed real estate in the amount of \$181,000 for the year ended June 30, 2015. These write-downs were the result of either obtaining updated appraisals on the properties or the acceptance of an offer to purchase the property at a value lower than the recorded fair value. These write-downs were partially offset by net gains realized on the sale of foreclosed real estate of \$44,000.

Index

## INCOME TAXES

The provision for income taxes directly reflects the expected tax associated with the pre-tax income generated for the given year and certain regulatory requirements. The effective tax rate was 24.4% for the year ended June 30, 2015, compared to 28.0% for the year ended June 30, 2014. The effective tax rate has continued to decline as a result of income derived from tax exempt bonds and loans as well as continued loan growth within the Company's real estate investment trust subsidiary. Also contributing to the lower effective income tax rate is the tax benefits derived from the Company's pooled captive insurance company, as premium income received by the pooled captive insurance company is exempt from income taxes. The premiums paid to the pooled captive insurance company by the Company and its banking subsidiaries are tax deductible.

## LIQUIDITY AND CAPITAL 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.

Greene County Bancorp, Inc.'s primary investing activities are the origination of residential one- to four-family and commercial real estate mortgage loans, other consumer and commercial loans, and the purchase of securities. Loan originations exceeded repayments by \$47.5 million and \$42.4 million and purchases of securities totaled \$68.5 million and \$39.0 million for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, as Greene County Bancorp, Inc. originated loans for retention in its portfolio.

Greene County Bancorp, Inc. experienced a net increase in total deposits of \$33.1 million and \$31.2 million for the years ended June 30, 2015 and 2014, 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, 2015, The Bank of Greene County's maximum borrowing from FHLB reached \$61.0 million and the minimum amounted to \$14.5 million. The \$41.7 million borrowing at June 30, 2015 consisted of \$22.9 million in overnight borrowings, \$18.8 million in term borrowings with maturities ranging between 2016 through 2021. 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.

The Bank of Greene County's unfunded loan commitments are as follows at June 30, 2015 and 2014:

(In thousands)	2015	2014
Residential real estate loan commitments	\$5,087	\$2,380
Construction and land loan commitments	5,622	3,138
Commercial real estate loan commitments	15,855	8,757

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

Home equity available lines of credit	8,295	8,159
Consumer overdraft available lines of credit	698	706
Commercial loan available lines of credit	21,264	14,419
Commercial loan commitments	885	226
Total commitments	\$57,706	\$37,785

42

---

Index

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, 2015 totaled \$21.4 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.

At June 30, 2015 and 2014, 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 9.1% of total consolidated assets at June 30, 2015 and 2014, respectively.

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, 2015, cash and cash equivalents totaled \$15.5 million, or 2.1% of total assets.

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.

Index

## UNAUDITED QUARTERLY FINANCIAL DATA

The following table sets forth a summary of selected financial data at and for the years ended June 30, 2015 and 2014 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, 2015				
Loans receivable, net	\$406,694	\$422,716	\$435,310	\$443,496
Deposits	611,308	583,181	644,841	622,717
Interest income	6,241	6,407	6,467	6,585
Interest expense	562	563	579	598
Net interest income	5,679	5,844	5,888	5,987
Provision for loan losses	411	305	416	424
Noninterest income	1,469	1,440	1,251	1,448
Noninterest expense	4,277	4,496	4,454	4,716
Income before provision for income taxes	2,460	2,483	2,269	2,295
Net income	1,775	1,811	1,784	1,819
Basic earnings per share	0.42	0.43	0.42	0.43
Diluted earnings per share	0.42	0.43	0.42	0.43
The year ended June 30, 2014				
Loans receivable, net	\$374,138	\$387,083	\$392,480	\$399,309
Deposits	580,482	549,435	621,238	589,574
Interest income	5,826	5,951	5,954	6,057
Interest expense	578	582	600	627
Net interest income	5,248	5,369	5,354	5,430
Provision for loan losses	313	508	288	391
Noninterest income	1,350	1,316	1,248	1,366
Noninterest expense	3,812	3,751	4,275	4,278
Income before provision for income taxes	2,473	2,426	2,039	2,127
Net income	1,754	1,725	1,496	1,553
Basic earnings per share	0.42	0.41	0.35	0.37
Diluted earnings per share	0.41	0.41	0.35	0.37

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Index

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, 2015. 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, 2015, the Company's internal control over financial reporting was effective based on those criteria.

/s/ Donald E Gibson

Donald E. Gibson

President and Chief Executive Officer

/s/ Michelle

Plummer

Michelle

Plummer,

CPA

Executive

Vice

President,

Chief

Operating

Officer and

Chief

Financial

Officer

Index

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, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for 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, 2015 and 2014, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Harrisburg, Pennsylvania  
September 28, 2015

Index

Greene County Bancorp, Inc.  
 Consolidated Statements of Financial Condition  
 As of June 30, 2015 and 2014  
 (In thousands, except share and per share amounts)

	June 30, 2015	June 30, 2014
<b>ASSETS</b>		
Total cash and cash equivalents	\$15,538	\$13,809
Long term certificate of deposit	1,230	250
Securities available-for-sale, at fair value	86,034	56,151
Securities held-to-maturity, at amortized cost (fair value \$171,976 at June 30, 2015; \$181,932 at June 30, 2014)	169,000	181,946
Federal Home Loan Bank stock, at cost	2,494	1,561
Loans	450,755	405,841
Allowance for loan losses	(8,142 )	(7,419 )
Unearned origination fees and costs, net	883	887
Net loans receivable	443,496	399,309
Premises and equipment	14,515	14,307
Accrued interest receivable	3,026	2,710
Foreclosed real estate	847	473
Prepaid expenses and other assets	2,467	3,645
Total assets	\$738,647	\$674,161
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Noninterest-bearing deposits	\$73,359	\$67,446
Interest-bearing deposits	549,358	522,128
Total deposits	622,717	589,574
Borrowings from Federal Home Loan Bank, short-term	22,900	3,150
Borrowings from Federal Home Loan Bank, long-term	18,800	14,500
Accrued expenses and other liabilities	7,310	5,737
Total liabilities	671,727	612,961
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, Authorized - 1,000,000 shares; Issued - None	-	-
Common stock, par value \$.10 per share; Authorized - 12,000,000 shares; Issued - 4,305,670 shares		
Outstanding 4,222,357 shares at June 30, 2015, and 4,213,757 shares at June 30, 2014	431	431
Additional paid-in capital	11,220	11,208
Retained earnings	56,696	51,305
Accumulated other comprehensive loss	(798 )	(1,050 )
Treasury stock, at cost 83,313 shares at June 30, 2015, and 91,913 shares at June 30, 2014	(629 )	(694 )
Total shareholders' equity	66,920	61,200
Total liabilities and shareholders' equity	\$738,647	\$674,161

See notes to consolidated financial statements



Index

Greene County Bancorp, Inc.  
 Consolidated Statements of Income  
 For the Years Ended June 30, 2015 and 2014  
 (In thousands, except share and per share amounts)

	2015	2014
Interest income:		
Loans	\$19,919	\$18,521
Investment securities - taxable	548	646
Mortgage-backed securities	2,865	2,544
Investment securities - tax exempt	2,350	2,037
Interest-bearing deposits and federal funds sold	18	40
Total interest income	25,700	23,788
Interest expense:		
Interest on deposits	2,030	2,222
Interest on borrowings	272	165
Total interest expense	2,302	2,387
Net interest income	23,398	21,401
Provision for loan losses	1,556	1,500
Net interest income after provision for loan losses	21,842	19,901
Noninterest income:		
Service charges on deposit accounts	2,779	2,558
Debit card fees	1,694	1,565
Investment services	403	424
E-commerce fees	101	96
Other operating income	631	637
Total noninterest income	5,608	5,280
Noninterest expense:		
Salaries and employee benefits	9,855	9,281
Occupancy expense	1,548	1,322
Equipment and furniture expense	524	436
Service and data processing fees	1,714	1,452
Computer software, supplies and support	522	400
Advertising and promotion	294	278
FDIC insurance premiums	404	371
Legal and professional fees	1,037	822
Other	2,045	1,754
Total noninterest expense	17,943	16,116
Income before provision for income taxes	9,507	9,065
Provision for income taxes	2,318	2,537
Net income	\$7,189	\$6,528
Basic earnings per share	\$1.70	\$1.55
Basic average shares outstanding	4,218,671	4,205,945
Diluted earnings per share	\$1.69	\$1.54

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

Diluted average shares outstanding	4,248,687	4,241,256
Dividends per share	\$0.720	\$0.70

See notes to consolidated financial statements

48

---

Index

Greene County Bancorp, Inc.  
 Consolidated Statements of Comprehensive Income  
 For the Years ended June 30, 2015 and 2014  
 (In thousands)

	2015	2014
Net income	\$7,189	\$6,528
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale securities, net of income taxes of \$182 and (\$327), respectively	288	(518 )
Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of \$139 and \$175, respectively <sup>(1)</sup>	220	277
Pension actuarial loss, net of income taxes of (\$162) and (\$37) <sup>(2)</sup>	(256 )	(59 )
Total other comprehensive income (loss), net of taxes	252	(300 )
Comprehensive income	\$7,441	\$6,228

---

The accretion of the unrealized holding losses in accumulated other comprehensive income (loss) at the date of  
 (1) transfer partially offsets the amortization of the difference between the par value and fair value of the investment securities at the date of transfer, and is an adjustment of interest income.

These accumulated other comprehensive income components are included in the computation of net periodic benefit  
 (2) cost and are included in salaries and employee benefit expense within noninterest expense (see Note 9 for additional details).

See notes to consolidated financial statements

Index

Greene County Bancorp, Inc.  
 Consolidated Statements of Changes in Shareholders' Equity  
 For the Years Ended June 30, 2015 and 2014  
 (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2013	\$ 431	\$ 11,168	\$ 46,112	\$ (750 )	\$ (853 )	\$ 56,108
Options exercised		13			159	172
Tax benefit of stock based compensation		27				27
Dividends declared <sup>1</sup>			(1,335 )			(1,335 )
Net income			6,528			6,528
Other comprehensive loss, net of taxes				(300 )		(300 )
Balance at June 30, 2014	\$ 431	\$ 11,208	\$ 51,305	\$ (1,050 )	\$ (694 )	\$ 61,200
Options exercised		(4 )			65	61
Tax benefit of stock based compensation		16				16
Dividends declared <sup>1</sup>			(1,798 )			(1,798 )
Net income			7,189			7,189
Other comprehensive income, net of taxes				252		252
Balance at June 30, 2015	\$ 431	\$ 11,220	\$ 56,696	\$ (798 )	\$ (629 )	\$ 66,920

Dividends declared were \$0.72 per share and \$0.70 per share for the years ended June 30, 2015 and 2014. This is based on total number of shares outstanding. Greene County Bancorp, MHC, the owner of 54.6% of the Company's shares outstanding, waived its right to receive dividends each quarter during the fiscal years ended June 30, 2015 and 2014 with the exception of the quarter ended March 31, 2015. Dividends were paid to the MHC during the quarter ended March 31, 2015 to provide liquidity based on the MHC's cash flow requirements. 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.

See notes to consolidated financial statements.

Index

Greene County Bancorp, Inc.  
 Consolidated Statements of Cash Flows  
 For the Years Ended June 30, 2015 and 2014  
 (In thousands)

	2015	2014
Cash flows from operating activities:		
Net Income	\$7,189	\$6,528
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	545	617
Deferred income tax expense	488	18
Net amortization of premiums and discounts	1,145	1,815
Net amortization of deferred loan costs and fees	369	340
Provision for loan losses	1,556	1,500
Loss on sale of foreclosed real estate	136	57
Excess tax benefit from stock based compensation	(16 )	(27 )
Net increase (decrease) in accrued income taxes	1,703	(682 )
Net increase in accrued interest receivable	(316 )	(47 )
Net increase in prepaid expenses and other assets	(819 )	(88 )
Net increase in other liabilities	818	1,354
Net cash provided by operating activities	12,798	11,385
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	6,672	2,515
Purchases of securities	(41,682)	(7,341 )
Principal payments on securities	5,241	5,862
Securities held-to-maturity:		
Proceeds from maturities	30,993	29,069
Purchases of securities	(26,840)	(31,610)
Principal payments on securities	8,363	7,363
Net purchase of Federal Home Loan Bank Stock	(933 )	(173 )
Purchase of long term certificate of deposit	(980 )	-
Net increase in loans receivable	(47,466)	(42,388)
Proceeds from sale of foreclosed real estate	844	431
Purchases of premises and equipment	(753 )	(575 )
Net cash used in investing activities	(66,541)	(36,847)
Cash flows from financing activities:		
Net decrease in short-term FHLB advances	19,750	(7,450 )
Proceeds from long-term FHLB advances	4,300	10,500
Payment of cash dividends	(1,798 )	(1,335 )
Proceeds from issuance of stock options	61	172
Excess tax benefit from stock based compensation	16	27
Net increase in deposits	33,143	31,135
Net cash provided by financing activities	55,472	33,049
Net increase in cash and cash equivalents	1,729	7,587
Cash and cash equivalents at beginning of year	13,809	6,222
Cash and cash equivalents at end of year	\$15,538	\$13,809

Non-cash investing activities:

Foreclosed loans transferred to other real estate	\$1,354	\$665
Securities transferred from available-for-sale to held-to-maturity	-	11,735
Cash paid during period for:		
Interest	\$2,304	\$2,376
Income taxes	\$127	\$3,201

See notes to consolidated financial statements

Index

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 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 federally chartered savings bank, The Bank of Greene County must maintain at least 65% of its “portfolio assets” (total assets minus goodwill and other intangible assets, office property and specified liquid investments up to 20% of total assets) in certain “qualified thrift investments” (primarily loans to purchase, refinance, construct, improve or repair domestic residential housing, home equity loans, securities backed by or representing an interest in mortgages on domestic residential housing, and Federal Home Loan Bank stock) in at least 9 months out of every 12 month period. A savings institution that fails the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a bank charter. At June 30, 2015 and 2014 and for the years then ended, The Bank of Greene

County satisfied the requirement of the qualified thrift lender test.

#### 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.

## Index

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, 2015 and 2014 were \$7.0 million and \$4.8 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 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 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. 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.

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.

## Index

### 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. Loans that are either delinquent a minimum of 60 days or are on nonaccrual status, and are not individually considered impaired, are either designated as 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.

### 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 92,346 shares. As of June 30, 2015, 62,478 shares had been repurchased under this plan. There were no shares repurchased during fiscal 2015 or 2014. 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. See Note 10 to the consolidated financial statements, Stock-Based Compensation, for more information regarding these plans. No repurchases of stock were made during the year ended June 30, 2015 or 2014.

#### 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, 2015 or 2014.

## Index

### 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 \$294,000 and \$278,000 for the years ended June 30, 2015 and 2014, 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.

### Impact of Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued an amendment (ASU 2014-04) to its guidance on “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure”. This Update has been issued to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. 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, 2014. Early adoption is permitted. The adoption of these amendments is not expected to have an effect on our consolidated results of operations or financial position.

In May 2014, the FASB issued an amendment (ASU 2014-09) to 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. The amendments in this ASU are effective for public business entities for annual periods, beginning after December 15, 2016. The Company has not yet determined the effect of the standard on its ongoing financial reporting.

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.

Index

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 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In May 2015, the FASB issued an Update (ASU 2015-09) to its guidance on “Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts”. The objective of the ASU is to improve the transparency of significant estimates made in measuring liabilities related to short-duration insurance contracts, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. The Company has not yet determined the effect of the standard on its ongoing financial reporting.

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 \$1.3 million and \$1.2 million at June 30, 2015 and 2014, 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, 2015, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were held in the securities portfolio. The Company’s investments in state and political subdivisions securities generally are municipal obligations that are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are supported by state aid. Primarily, these investments are issued by municipalities within New York State.

The 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.

Index

Securities at June 30, 2015 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	\$ 7,608	\$ 247	\$ -	\$ 7,855
State and political subdivisions	39,574	9	1	39,582
Mortgage-backed securities-residential	7,797	155	10	7,942
Mortgage-backed securities-multi-family	25,291	486	42	25,735
Asset-backed securities	10	-	1	9
Corporate debt securities	4,544	242	12	4,774
Total debt securities	84,824	1,139	66	85,897
Equity securities and other	62	75	-	137
Total securities available-for-sale	84,886	1,214	66	86,034
Securities held-to-maturity:				
U.S. government sponsored enterprises	2,000	-	49	1,951
State and political subdivisions	81,501	2,137	187	83,451
Mortgage-backed securities-residential	17,468	768	-	18,236
Mortgage-backed securities-multi-family	67,239	990	665	67,564
Other securities	792	-	18	774
Total securities held-to-maturity	169,000	3,895	919	171,976
Total securities	\$ 253,886	\$ 5,109	\$ 985	\$ 258,010

Securities at June 30, 2014 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	\$ 10,648	\$ 250	\$ -	\$ 10,898
State and political subdivisions	1,324	23	-	1,347
Mortgage-backed securities-residential	9,345	213	13	9,545
Mortgage-backed securities-multi-family	29,268	89	339	29,018
Asset-backed securities	15	-	2	13
Corporate debt securities	4,811	375	16	5,170
Total debt securities	55,411	950	370	55,991
Equity securities and other	62	98	-	160
Total securities available-for-sale	55,473	1,048	370	56,151
Securities held-to-maturity:				
U.S. government sponsored enterprises	2,000	-	102	1,898
State and political subdivisions	91,634	787	204	92,217
Mortgage-backed securities-residential	22,785	1,150	-	23,935
Mortgage-backed securities-multi-family	64,605	759	2,381	62,983
Other securities	922	1	24	899
Total securities held-to-maturity	181,946	2,697	2,711	181,932
Total securities	\$ 237,419	\$ 3,745	\$ 3,081	\$ 238,083

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

Index

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2015.

(In thousands, except number of securities)	Less Than 12 Months			More Than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
State and political subdivisions	\$ 799	\$ 1	1	\$ -	\$ -	-	\$ 799	\$ 1	1
Mortgage-backed securities-residential	-	-	-	1,630	10	1	1,630	10	1
Mortgage-backed securities-multi-family	2,023	26	1	753	16	1	2,776	42	2
Asset-backed securities	-	-	-	9	1	1	9	1	1
Corporate debt securities	273	2	1	491	10	2	764	12	3
Total securities available-for-sale	3,095	29	3	2,883	37	5	5,978	66	8
Securities held-to-maturity:									
U.S. government sponsored enterprises	-	-	-	1,951	49	1	1,951	49	1
State and political subdivisions	11,171	143	49	1,221	44	9	12,392	187	58
Mortgage-backed securities-multi-family	14,464	100	4	28,187	565	6	42,651	665	10
Other securities	334	11	1	202	7	1	536	18	2
Total securities held-to-maturity	25,969	254	54	31,561	665	17	57,530	919	71
Total securities	\$ 29,064	\$ 283	57	\$ 34,444	\$ 702	22	\$ 63,508	\$ 985	79

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, 2014.

(In thousands, except number of securities)	Less Than 12 Months			More Than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Securities available-for-sale:									
Mortgage-backed securities-residential	\$ 4,302	\$ 13	2	\$ -	\$ -	-	\$ 4,302	\$ 13	2
Mortgage-backed securities-multi-family	4,448	5	3	19,404	334	7	23,852	339	10
Asset-backed securities	-	-	-	13	2	1	13	2	1
Corporate debt securities	767	16	2	-	-	-	767	16	2
Total securities available-for-sale	9,517	34	7	19,417	336	8	28,934	370	15
Securities held-to-maturity:									
U.S. government sponsored enterprises	1,898	102	1	-	-	-	1,898	102	1
State and political subdivisions	6,693	175	34	1,815	29	11	8,508	204	45
Mortgage-backed securities-multi-family	26,522	1,617	7	15,440	764	6	41,962	2,381	13
Other securities	130	2	2	401	22	2	531	24	4

Total securities held-to-maturity	35,243	1,896	44	17,656	815	19	52,899	2,711	63
Total securities	\$44,760	\$ 1,930	51	\$37,073	\$ 1,151	27	\$81,833	\$ 3,081	78

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, 2015. 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, 2015. During the year ended June 30, 2014, \$11.7 million of securities available-for-sale were transferred to held-to-maturity and included primarily mortgage-backed securities. These securities were transferred at fair value which reflected a net unrealized loss of \$805,000. This unrealized loss is being accreted to other comprehensive income over the remaining average lives of these securities.

During the years ended June 30, 2015 and 2014, there were no sales of securities and no gains or losses were recognized. There was no other-than-temporary impairment loss recognized during the years ended June 30, 2015 and 2014.

Index

The estimated fair values of debt securities at June 30, 2015, by contractual maturity are shown below. Expected maturities may differ from contractual maturities, because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)

	Amortized Cost	Fair Value
Available-for-sale debt securities		
Within one year	\$41,951	\$41,972
After one year through five years	9,235	9,669
After five years through ten years	540	570
After ten years	-	-
Total available-for-sale debt securities	51,726	52,211
Mortgage-backed and asset-backed securities	33,098	33,686
Equity securities	62	137
Total available-for-sale securities	84,886	86,034
Held-to-maturity debt securities		
Within one year	12,371	12,554
After one year through five years	44,217	45,172
After five years through ten years	20,044	20,497
After ten years	7,661	7,953
Total held-to-maturity debt securities	84,293	86,176
Mortgage-backed	84,707	85,800
Total held-to-maturity securities	169,000	171,976
Total securities	\$253,886	\$258,010

As of June 30, 2015 and 2014, respectively, securities with an aggregate fair value of \$223.1 million and \$210.0 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, 2015 and 2014, securities with an aggregate fair value of \$4.8 million, and \$5.2 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, 2015 or 2014.

## Note 4. Loans

Loan segments and classes at June 30, 2015 and 2014 are summarized as follows:

(In thousands)	At June 30,	
	2015	2014
Residential real estate:		
Residential real estate	\$226,648	\$227,373
Residential construction and land	3,621	3,005
Multi-family	4,287	4,059
Commercial real estate:		
Commercial real estate	142,323	114,066
Commercial construction	8,936	1,558
Consumer loan:		
Home equity	21,019	20,578
Consumer installment	4,123	4,208
Commercial loans	39,798	30,994

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

Total gross loans	450,755	405,841
Allowance for loan losses	(8,142 )	(7,419 )
Deferred fees and costs	883	887
Loans receivable, net	\$443,496	\$399,309

At June 30, 2015 and 2014, loans to related parties including officers and directors were immaterial as a percentage of our loan portfolio.

59

---

Index

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 multifamily loan classes. Commercial real estate loans consist of commercial real estate and commercial construction loan classes. Consumer loans consist of home equity loan and consumer installment loan classes. The inherent risk within the loan portfolio varies depending upon each of these loan types.

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

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.

Index

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, 2015 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 224,195	\$ 638	\$ 97	\$ 1,718	\$ 226,648
Residential construction and land	3,621	-	-	-	3,621
Multi-family	4,182	-	-	105	4,287
Commercial real estate	138,468	-	986	2,869	142,323
Commercial construction	8,936	-	-	-	8,936
Home equity	20,731	-	15	273	21,019
Consumer installment	4,117	6	-	-	4,123
Commercial loans	38,334	-	844	620	39,798
Total gross loans	\$ 442,584	\$ 644	\$ 1,942	\$ 5,585	\$ 450,755

Loan balances by internal credit quality indicator as of June 30, 2014 are shown below.

(In thousands)	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 223,772	\$ 221	\$ 99	\$ 3,281	\$ 227,373
Residential construction and land	3,005	-	-	-	3,005
Multi-family	3,946	-	-	113	4,059
Commercial real estate	109,281	-	1,789	2,996	114,066
Commercial construction	1,558	-	-	-	1,558
Home equity	20,239	-	-	339	20,578
Consumer installment	4,208	-	-	-	4,208
Commercial loans	29,686	-	385	923	30,994
Total gross loans	\$ 395,695	\$ 221	\$ 2,273	\$ 7,652	\$ 405,841

The Company had no loans classified Doubtful or Loss at June 30, 2015 or 2014.

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, 2015 and 2014. While the Bank makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans which have been foreclosed upon or are in process of foreclosure has remained historically high over the past several years. These high levels have been the result of adverse changes within the economy and increases in local unemployment. These levels are also due in part to the extended length of time required to meet all of the legal requirements mandated by New York state law prior to a foreclosure sale, which may be in excess of two years. During the year ended June 30, 2015, the Bank has been able to work through many of its nonperforming loans, and has reduced the overall level of delinquencies and loans in process of foreclosure. However, several of the properties acquired remain in foreclosed real estate as of June 30, 2015. Loans on nonaccrual status totaled \$4.6 million at June 30, 2015 of which \$1.2 million were in the process of foreclosure. Included in nonaccrual loans were \$2.6 million of loans which were less than 90 days past due at June 30, 2015, 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 \$276,000 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 \$5.9 million at June 30, 2014 of which \$3.0 million were in the process of foreclosure. Included in nonaccrual loans were \$922,000 of loans which were less than 90 days past due at June 30, 2014, but have a recent history of delinquency greater than 90 days past due.

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

Index

The following table sets forth information regarding delinquent and/or nonaccrual loans as of June 30, 2015:

	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
(In thousands)							
Residential real estate	\$1,233	\$329	\$785	\$2,347	\$224,301	\$226,648	\$1,087
Residential construction and land	28	-	-	28	3,593	3,621	-
Multi-family	-	-	-	-	4,287	4,287	-
Commercial real estate	339	1	1,132	1,472	140,851	142,323	2,964
Commercial construction	-	-	-	-	8,936	8,936	-
Home equity	244	-	33	277	20,742	21,019	169
Consumer installment	25	6	-	31	4,092	4,123	-
Commercial loans	-	-	175	175	39,623	39,798	388
Total gross loans	\$1,869	\$336	\$2,125	\$4,330	\$446,425	\$450,755	\$4,608

The following table sets forth information regarding delinquent and/or nonaccrual loans as of June 30, 2014:

	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
(In thousands)							
Residential real estate	\$1,047	\$290	\$1,938	\$3,275	\$224,098	\$227,373	\$2,473
Residential construction and land	-	-	-	-	3,005	3,005	-
Multi-family	-	-	-	-	4,059	4,059	-
Commercial real estate	-	504	2,688	3,192	110,874	114,066	2,775
Commercial construction	-	-	-	-	1,558	1,558	-
Home equity	260	-	339	599	19,979	20,578	339
Consumer installment	51	-	-	51	4,157	4,208	-
Commercial loans	509	123	278	910	30,084	30,994	312
Total gross loans	\$1,867	\$917	\$5,243	\$8,027	\$397,814	\$405,841	\$5,899

The Bank of Greene County had accruing loans delinquent 90 days or more as of June 30, 2015 totaling \$84,000 and had accruing loans delinquent more than 90 days as of June 30, 2014 totaling \$266,000. The loans delinquent more than 90 days and accruing consist of loans that are well collateralized and the borrowers have demonstrated the ability and willingness to pay. The borrowers have made arrangements with the Bank to bring the loan current within a specified time period and have made a series of payments as agreed.

The table below details additional information related to nonaccrual loans:

	For the years ended June 30,	
(In thousands)	2015	2014
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$340	\$352

Interest income that was recorded on nonaccrual loans

250 128

62

---

IndexImpaired Loan Analysis

The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "Receivables – Loan Impairment." Management may consider a loan impaired once it is classified as nonaccrual and when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. It should be noted that management does not evaluate all loans individually for impairment. Generally, The Bank of Greene County considers residential mortgages, home equity loans and installment loans as small, homogeneous loans, which are evaluated for impairment collectively based on historical loan experience and other factors. In contrast, large commercial mortgage, construction, multi-family, business loans and select larger balance residential mortgage loans are reviewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other factors. Loans that are either delinquent a minimum of 60 days or are on nonaccrual status, and are not individually evaluated for impairment, are either designated as Special Mention or Substandard, and the allocation of the allowance for loan losses is based upon the risk associated with such designation.

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

(In thousands)	As of June 30, 2015			For the year ended June 30, 2015	
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	\$432	\$ 432	\$ -	\$508	\$ 27
Commercial real estate	1,206	1,412	-	1,000	45
Home equity	154	154	-	70	1
Commercial loans	-	-	-	208	14
Total impaired loans with no allowance	1,792	1,998	-	1,786	87
With an allowance recorded:					
Residential real estate	1,411	1,411	263	2,176	80
Commercial real estate	895	895	187	1,675	61
Home equity	-	-	-	154	-
Commercial loans	93	93	1	348	23
Total impaired loans with allowance	2,399	2,399	451	4,353	164
Total impaired loans:					
Residential real estate	1,843	1,843	263	2,684	107
Commercial real estate	2,101	2,307	187	2,675	106
Home equity	154	154	-	224	1
Commercial loans	93	93	1	556	37
Total impaired loans	\$4,191	\$ 4,397	\$ 451	\$6,139	\$ 251

Index

(In thousands)	As of June 30, 2014			For the year ended June 30, 2014	
	Recorded Investment	Unpaid Principal	Related Allowance	Average Interest Recorded Investment	Income Recognized
With no related allowance recorded:					
Residential real estate	\$206	\$ 206	\$ -	\$330	\$ 14
Commercial real estate	461	461	-	518	29
Home equity	96	96	-	24	3
Total impaired loans with no allowance	763	763	-	872	46
With an allowance recorded:					
Residential real estate	2,700	2,790	441	2,978	64
Multi-family	-	-	-	193	-
Commercial real estate	2,572	2,959	338	2,346	63
Commercial construction	-	-	-	350	17
Home equity	200	200	87	150	-
Commercial loans	603	603	3	606	39
Total impaired loans with allowance	6,075	6,552	869	6,623	183
Total impaired loans					
Residential real estate	2,906	2,996	441	3,308	78
Multi-family	-	-	-	193	-
Commercial real estate	3,033	3,420	338	2,864	92
Commercial construction	-	-	-	350	17
Home equity	296	296	87	174	3
Commercial loans	603	603	3	606	39
Total impaired loans	\$6,838	\$ 7,315	\$ 869	\$7,495	\$ 229

The table below details loans that have been modified as a troubled debt restructuring during the year ended June 30, 2015.

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Outstanding Recorded Investment
Residential real estate	1	\$ 164	\$ 184	\$ 183

This loan has been classified as troubled debt restructurings due to concessions granted to the debtors that The Bank of Greene County would not otherwise consider as a result of financial difficulties of the borrowers. For this loan, concessions consisted of additional funds advanced, interest rate reduction and extension of the maturity. At June 30, 2015, this loan was returned to accrual status as it has performed under the terms of the modification, and the ultimate collectability of all amounts contractually due under the modified terms is not in doubt. This loan identified as a troubled debt restructuring has been evaluated for impairment and the impact to the allowance for loan losses was immaterial.

The table below details loans that have been modified as a troubled debt restructuring during the year ended June 30, 2014.

(Dollars in thousands)                      Pre-Modification    Post-Modification

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

	Number of Contracts	Outstanding Recorded Investment	Outstanding Recorded Investment	Current Outstanding Recorded Investment
Residential real estate	3	\$ 575	\$ 575	\$ 566
Commercial real estate	5	1,789	1,848	1,589

These loans have been classified as troubled debt restructurings due to concessions granted to the debtors that The Bank of Greene County would not otherwise consider as a result of financial difficulties of the borrowers. For these loans, concessions consisted of any combination of the following: additional funds were advanced, the interest rate was reduced and/or the term extended. At June 30, 2014, two of the eight loans were returned to accrual status but the remaining loans modified during the period as a troubled debt restructuring were included in non-accrual loans.

Index

The Company had no loans that had been modified as troubled debt restructurings during the twelve months prior to June 30, 2015 which had subsequently defaulted during the year ended June 30, 2015.

The table below details loans that have been modified as troubled debt restructurings during the twelve months prior to June 30, 2014 which have subsequently defaulted during the year ended June 30, 2014:

(Dollars in thousands)	Number of Contracts	Recorded Investment	Allowance for Loan Loss
Residential real estate	2	\$ 284	\$ 65
Commercial real estate	2	894	192

Allowance for Loan Losses

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

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

(In thousands)	Activity for the year ended June 30, 2015				Balance June 30, 2015
	Balance June 30, 2014	Charge-offs	Recoveries	Provision	
Residential real estate	\$2,731	\$ 390	\$ 6	\$ 107	\$2,454
Residential construction and land	42	-	-	8	50
Multi-family	59	-	-	(19 )	40
Commercial real estate	2,936	133	-	896	3,699

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

Commercial construction	38	-	-	195	233
Home equity	361	121	-	74	314
Consumer installment	240	236	61	158	223
Commercial loans	811	48	28	338	1,129
Unallocated	201	-	-	(201 )	-
Total	\$7,419	\$ 928	\$ 95	\$ 1,556	\$ 8,142

65

---

Index

(In thousands)	Allowance for		Loans Receivable	
	Loan Losses			
	Ending Balance		Ending Balance	
	June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
	Impairment	Impairment	Impairment	Analysis
	Analysis	Analysis	Analysis	Analysis
	Individually	Individually	Collectively	Collectively
	Evaluated	Evaluated	Evaluated	Evaluated
Residential real estate	\$263	\$ 2,191	\$1,843	\$ 224,805
Residential construction and land	-	50	-	3,621
Multi-family	-	40	-	4,287
Commercial real estate	187	3,512	2,101	140,222
Commercial construction	-	233	-	8,936
Home equity	-	314	154	20,865
Consumer installment	-	223	-	4,123
Commercial loans	1	1,128	93	39,705
Unallocated	-	-	-	-
Total	\$451	\$ 7,691	\$4,191	\$ 446,564

(In thousands)	Activity for the year ended June 30, 2014				Balance June 30, 2014
	Balance	Charge-offs	Recoveries	Provision	
	June				
	30,				
Residential real estate	\$2,627	\$ 420	\$ 10	\$ 514	\$ 2,731
Residential construction and land	37	-	-	5	42
Multi-family	139	24	7	(63 )	59
Commercial real estate	2,476	309	-	769	2,936
Commercial construction	392	-	-	(354 )	38
Home equity	275	44	-	130	361
Consumer installment	222	215	75	158	240
Commercial loans	809	205	4	203	811
Unallocated	63	-	-	138	201
Total	\$7,040	\$ 1,217	\$ 96	\$ 1,500	\$ 7,419

(In thousands)	Allowance for		Loans Receivable	
	Loan Losses			
	Ending Balance		Ending Balance	
	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
	Impairment	Impairment	Impairment	Analysis
	Analysis	Analysis	Analysis	Analysis
	Individually	Individually	Collectively	Collectively
	Evaluated	Evaluated	Evaluated	Evaluated
Residential real estate	\$441	\$ 2,290	\$2,906	\$ 224,467
Residential construction and land	-	42	-	3,005
Multi-family	-	59	-	4,059
Commercial real estate	338	2,598	3,033	111,033
Commercial construction	-	38	-	1,558
Home equity	87	274	296	20,282
Consumer installment	-	240	-	4,208

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

Commercial loans	3	808	603	30,391
Unallocated	-	201	-	-
Total	\$869	\$ 6,550	\$6,838	\$ 399,003

66

---

Index

## Note 5. Premises and Equipment

A summary of premises and equipment at June 30, 2015 and 2014, is as follows:

(In thousands)	2015	2014
Land	\$2,883	\$2,883
Building and improvements	15,693	15,411
Furniture and equipment	4,042	3,572
Less: accumulated depreciation	(8,103)	(7,559)
Total premises and equipment	\$14,515	\$14,307

## Note 6. Deposits

Major classifications of deposits at June 30, 2015 and 2014 are summarized as follows:

(In thousands)	2015	2014
Noninterest-bearing deposits	\$73,359	\$67,446
Certificates of deposit	43,121	48,900
Savings deposits	163,927	165,227
Money market deposits	103,724	87,363
NOW deposits	238,586	220,638
Total deposits	\$622,717	\$589,574

Advance payments by borrowers for taxes and insurance totaling \$6,092,000 and \$5,495,000 at June 30, 2015 and 2014, respectively, are included in savings deposits.

Related party deposits are not material.

The following indicates the amount of certificates of deposit by time remaining to maturity as of June 30, 2015.

(In thousands)	3 months or less	3 to 6 Months	7 to 12 Months	Over 12 Months	Total
Certificates of deposit less than \$100,000	\$6,740	\$5,124	\$4,452	\$11,934	\$28,250
Certificates of deposit \$100,000 or more	2,635	949	1,466	9,821	14,871
Total certificates of deposit	\$9,375	\$6,073	\$5,918	\$21,755	\$43,121

The aggregate amount of certificates of deposit in denominations of \$250,000 or more (the amount which exceeds the FDIC insurance limit) was \$2,793,000 at June 30, 2015.

Scheduled maturities of certificates of deposit at June 30, 2015 were as follows:

(In thousands)	
The year ended June 30,	
2016	\$21,366
2017	4,805
2018	7,196
2019	4,765
2020	4,989
	\$43,121



Index

## Note 7. Borrowings

During the year ended June 30, 2014, the Company entered into an Irrevocable Letter of Credit Reimbursement Agreement with the Federal Home Loan Bank (“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. At June 30, 2015, The Bank of Greene County had pledged approximately \$207.5 million of its residential mortgage portfolio as collateral for borrowing and stand-by letters of credit at the FHLB. The maximum amount of funding available from the FHLB was \$167.7 million at June 30, 2015, of which \$41.7 million in borrowings were outstanding at June 30, 2015. There were \$22.9 million in short term borrowings outstanding at June 30, 2015. There were no stand-by letters of credit outstanding at June 30, 2015. Interest rates on short term borrowings are determined at the time of borrowing. The remaining \$18.8 million consisted of long-term fixed rate, fixed term advances with a weighted average rate of 1.48% and a weighted average maturity of 40 months. The Bank has recently increased its level of long-term borrowing to strengthen its overall interest rate risk position, to help mitigate the potential negative impact of rising interest rates.

The Bank of Greene County also pledges securities as collateral at the Federal Reserve Bank discount window for overnight borrowings. At June 30, 2015, approximately \$4.8 million of collateral was available to be pledged against potential borrowings at the Federal Reserve Bank discount window. There were no balances outstanding with the Federal Reserve Bank at June 30, 2015 or 2014.

The Bank of Greene County has established unsecured lines of credit with Atlantic Central Bankers Bank and another financial institution for \$6.0 million and \$5.0 million, respectively. The lines of credit provide for overnight borrowing and the interest rate is determined at the time of the borrowing. At June 30, 2015 and 2014 there were no balances outstanding on either of these lines of credit, and there was no activity during the years ended June 30, 2015 and 2014.

Scheduled maturities of long-term borrowings at June 30, 2015 were as follows:

(In thousands)

The year ended June 30,	
2016	\$-
2017	2,500
2018	4,500
2019	5,500
2020	6,000
Due after 2020	300
	\$18,800

## Note 8. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss as of June 30, 2015 and 2014, respectively, are presented in the following table:

(In thousands)	2015	2014
Unrealized gains on available-for-sale securities, net of tax	\$704	\$416
Unrealized loss on securities transferred to held-to-maturity, net of tax	(11 )	(231 )
Net losses and past service liability for defined benefit plan, net of tax	(1,491)	(1,235)
Accumulated other comprehensive loss	\$(798 )	\$(1,050)

## Note 9. Employee Benefit Plans

#### Defined Benefit Plan

The Bank of Greene County maintains a single-employer defined benefit pension plan (the "Pension Plan"). Effective January 1, 2006, the Board of Directors of the Bank resolved to exclude from membership in the Pension Plan employees hired on or after January 1, 2006 and elected to cease additional benefit accruals to existing Pension Plan participants effective July 1, 2006. Substantially all Bank employees who were hired before January 1, 2006 and attained the age of 21 are covered by the Pension Plan. Under the Pension Plan, retirement benefits are primarily a function of both years of service and level of compensation, at July 1, 2006. This defined benefit pension plan is accounted for in accordance with FASB ASC Topic 715 guidance on "Compensation – Retirement Benefits, Defined Benefit Plans – Pension", which requires the Company to recognize in its consolidated financial statements an asset for a plan's overfunded status or a liability for a plan's underfunded status. Changes in the funded status of the single-employer defined benefit pension plan are reported as a component of other comprehensive income, net of applicable taxes, in the year in which changes occur.

Index

Information regarding the single-employer defined benefit pension plan at June 30, 2015 and 2014 is as follows:

(In thousands)

Change in projected benefit obligation:	2015	2014
Benefit obligation at beginning of year	\$5,311	\$4,971
Interest cost	220	223
Actuarial loss	428	297
Benefits paid	(502 )	(180 )
Benefit obligation at June 30	5,457	5,311

Change in fair value of plan assets:

Fair value of plan assets at beginning of year	4,887	4,637
Actual return on plan assets	96	430
Employer contributions	-	-
Benefits paid	(502 )	(180 )
Fair value of plan assets at June 30	4,481	4,887
Underfunded status at June 30 included in other liabilities	\$976	\$424

The Company does not anticipate that it will make any contributions during the year ended June 30, 2016.

The components of net periodic pension costs related to the defined benefit pension plan for the years ended June 30, 2015 and 2014 were as follows:

(In thousands)	2015	2014
Interest cost	\$220	\$223
Expected return on plan assets	(335)	(318)
Amortization of net loss	106	89
Effect of settlement	144	-
Net periodic pension (income) cost	\$135	\$(6 )

The accumulated benefit obligation for the pension plan was \$5.5 million and \$5.3 million at June 30, 2015 and 2014, respectively. The Society of Actuaries released new mortality tables in 2014 which the Company utilized in its pension plan revaluation at June 30, 2015. The change in mortality assumption resulted in an increase to the pension plan's accumulated benefit obligation of \$468,600.

Changes in plan assets and benefit obligations recognized in other comprehensive loss during the years ended June 30, 2015 and 2014 consisted of the following:

(In thousands)	2015	2014
Actuarial loss on plan assets and benefit obligations	\$418	\$96
Deferred tax benefit	162	37
Net change in plan assets and benefit obligations recognized in other comprehensive income (loss)	\$256	\$59

Amounts recognized in our consolidated statements of financial condition related to our pension plan for the years ended June 30, 2015 and 2014 are as follows:

(In thousands)	2015	2014
Other liabilities:		
Projected benefit obligation in excess of fair value of pension plan	\$976	\$424

Accumulated other comprehensive loss, net of taxes:

Net losses and past service liability

\$(1,491) \$(1,235)

Index

The principal actuarial assumptions used were as follows:

Projected benefit obligation:	2015	2014
Discount rate	4.32 %	4.22 %
Net periodic pension expense:		
Amortization period, in years	14	15
Discount rate	4.22 %	4.57 %
Expected long-term rate of return on plan assets	7.00 %	7.00 %

The discount rate used in the measurement of the Company’s pension obligation is based on the Citigroup Pension Liability Index based on expected benefit payments of the plan. The discount rates are evaluated at each measurement date to give effect to changes in the general interest rates. The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The selected rate considers the historical and expected future investment trends of the present and expected assets in the plan. Since this is a frozen plan, the compensation rate is zero percent.

The weighted average asset allocation and fair value of our funded pension plan at June 30, 2015 and 2014 was as follows:

(Dollars in thousands)	2015		2014	
	Fair Value		Fair Value	
Money market accounts	\$15	0.3 %	\$15	0.3 %
Mutual funds	4,466	99.7 %	4,872	99.7 %
Total plan assets	\$4,481	100.0 %	\$4,887	100.0 %

The fair value of assets within the pension plan was determined utilizing a quoted price in active markets at the measurement date. As such, these assets are classified as Level 1 within the “Fair Value Measurement” hierarchy.

The target allocation for investment in mutual funds is 80% consisting of short-term and intermediate-term fixed income bond funds and 20% large cap value funds. This allocation is consistent with our goal of preserving capital while achieving investment results that will contribute to the proper funding of pension obligations and cash flow requirements. Asset rebalancing is performed on a quarterly basis, with adjustments made when the investment mix varies by more than 5% from the target.

The amortization of accumulated other comprehensive income associated with the single employer defined benefit pension plan for the year ended June 30, 2016 is expected to be nominal.

Expected benefit payments under the pension plan over the next ten years at June 30, 2015 are as follows:

(In thousands)	
2016	\$ 184
2017	215
2018	215
2019	215
2020	214
2021-2025	1,184

Defined Contribution Plan

The Bank of Greene County also participates in a defined contribution plan (the "Contribution Plan") covering substantially all employees who have completed three months of service. The plan includes Section 401(k) and thrift provisions as defined under the Internal Revenue Code. The provisions permit employees to contribute up to 50% of their total compensation on a pre-tax basis. The Bank of Greene County matches employee contributions dollar for dollar for the first 3% and then 50% of the employee contributions up to the next 3%. Company contributions associated with the contribution plan amounted to \$221,000 and \$215,000 in the years ended June 30, 2015 and 2014, respectively.

Index  
ESOP

All Bank employees meeting certain age and service requirements are eligible to participate in the ESOP. Participant's benefits become fully vested after three years of service. During the years ended June 30, 2015 and 2014, the Board of Directors authorized the payment of \$84,000 and \$84,000 respectively, to the ESOP trustee for the purposes of purchasing additional shares of stock to be allocated to employees as of December 2015 and 2014, respectively. ESOP expense was \$84,000 for the years ended June 30, 2015 and 2014. There were no unearned shares at June 30, 2015 or 2014.

SERP

On June 21, 2010, the Board of Directors of The Bank of Greene County adopted The Bank of Greene County Supplemental Executive Retirement Plan (the "SERP Plan"), effective as of July 1, 2010. The SERP Plan benefits certain key senior executives of the Bank who are selected by the Board to participate.

The SERP Plan is intended to provide a benefit from the Bank upon retirement, death or disability or voluntary or involuntary termination of service (other than "for cause"). Accordingly, the SERP Plan obligates the Bank to make an allocation to each executive's account on the first business day of each July and permits each executive to defer up to 50% of his or her base salary and 100% of his or her annual bonus to the SERP Plan, subject to the requirements of Section 409A of the Internal Revenue Code ("Code"). In addition, the Bank may, but is not required to, make additional discretionary contributions to the executives' accounts from time to time. An executive becomes vested in the Bank's contributions after 10 calendar years of service following the effective date of the SERP Plan, and is fully vested immediately for all deferral of salary and bonus. However, the Executive will vest in the present value of his or her account in the event of death, disability or a change in control of the Bank or the Company. In the event the executive is terminated involuntarily or resigns for good reason following a change in control, the present value of all remaining Bank contributions is accelerated and paid to the executive's account, subject to potential reduction to avoid an excess parachute payment under Code Section 280G. In the event of the executive's death, disability or termination within two years after a change in control, executive's account will be paid in a lump sum to the executive or his beneficiary, as applicable. In the event the executive is entitled to a benefit from the SERP Plan due to retirement or other termination of employment, the benefit will be paid in 10 annual installments.

The net periodic pension costs related to the SERP for the years ended June 30, 2015 and 2014 were \$248,000, and \$167,000, respectively, consisting primarily of service and interest costs. The total liability for the SERP was \$1.4 million and \$899,000 as of June 30, 2015 and June 30, 2014, respectively.

Note 10. Stock-Based Compensation

Stock Option Plan

Greene County Bancorp, Inc. has a stock-based compensation plan (the "2008 Option Plan") which allows the Company to issue up to 180,000 options and stock appreciation rights. In 2008, the Board of Directors granted 164,500 options and stock appreciation rights (in tandem) to buy stock under the 2008 Option Plan at an exercise price of \$12.50, the fair value of the stock on that date. These options have a 10-year term and vested over a three year period upon meeting specific earnings performance goals.

A summary of the Company's stock option activity and related information for its option plans for the years ended June 30, 2015 and 2014 is as follows:

2015	2014
Options	Options

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

		Weighted Average Exercise Price Per Share		Weighted Average Exercise Price Per Share
Outstanding at beginning of year	59,435	\$ 12.50	87,400	\$ 12.50
Exercised	(11,600)	\$ 12.50	(27,965)	\$ 12.50
Outstanding at year end	47,835	\$ 12.50	59,435	\$ 12.50
Exercisable at year end	47,835	\$ 12.50	59,435	\$ 12.50

71

---

Index

The following table presents stock options outstanding and exercisable at June 30, 2015:

## Options Outstanding and Exercisable

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$12.50	47,835	3.25	\$ 12.50

At June 30, 2015 and 2014, all outstanding shares were fully vested, with no remaining compensation cost to be recognized. There were no stock options granted during the years ended June 30, 2015 or 2014. The total intrinsic value of the options exercised during the year ended June 30, 2015 was approximately \$182,000. The total intrinsic value of the options exercised during the year ended June 30, 2014 was approximately \$378,000

## Phantom Stock Option Plan and Long-term Incentive Plan

The Greene County Bancorp, Inc. 2011 Phantom Stock Option and Long-term Incentive Plan (the “Plan”), was adopted effective July 1, 2011, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interests with those of the Company’s shareholders. Effective July 1, 2014, the Plan was amended to increase the number of phantom stock options available for awards from 900,000 to 1,800,000. The Plan is intended to provide benefits to employees and directors of the Company or any subsidiary as designated by the Compensation Committee of the Board of Directors of the Company (“Committee”). A phantom stock option represents the right to receive a cash payment on the date the award vests. The participant receives an amount equal to the positive difference between the strike price on the grant date and the book value of a share of the Company stock on the determination date, which is the last day of the plan year that is the end of the third plan year after the grant date of the award, unless otherwise specified by the Committee. The strike price will be the price established by the Committee, which will not be less than 100% of the book value of a share on a specified date, as determined under generally accepted accounting principles (GAAP) as of the last day of the quarter ending on or immediately preceding the valuation date with adjustments made, in the sole discretion of the Committee, to exclude accumulated other comprehensive income (loss).

A summary of the Company’s phantom stock option activity and related information for its option plan for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Number of options outstanding at beginning of year	665,426	462,464
Options granted	235,380	236,308
Options forfeited	--	(6,840 )
Options paid in cash upon vesting	(272,052)	(26,506 )
Number of options outstanding at period end	628,754	665,426

The Company paid out \$845,000 and \$26,900 in cash during the years ended June 30, 2015 and 2014, respectively on options vested. The Company recognized \$830,000 and \$786,800 in compensation costs related to the Plan during the years ended June 30, 2015 and 2014, respectively. The total liability for the long-term incentive plan was \$1.1 million and \$1.2 million at June 30, 2015 and 2014, respectively.

## Note 11. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as stock options) issued became vested during the period. There were no anti-dilutive securities or contracts outstanding during the years ended June 30, 2015 and 2014.

	Net Income	Weighted Average Number Of Shares Outstanding	Earnings per Share
Year ended June 30, 2015	\$7,189,000		
Basic		4,218,671	\$ 1.70
Effect of dilutive stock options		30,016	(0.01 )
Diluted		4,248,687	\$ 1.69
Year ended June 30, 2014	\$6,528,000		
Basic		4,205,945	\$ 1.55
Effect of dilutive stock options		35,311	(0.01 )
Diluted		4,241,256	\$ 1.54

Index

## Note 12. Income Taxes

The provision for income taxes consists of the following for the years ended June 30, 2015 and 2014:

(In thousands)	2015	2014
Current expense:		
Federal	\$1,722	\$2,246
State	108	273
Total current expense	1,830	2,519
Deferred expense	488	18
Total provision for income taxes	\$2,318	\$2,537

The effective tax rate differs from the federal statutory rate as follows for the years ended June 30, 2015 and 2014:

	2015	2014
Tax based on federal statutory rate	34.00%	34.00%
State income taxes, net of federal benefit	0.50	1.02
Tax-exempt income	(8.75 )	(7.97 )
Other, net	(1.39 )	0.94
Total income tax expense	24.36%	27.99%

The components of the deferred tax assets and liabilities at June 30 were as follows:

(In thousands)	2015	2014
Deferred tax assets:		
Allowance for loan losses	\$3,150	\$2,870
Pension benefits	377	164
Other benefit plans	697	511
Other	114	142
Total deferred tax assets	4,338	3,687
Deferred tax liabilities:		
Depreciation	1,416	1,405
Loan costs	706	634
Real estate investment trust income	2,252	1,614
Unrealized gains on securities	437	116
Other	219	-
Total deferred tax liabilities	5,030	3,769
Net deferred tax liability included in other liabilities	\$(692 )	\$(82 )

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.



Index

The Company accounts for uncertain tax positions if it is more likely than not, based on technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgments.

The Company recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes.

As of June 30, 2015 and 2014, the Company did not have any uncertain tax positions. The Company does not expect to have any changes in unrecognized tax benefits as a result of settlements with taxing authorities during the next twelve months. As of June 30, 2015, tax years ended June 30, 2012 through June 30, 2014, remain open and are subject to Federal and State taxing authority examination.

## Note 13. Commitments and Contingent Liabilities

In the normal course of business there are various commitments and contingent liabilities outstanding pertaining to the granting of loans and the lines of credit, which are not reflected in the accompanying consolidated financial statements.

The Bank of Greene County's unfunded loan commitments are as follows at June 30, 2015 and 2014:

(In thousands)	2015	2014
Residential real estate loan commitments	\$5,087	\$2,380
Construction and land loan commitments	5,622	3,138
Commercial real estate loan commitments	15,855	8,757
Home equity available lines of credit	8,295	8,159
Consumer overdraft available lines of credit	698	706
Commercial loan available lines of credit	21,264	14,419
Commercial loan commitments	885	226
Total commitments	\$57,706	\$37,785

Commitments to extend credit in the form of loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank of Greene County evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral, if any, required upon an extension of credit is based on management's evaluation of customer credit. Commitments to extend mortgage credit are primarily collateralized by first liens on real estate. Collateral on extensions of commercial lines of credit vary but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial property.

## Note 14. Operating Leases

The Bank of Greene County has non-cancelable lease commitments for three branch locations. These leases include obligations for real estate taxes, insurance and maintenance expenses. Total lease expense was \$127,000 and \$69,000 for the years ended June 30, 2015 and 2014, respectively. Minimum non-cancelable lease commitments for future years ending June 30 are as follows:

(In thousands)

The year ended June 30,	Annual Lease Payments
2016	\$ 152
2017	121
2018	95
2019	34
2020	14
Thereafter	6
Total payments	\$ 422

74

---

Index

Note 15. Concentrations of Credit Risk

The Bank of Greene County grants residential, consumer and commercial loans to customers primarily located in the mid-Hudson valley region of New York, including Greene County. Over the last several years the Company has emphasized expansion into new markets in southern Albany and Columbia counties. In fiscal 2015, it expanded its lending area south into Ulster County. Although The Bank of Greene County has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon employment and other economic factors throughout Greene and its contiguous counties.

Note 16. Fair Value Measurements and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of June 30, 2015 and 2014 and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

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

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

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

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

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

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

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

		Fair Value Measurements Using		
		Quoted	Significant	
		Prices	Other	Significant
		In	Observable	Unobservable
		Active	Inputs	Inputs
(In thousands)	June 30,	Markets	(Level 2)	(Level 3)
	2015	For		
		Identical		
		Assets		

(Level  
1)

Assets:

U.S. Government sponsored enterprises	\$7,855	\$-	\$ 7,855	\$	-
State and political subdivisions	39,582	-	39,582		-
Mortgage-backed securities-residential	7,942	-	7,942		-
Mortgage-backed securities-multi-family	25,735	-	25,735		-
Asset-backed securities	9	9	-		-
Corporate debt securities	4,774	4,774	-		-
Equity securities	137	137	-		-
Securities available-for-sale	\$86,034	\$4,920	\$ 81,114	\$	-

75

---

Index

(In thousands)	June 30, 2014	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government sponsored enterprises	\$10,898	\$-	\$ 10,898	\$ -
State and political subdivisions	1,347	-	1,347	-
Mortgage-backed securities-residential	9,545	-	9,545	-
Mortgage-backed securities-multi-family	29,018	-	29,018	-
Asset-backed securities	13	13	-	-
Corporate debt securities	5,170	5,170	-	-
Equity securities	160	160	-	-
Securities available-for-sale	\$56,151	\$5,343	\$ 50,808	\$ -

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

In addition to disclosures of the fair value of assets on a recurring basis, FASB ASC Topic on “Fair Value Measurement” requires disclosures for assets and liabilities measured at fair value on a nonrecurring basis, such as impaired assets, in the period in which a re-measurement at fair value is performed. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated as required by the “Receivables – Loan Impairment” subtopic of the FASB ASC when establishing the allowance for credit losses. Impaired loans are those loans for which the Company has re-measured impairment generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount may not necessarily represent the actual fair value of the loan. Real estate collateral is typically valued using independent appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Estimates of fair value used for other collateral supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

(In thousands)	Fair Value	Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
June 30, 2015				
Impaired loans	\$922	\$-	\$ -	\$922
Foreclosed real estate	490	-	-	490

June 30, 2014

Impaired loans	\$3,527	\$-	\$ -	\$3,527
Foreclosed real estate	382	-	-	382

76

---

Index

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

(Dollars in thousands) June 30, 2015	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average	
Impaired loans	\$ 922	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0.00%-38.85 %	22.81	%
			Liquidation expenses <sup>(3)</sup>	0.00%-7.50 %	3.91	%
Foreclosed real estate	490	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	7.41%-54.17 %	24.65	%
			Liquidation expenses <sup>(3)</sup>	0.42%-10.86 %	6.40	%
June 30, 2014						
Impaired loans	\$ 3,527	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0.00%-38.85 %	15.26	%
			Liquidation expenses <sup>(3)</sup>	0.00%-9.22 %	3.82	%
Foreclosed real estate	382	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	9.30%-19.00 %	12.18	%
			Liquidation expenses <sup>(3)</sup>	6.00%-10.86 %	7.95	%

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

Appraisals may be adjusted downwards by management for qualitative factors such as economic conditions. Higher

(2) downward adjustments are caused by negative changes to the collateral or conditions in the real estate market, actual offers or sales contracts received or age of the appraisal.

(3) Appraisals may be adjusted downwards by management for items such as the estimated costs to liquidate the collateral.

At June 30, 2015, loans subject to nonrecurring fair value measurement had a recorded investment of \$1.2 million with related allowances of \$277,000. At June 30, 2014, loans subject to nonrecurring fair value measurement had a recorded investment of \$4.2 million with related allowances of \$721,000. No other financial assets or liabilities were re-measured during the year on a nonrecurring basis.

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

discounted cash flows and interest rates currently being offered in the market on similar certificates. Fair value for Federal Home Loan Bank long term borrowings are estimated using discounted cash flows and interest rates currently being offered on similar borrowings. The carrying value of short-term Federal Home Loan Bank borrowings approximates its fair value.

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At June 30, 2015 and 2014, the estimated fair values of these off-balance sheet financial instruments were immaterial, and are therefore excluded from the table below.

Index

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

(In thousands)	June 30, 2015		Fair Value Measurements		
	Carrying Amount	Fair Value	Using (Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$15,538	\$15,538	\$15,538	\$-	\$-
Long term certificate of deposit	1,230	1,230	1,230	-	-
Securities available-for-sale	86,034	86,034	4,920	81,114	-
Securities held-to-maturity	169,000	171,976	-	171,976	-
Federal Home Loan Bank stock	2,494	2,494	-	2,494	-
Net loans receivable	443,496	450,437	-	-	450,437
Accrued interest receivable	3,026	3,026	-	3,026	-
Deposits	622,717	622,900	-	622,900	-
Borrowings from Federal Home Loan Bank	41,700	41,598	-	41,598	-
Accrued interest payable	64	64	-	64	-

(In thousands)	June 30, 2014		Fair Value Measurements		
	Carrying Amount	Fair Value	Using (Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$13,809	\$13,809	\$13,809	\$-	\$-
Long term certificate of deposit	250	250	250	-	-
Securities available-for-sale	56,151	56,151	5,343	50,808	-
Securities held-to-maturity	181,946	181,932	-	181,932	-
Federal Home Loan Bank stock	1,561	1,561	-	1,561	-
Net loans receivable	399,309	406,718	-	-	406,718
Accrued interest receivable	2,710	2,710	-	2,710	-
Deposits	589,574	589,681	-	589,681	-
Borrowings from Federal Home Loan Bank	17,650	17,465	-	17,465	-
Accrued interest payable	66	66	-	66	-

## Note 17. Regulatory Matters

The Bank of Greene County and its wholly-owned subsidiary, Greene County Commercial Bank, are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material impact on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and the Commercial Bank must meet specific guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. As of June 30, 2015, the most recent notification from regulators categorized the banks as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Quantitative measures established by regulation to ensure capital adequacy require The Bank of Greene County and Greene County Commercial Bank to maintain minimum amounts and ratios (set forth in the table below). In July 2013, the Office of the Comptroller of the Currency and the other federal bank regulatory agencies issued a final rule that will revise 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. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and 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 final rule also 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. Additional constraints will also be imposed on the inclusion in regulatory capital of mortgage-servicing assets, defined tax assets and minority interests. 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 final rule became effective for The Bank of Greene County and Greene County Commercial Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. Management believes that, as of June 30, 2015, The Bank of Greene County and Greene County Commercial Bank met all capital adequacy requirements to which they are subject.

Index

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

The Bank of Greene County  
As of June 30, 2015:

Total risk-based capital	\$71,572	17.9 %	\$32,082	8.0 %	\$40,102	10.0 %
Tier 1 risk-based capital	66,487	16.6	24,061	6.0	32,082	8.0
Common equity tier 1 capital	66,487	16.6	18,046	4.5	26,066	6.5
Tier 1 leverage ratio	66,487	9.1	29,256	4.0	36,571	5.0

## As of June 30, 2014:

Total risk-based capital	\$63,918	18.5 %	\$27,600	8.0 %	\$34,499	10.0 %
Tier 1 risk-based capital	59,523	17.3	13,800	4.0	20,700	6.0
Tier 1 leverage ratio	59,523	8.8	20,257	3.0	33,761	5.0

Greene County Commercial Bank

## As of June 30, 2015:

Total risk-based capital	\$19,853	45.04 %	\$3,526	8.0 %	\$4,408	10.0 %
Tier 1 risk-based capital	19,853	45.04	2,645	6.0	3,526	8.0
Common equity tier 1 capital	19,853	45.04	1,984	4.5	2,865	6.5
Tier 1 leverage ratio	19,853	9.03	8,796	4.0	10,995	5.0

## As of June 30, 2014:

Total risk-based capital	\$17,211	40.6 %	\$3,388	8.0 %	\$4,236	10.0 %
Tier 1 risk-based capital	17,211	40.6	1,694	4.0	2,541	6.0
Tier 1 leverage ratio	17,211	8.2	8,369	4.0	10,461	5.0

Index

Note 18. Condensed Financial Statements of Greene County Bancorp, Inc.

The following condensed financial statements summarize the financial position and the results of operations and cash flows of Greene County Bancorp, Inc. as of and for the years ended June 30, 2015 and 2014.

Greene County Bancorp, Inc.  
Condensed Statements of Financial Condition  
As of June 30, 2015 and 2014  
(In thousands)

ASSETS	2015	2014
Cash and cash equivalents	\$544	\$2,817
Investment in subsidiaries	66,412	58,419
Prepaid expenses and other assets	21	16
Total assets	\$66,977	\$61,252

LIABILITIES AND SHAREHOLDERS' EQUITY

Total liabilities	\$57	\$52
Total shareholders' equity	66,920	61,200
Total liabilities and shareholders' equity	\$66,977	\$61,252

Greene County Bancorp, Inc.  
Condensed Statements of Income  
For the Years Ended June 30, 2015 and 2014  
(In thousands)

	2015	2014
INCOME:		
Equity in undistributed net income of subsidiaries	\$7,491	\$4,682
Dividend distributed by subsidiary	4	2,004
Interest-earning deposits	5	7
Total income	7,500	6,693

OPERATING EXPENSES:

Legal fees	201	62
Other	110	103
Total operating expenses	311	165
Net income	\$7,189	\$6,528

Index

Greene County Bancorp, Inc.  
 Condensed Statements of Comprehensive Income  
 For the Years Ended June 30, 2015 and 2014  
 (In thousands)

	2015	2014
Net income	\$7,189	\$6,528
Other comprehensive income (loss) :		
Unrealized holding gains (losses) on available-for-sale securities, net of income taxes of \$182 and (\$327), respectively	288	(518 )
Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of \$139 and \$175, respectively <sup>(1)</sup>	220	277
Pension actuarial loss, net of income taxes of (\$162) and (\$37) <sup>(2)</sup>	(256 )	(59 )
Total other comprehensive income (loss), net of taxes	252	(300 )
Comprehensive income	\$7,441	\$6,228

The accretion of the unrealized holding losses in accumulated other comprehensive income at the date of transfer (1)partially offsets the amortization of the difference between the par value and fair value of the investment securities at the date of transfer, and is an adjustment of interest income.

These accumulated other comprehensive income components are included in the computation of net periodic benefit (2)cost and are included in salaries and employee benefit expense within noninterest expense (see Note 9 for additional details).

Greene County Bancorp, Inc.  
 Condensed Statements of Cash Flows  
 For the Years Ended June 30, 2015 and 2014  
 (In thousands)

	2015	2014
Cash flow from operating activities:		
Net Income	\$7,189	\$6,528
Adjustments to reconcile net income to cash provided by (used by) operating activities:		
Undistributed earnings of subsidiaries	(7,491)	(4,682)
Tax benefit of stock based compensation	(16 )	(28 )
Net increase in prepaid expenses and other assets	(5 )	-
Net increase in total liabilities	21	20
Net cash provided by (used by) operating activities	(302 )	1,838
Cash flows from Investing Activities:		
Investment in subsidiary	(250 )	-
Net cash used by investing activities	(250 )	-
Cash flows from financing activities:		
Payment of cash dividends	(1,798)	(1,335)
Proceeds from exercise of stock options	61	172

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

Excess tax benefit from share-based payment arrangements	16	28
Net cash used in financing activities	(1,721)	(1,135)
Net (decrease) increase in cash and cash equivalents	(2,273)	703
Cash and cash equivalents at beginning of year	2,817	2,114
Cash and cash equivalents at end of year	\$544	\$2,817

81

---

Index

Note 19. Subsequent events

On July 21, 2015, the Board of Directors declared a cash dividend for the quarter ended June 30, 2015 of \$0.185 per share on Greene County Bancorp, Inc.'s common stock. The dividend reflects an annual cash dividend rate of \$0.74 per share, compared to an annual cash dividend rate of \$0.72 declared during the previous quarter. The dividend was payable to stockholders of record as of August 14, 2015, and was paid on August 31, 2015. The MHC has waived its right to receive dividends declared on its shares of the Company's common stock for the quarter ended June 30, 2015.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The "Proposal II - Ratification of Appointment of Auditors" section of Greene County Bancorp, Inc.'s 2015 Proxy Statement is incorporated herein by reference.

ITEM 9A. Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) at the end of the period covered by the report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. There has been no change in the Company's internal control over financial reporting during the Company's fourth quarter of the year ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report on internal control over financial reporting appears in Part II, Item 8 of this Report. This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to exemption rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The "Proposal I - Election of Directors" section of Greene County Bancorp, Inc.'s definitive Proxy Statement for Greene County Bancorp, Inc.'s 2015 Annual Meeting of Shareholders (the "2015 Proxy Statement") is incorporated herein by reference.

The Company has adopted a Code of Ethics that is applicable to the Company's officers, directors and employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics is available on the Company's website at [www.tbogc.com](http://www.tbogc.com). Amendments to and waivers from the Code of Ethics will also be disclosed on the Company's website.

ITEM 11. Executive Compensation

The "Proposal I - Election of Directors" section of Greene County Bancorp, Inc.'s 2015 Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The "Proposal I - Election of Directors" section of Greene County Bancorp, Inc.'s 2015 Proxy Statement is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions and Director Independence

The “Transactions with Certain Related Persons” section of Greene County Bancorp, Inc.’s 2015 Proxy Statement is incorporated herein by reference.

82

---

Index

ITEM 14. Principal Accountant Fees and Services

The "Proposal II - Ratification of Appointment of Auditors" section of Greene County Bancorp, Inc.'s 2015 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) The following financial statements and Report of BDO USA, LLP are included in this Annual Report on Form 10-K:

Report of BDO USA, LLP, Independent Registered Public Accounting Firm  
Consolidated Statements of Condition for the years ended June 30, 2015 and 2014  
Consolidated Statements of Income for the years ended June 30, 2015 and 2014  
Consolidated Statement of Comprehensive Income for the years ended June 30, 2015 and 2014  
Consolidated Statements of Cash Flows for the years ended June 30, 2015 and 2014  
Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2015 and 2014  
Notes to Consolidated Financial Statements  
Unaudited Quarterly Financial Data

(a)(2) List of Financial Schedules

Not applicable

(a)(3) Exhibits

- 3.1 Certification of Incorporation of Greene County Bancorp, Inc. (incorporated herein by reference to Greene County Bancorp, Inc.'s Registration statement on SB-2, file No. 333-63681 (the "SB-2")).
- 3.2 Bylaws of Greene County Bancorp, Inc. (incorporated herein by reference to Greene County Bancorp, Inc.'s SB-2)
- 4.0 Form of Stock Certificate of Greene County Bancorp, Inc. (incorporated herein by reference to the Form SB-2)
- 10.2 Employee Stock Ownership Plan (incorporated herein by reference to Greene County Bancorp, Inc.'s SB-2)

21.0 Subsidiaries of Greene County Bancorp, Inc.

23.1 Consent of BDO USA, LLP

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The following materials from Greene County Bancorp, Inc. Form 10-K for the year ended June 30, 2015, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) 101\* the Consolidated Statements of Financial Condition, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) related notes, tagged as blocks of text and in detail.

\*XBRL content to be filed by amendment.

Index

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREENE COUNTY BANCORP, INC.

Date: September 28, 2015 By: /s/ Donald E. Gibson  
Donald E. Gibson  
President and Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Michelle Plummer  
Michelle Plummer, CPA  
Executive Vice President,  
Chief Operating Officer and Chief Financial Officer  
Date: September 28, 2015

By: /s/ Jay P. Cahalan  
Jay P. Cahalan  
Director  
Date: September 28, 2015

By: /s/ David H. Jenkins  
David H. Jenkins, DVM  
Director  
Date: September 28, 2015

By: /s/ Peter W. Hogan, CPA  
Peter W. Hogan, CPA  
Director  
Date: September 28, 2015

By: /s/ Charles Schaefer  
Charles Schaefer  
Director  
Date: September 28, 2015

By: /s/ Paul Slutzky  
Paul Slutzky  
Director  
Date: September 28, 2015

By: /s/ Martin C. Smith  
Martin C. Smith  
Chairman of the Board  
Date: September 28, 2015

