

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, 2019

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:

<u>Title of class</u>	<u>Trading symbol</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.10 par value	GCBC	The Nasdaq Stock Market

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

None  
(Title of Class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging Growth Company

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

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

As of December 31, 2018, there were 8,537,814 shares outstanding of the Registrant's common stock of which 2,906,372 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of \$31.12 on December 31, 2018, the aggregate value of stock held by non-affiliates was \$90,446,000. As of September 12, 2019, there were 8,537,814 shares outstanding of the Registrant's common stock.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the 2019 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**

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## PART I

### ITEM 1. Business

#### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

- (a) changes in general market interest rates,
- (b) general economic conditions,
- (c) legislative and regulatory changes,
- (d) monetary and fiscal policies of the U.S. Treasury and the Federal Reserve,
- (e) changes in the quality or composition of Greene County Bancorp, Inc.’s loan and investment portfolios,
- (f) deposit flows,
- (g) competition, and
- (h) demand for financial services in Greene County Bancorp, Inc.’s market area.

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

#### **Non-GAAP Financial Measures**

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

**Tax-Equivalent Net Interest Income and Net Interest Margin:** Net interest income, as a component of the tabular presentation by financial institutions of Selected Financial Information regarding their recently completed operations, as well as disclosures based on that tabular presentation, is commonly presented on a tax-equivalent basis. That is, to the extent that some component of the institution's net interest income, which is presented on a before-tax basis, is exempt from taxation (e.g., is received by the institution as a result of its holdings of state or municipal obligations), an amount equal to the tax benefit derived from that component is added to the actual before-tax net interest income total. This adjustment is considered helpful in comparing one financial institution's net interest income to that of another institution or in analyzing any institution’s net interest income trend line over time, to correct any analytical distortion that might otherwise arise from the fact that financial institutions vary widely in the proportions of their portfolios that are invested in tax-exempt securities, and that even a single institution may significantly alter over time the proportion of its own portfolio that is invested in tax-exempt obligations. Moreover, net interest income is itself a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, tax-equivalent net interest income is generally used by financial institutions, again to provide a better basis of comparison from institution to institution and to better demonstrate a single institution’s performance over time. While we

present net interest income and net interest margin utilizing GAAP measures (no tax-equivalent adjustments) as a component of the tabular presentation within our disclosures, we do provide as supplemental information net interest income and net interest margin on a tax-equivalent basis.

## **General**

### **Greene County Bancorp, MHC and Greene County Bancorp, Inc.**

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 54.0% of the issued and outstanding common stock of Greene County Bancorp, Inc. The remaining shares of Greene County Bancorp, Inc. are owned by public stockholders and The Bank of Greene County's Employee Stock Ownership Plan. At June 30, 2019, Greene County Bancorp, Inc.'s assets consisted primarily of its investment in The Bank of Greene County and cash. At June 30, 2019, 3,928,550 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, 73,526 shares were held as Treasury stock and 4,609,264 shares were held by Greene County Bancorp, MHC, Greene County Bancorp, Inc.'s mutual holding company. Greene County Bancorp, 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.

Greene County Bancorp, Inc. operates as the federally chartered holding company of The Bank of Greene County, a federally chartered savings bank. 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. Greene County Bancorp, Inc.'s principal business is overseeing and directing the business of The Bank of Greene County and monitoring its cash position.

### **The Bank of Greene County**

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

The Bank of Greene County's principal business consists of attracting retail deposits from the general public in the areas surrounding its branches and investing those deposits, together with funds generated from operations and borrowings, primarily in residential mortgage loans, commercial real estate mortgage loans, consumer loans, home equity loans and commercial business loans. In addition, The Bank of Greene County invests a significant portion of its assets in state and political subdivision 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 other types of securities, as well as from servicing fees and service charges and other fees collected on its deposit accounts, and debit card fee income. Through its affiliation with Fenimore Asset Management and Infinex Corporation, The Bank of Greene County offers investment alternatives for customers, which also contributes to the Bank's revenues. Infinex Corporation acquired Essex National Securities LLP in 2016 allowing the Bank to rebrand these alternative investment services as Greene Investment Services. The Bank of Greene County's primary sources of funds are deposits, borrowings from the Federal Home Loan Bank of New York ("FHLB"), and principal and interest payments on loans and securities.

### **Greene County Commercial Bank**

The Bank of Greene County operates a limited-purpose subsidiary, 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.

## Greene Property Holdings, Ltd.

The Bank of Greene County also operates a real estate investment trust, 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.

Administrative offices for Greene County Bancorp, MHC, Greene County Bancorp, Inc., The Bank of Greene County, Greene County Commercial Bank, and Greene Property Holdings, Ltd. are located at 302 Main Street, Catskill, New York 12414-1317. The 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.

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

## Greene County Bancorp, Inc. and Subsidiaries

(in thousands)

Balance sheet data as of June 30, 2019:	Assets	Deposits	Borrowings	Equity
Greene County Bancorp, Inc. (consolidated)	\$1,269,462	\$1,120,569	\$21,600	\$112,369
The Bank of Greene County (consolidated)	1,266,257	1,122,745	21,600	107,710
Greene County Commercial Bank	500,607	423,692	-	48,170
Greene Property Holdings, Ltd.	523,928	-	-	523,928
Greene Risk Management, Inc.	3,903	-	-	2,472

## 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. At June 30, 2019, The Bank of Greene County operated 15 full-service banking offices, operations center and lending center located in its market area within the Hudson Valley Region of New York State. The Bank of Greene County opened its 16<sup>th</sup> branch in Kinderhook-Valatie, New York in July 2019.

As of 2018, the Greene County population was approximately 47,000, Columbia County was approximately 60,000, Albany County was approximately 307,000 and Ulster County was approximately 179,000. Greene County is primarily rural, and the major industry consists of tourism associated with the several ski facilities and festivals located in the Catskill Mountains. Greene County has no concentrations of manufacturing industry. Greene County is contiguous to the Albany-Schenectady-Troy metropolitan statistical area. The close proximity of Greene County to the city of Albany has made it a "bedroom" community for persons working in the Albany capital area. Greene County government and the Coxsackie Correctional Facilities are the largest employers in the County. Other large employers within the Company's market area include the Hunter Mountain and Ski Windham resort areas, LaFarge, Columbia Memorial Hospital, Taconic Farms, Ginsberg's Foods, and the Catskill, Cairo-Durham, Chatham, Greenville, Coxsackie-Athens, Hudson City, and Ravena-Coeymans-Selkirk Central School Districts. Albany County's economy is dependent on state government, health care services and higher education. Albany has also been growing in the area of technology jobs focusing on the areas of micro- and nanotechnology. Ulster County's major industry consists of tourism with a number of state parks located within the Catskill Mountains and the Shawangunk Ridge. As such, local employment is primarily within the services industry as well as government and health services.

## Competition

The Bank of Greene County faces significant competition both in making loans and in attracting deposits. The Bank of Greene County's subsidiary Greene County Commercial Bank faces similar competition in attracting municipal deposits. The Bank of Greene County's market area has a high density of financial institutions, including online competitors, many of which are branches of significantly larger institutions that have greater financial resources than The Bank of Greene County, and all of which are competitors of The Bank of Greene County to varying degrees. The Bank of Greene County's competition for loans comes principally from

commercial banks, savings banks, savings and loan associations, mortgage-banking companies, credit unions, insurance companies and other financial service companies. The Bank of Greene County faces additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Competition has also increased as a result of the lifting of restrictions on the interstate operations of financial institutions.

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

### **Lending Activities**

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

The Bank of Greene County continues to utilize high quality underwriting standards in originating real estate loans. As such, it does not engage in sub-prime lending or other exotic loan products. At the time of origination, appraisals are obtained to ensure an adequate loan-to-value ratio of the underlying collateral. Updated appraisals are obtained on loans when there is a reason to believe that there has been a change in the borrower's ability to repay the loan principal and interest or an event that would indicate a significant decline in the collateral value. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure collateral adequacy.

In an effort to manage the interest rate risk, The Bank of Greene County originates shorter-term consumer loans and other adjustable-rate loans, including many commercial loans, and residential mortgage loans with a 10 or 15 year term. 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.

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

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

**Residential, Construction and Land Loans, and Multi-family Loans.** The Bank of Greene County's primary lending activity is the origination of residential mortgage loans collateralized by property located in The Bank of Greene County's primary market area. Residential mortgage loans refer to loans collateralized by one to four-family residences. By contrast, multi-family loans refer to loans collateralized by multi-family units, such as apartment buildings. For the year ended June 30, 2019, 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, 2019, no residential mortgage loans were originated by The Bank of Greene County with private mortgage insurance. Generally, residential mortgage loans are originated for terms of up to 30 years. In recent years however, The Bank of Greene County has been successful in marketing and originating such loans with 10 and 15-year terms. The Bank of Greene County generally requires fire and casualty insurance, the establishment of a mortgage escrow account for the payment of real estate taxes, and hazard and flood insurance. The Bank of Greene County requires title insurance on most loans for the construction or purchase of residential properties collateralizing real estate loans made by The Bank of Greene County. Title insurance is not required on all mortgage loans, but is evaluated on a case by case basis.

At June 30, 2019, virtually all of The Bank of Greene County's residential mortgage loans were conforming loans and, accordingly, were eligible for sale in the secondary mortgage market. However, generally the residential mortgage loans originated by The Bank of Greene County are retained in its portfolio and are not sold into the secondary mortgage market. To the extent fixed-rate residential mortgage loans are retained by The Bank of Greene County, it is exposed to increases in market interest rates, since the yields earned on such fixed-rate assets would remain fixed, while the rates paid by The Bank of Greene County for deposits and borrowings may increase, which could result in lower net interest income.

The Bank of Greene County currently offers residential mortgage loans with fixed and adjustable interest rates. Originations of fixed-rate loans versus adjustable-rate loans are monitored on an ongoing basis and are affected significantly by the level of market interest

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank of Greene County offers fixed- and adjustable-rate home equity loans that are collateralized by the borrower's residence. Home equity loans are generally underwritten with terms not to exceed 25 years and under the same criteria that The Bank of Greene County uses to underwrite residential fixed rate loans. Home equity loans may be underwritten with terms not to exceed 25 years and with a loan to value ratio of 80% when combined with the principal balance of the existing mortgage loan. The Bank of Greene County appraises the property collateralizing the loan at the time of the loan application (but not thereafter) in order to determine the value of the property collateralizing the home equity loans. Home equity loans may have an additional inherent risk if The Bank of Greene County does not hold the first mortgage. The Bank of Greene County may stand in a secondary position in the event of collateral liquidation resulting in a greater chance of insufficiency to meet all obligations.

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

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

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

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

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

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

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

At June 30, 2019, the largest aggregate amount loaned by The Bank of Greene County to one borrower consisted of three commercial mortgages with an outstanding balance of \$11.5 million. This loan relationship was performing in accordance with its terms at June 30, 2019.

### **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 and meeting collateral requirements for municipal deposits in excess of FDIC insurance limits. 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, 2019, 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, 2019 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.

**State and Political Subdivision Securities.** The Bank of Greene County and its subsidiary Greene County Commercial Bank purchases state and political subdivision securities in order to: (i) generate positive interest rate spread with minimal administrative expense; (ii) lower credit risk as a result of purchasing general obligations which are subject to the levy of ad valorem taxes within the municipalities jurisdiction; (iii) increase liquidity, (iv) provide low cost funding to the local communities within the Company's market area, and (v) serve as collateral for municipal deposits in excess of FDIC limits. State and political subdivision securities purchased within New York State are exempt from taxes for both Federal and State income tax purposes. As a result, the yield on these securities as reported within the financial statements, are lower than would be attained on other investment options. The portfolio consists of either short-term obligations, due within one year, or are serial or statutory installment bonds which require semi-annual or annual payments of principal and interest. Prepayment risk on these securities is low as most of the bonds are non-callable.

Management believes that credit risk on its state and political subdivision securities portfolio is low. Management analyzes each security prior to purchase and closely monitors these securities by obtaining data collected from the New York State Comptroller's office when published annually. Management also reviews any underlying ratings of the securities in its assessment of credit risk.

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

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

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

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

Asset-backed securities are a type of debt security collateralized by various loans and assets including: automobile loans, equipment leases, credit card receivables, home equity and improvement loans, manufactured housing, student loans and other consumer loans. In the case of The Bank of Greene County, its portfolio of asset-backed securities consisted of one investment which was collateralized by home equity loans, and matured in fiscal 2018. There are no new asset-backed securities in fiscal 2019.

## Sources of Funds

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

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

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

Greene County Commercial Bank's purpose is to attract deposits from local municipalities. Greene County Commercial Bank had \$423.7 million in deposits at June 30, 2019.

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

The Company has an Irrevocable Letter of Credit Reimbursement Agreement with the FHLB, whereby upon The Bank of Greene County's request, on behalf of Greene County Commercial Bank, an irrevocable letter of credit is issued to secure municipal transactional deposit accounts. These letters of credit are secured by residential mortgage and commercial real estate loans. The amount of funds available to the Company through the FHLB line of credit is reduced by any letters of credit outstanding. At June 30, 2019, there were \$80.6 million of 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, 2019, The Bank of Greene County had 161 full-time employees and 11 part-time employees. Greene County Bancorp, Inc. has no employees who are not also employees of The Bank of Greene County. 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, 2019, 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, Greene County Commercial Bank and Greene Risk Management, Inc. Consequently, Greene County Bancorp, MHC is only eligible for a 65% dividends-received deduction in respect of dividends from Greene County Bancorp, Inc.

On December 22, 2017, The Tax Cuts and Jobs Act of 2017 ("Tax Act") was enacted. A number of provisions impacted us during the fiscal years ended June 30, 2019 and 2018.

- **Tax Rate** The Tax Act replaces the graduated corporate tax rates applicable under prior law, which imposed a maximum tax rate of 35%, with a reduced 21% flat tax rate. This reduction will generally result in future increased earnings and capital as well as reducing our net deferred tax asset. Generally accepted accounting principles ("GAAP") requires that the impact of the provisions of the Tax Act be accounted for in the period of enactment. Accordingly, a benefit of \$251,000 was recorded in December 2017, which represents the impact of the change in the Federal tax rate.
- **Employee Compensation** A publicly held corporation is not permitted to deduct compensation in excess of \$1 million per year paid to certain employees. The Tax Act eliminates certain exceptions to the \$1 million limit applicable under prior law related to performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals. Based on our current compensation plans, we do not expect to be impacted by this limitation.
- **Business Asset Expensing** The Tax Act allows taxpayers to immediately expense the entire cost of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property.) This 100% bonus depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).
- **Interest Expense** The Tax Act limits a taxpayer's annual deduction of business interest expense to the sum of (i) business interest income and (ii) 30% of "adjusted taxable income," defined as business's taxable income without taking into account business interest income or expense, net operating losses, and, for 2018 through 2021, depreciation, amortization and depletion. Because we generate significant amounts of net interest income, we do not expect to be impacted by this limitation.

The foregoing description of the impact of the Tax Act on us should be read in conjunction with Note 13, Income Taxes, of the notes to our Consolidated Financial Statements.

### State Taxation

Greene County Bancorp, MHC, Greene County Bancorp, Inc., The Bank of Greene County, Greene County Commercial Bank, and Greene Property Holdings, Ltd. report income on a combined fiscal year basis to New York State. The New York State franchise tax is imposed in an amount equal to the greater of 6.5% of Business Income, 0.075% of average Business Capital or a fixed dollar amount based on New York sourced gross receipts. All intercompany dividend distributions are eliminated in the calculation of Combined Business Income.

## REGULATION

### General

The Bank of Greene County is a federally chartered savings bank and Greene County Commercial Bank is a New York-chartered bank. The Federal Deposit Insurance Corporation (“FDIC”) through the DIF (“Deposit Insurance Fund”) insures their deposit accounts up to applicable limits. The Bank of Greene County and Greene County Commercial Bank are subject to extensive regulation by the Office of the Comptroller of the Currency (“OCC”) and the New York State Department of Financial Services (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 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.

### 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.

**Examinations and Assessments.** The Bank of Greene County is primarily supervised by the OCC, and as such is required to file reports with and is subject to periodic examination by the OCC. The Bank of Greene County also is required to pay assessments to the OCC to fund the agency’s operations.

**Capital Requirements.** Federal regulations require FDIC-insured depository institutions, including federal savings associations, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and Total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. The regulations also establish a minimum required leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders’ equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income (“AOCI”), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). The Bank of Greene County and Greene County Commercial Bank have exercised this one-time opt-out and therefore do not include AOCI in its regulatory capital determinations. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, an institution’s assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risk deemed inherent in the type of asset. Higher levels of capital are

required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a “Community Bank Leverage Ratio” (the ratio of a bank’s tangible equity capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution’s risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

At June 30, 2019, The Bank of Greene County’s and Greene County Commercial Bank’s capital exceeded all applicable requirements.

**Prompt Corrective Action.** Under the federal Prompt Corrective Action statute, the OCC is required to take supervisory actions against undercapitalized institutions under its jurisdiction, the severity of which depends upon the institution’s level of capital. An institution that has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a common equity Tier 1 ratio of less than 4.5% or a leverage ratio of less than 4% is considered to be “undercapitalized.” A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a common equity Tier 1 ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be “significantly undercapitalized.” A savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be “critically undercapitalized.”

Generally, the OCC is required to appoint a receiver or conservator for a federal savings association that becomes “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 that a federal savings association is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Any holding company of a federal savings association that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5.0% of the savings association’s assets at the time it was 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. Institutions that are undercapitalized become subject to certain mandatory measures such as restrictions on capital distributions and asset growth. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized federal savings associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At June 30, 2019, The Bank of Greene County met the criteria for being considered “well capitalized,” which means that its total risk-based capital ratio exceeded 10%, its Tier 1 risk-based ratio exceeded 8.0%, its common equity Tier 1 ratio exceeded 6.5% and its leverage ratio exceeded 5.0%.

**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, 2019, The Bank of Greene County was in compliance with the loans-to-one borrower limitations.

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

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

“Qualified thrift investments” include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other

purposes up to a limit of 20% of portfolio assets. “Qualified thrift investments” also include 100% of an institution’s credit card loans, education loans and small business loans. The Bank of Greene County also may satisfy the QTL test by qualifying as a “domestic building and loan association” as defined in the Internal Revenue Code.

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

A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. During the year ended June 30, 2018, The Bank of Greene County switched from the HOLA QTL test to the IRS DBLA test and satisfied the requirements of this test at and for the years ended June 30, 2019 and 2018.

**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 notices that accurately reflect its privacy policies and practices. The Bank of Greene County is also required to make its privacy policies available to customers through its website. 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.

**Cybersecurity.** In addition to the provisions in the Gramm-Leach-Bliley Act relating to data security (discussed below), Greene County Bancorp, Inc. and its subsidiaries are subject to many federal and state laws, regulations and regulatory interpretations which impose standards and requirements related to cybersecurity. For example, in March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. Financial institutions that fail to observe this regulatory guidance on cybersecurity may be subject to various regulatory sanctions, including financial penalties.

**Anti-Money Laundering and OFAC.** Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's compliance in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The U.S. Department of the Treasury's Office of Foreign Assets Control, or "OFAC," is responsible for helping to insure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If The Bank of Greene County finds a name on any transaction, account or wire transfer that is on an OFAC list, The Bank of Greene County must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities. The U.S. Treasury Department's Financial Crimes Enforcement Network ("FinCEN") issued a final rule in 2016 increasing customer due diligence requirements for banks, including adding a requirement to identify and verify the identity of beneficial owners of customers that are legal entities, subject to certain exclusions and exemptions. Compliance with this rule was required in May 2018.

**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.

**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.

The FDIC's assessment system is based on each institution's total assets less tangible capital, and ranges from 1.5 to 40 basis points.

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

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 matured in 2017 through 2019. For the year ended June 30, 2019, the annualized Financing Corporation assessment was equal to 0.145 basis points of total assets less tangible capital. For the fiscal year June 30, 2019, The Bank of Greene County, and its subsidiary Greene County Commercial Bank, jointly paid \$16,018 related to the FICO bonds.

On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36 percent. Because the reserve ratio has exceeded 1.35 percent, two deposit insurance assessment changes occurred under the FDIC regulations:

- Surcharges on large banks (total consolidated assets of \$10 billion or more) ended; the last surcharge on large banks was collected on December 28, 2018.
- Small banks (total consolidated assets of less than \$10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15 percent to 1.35 percent, to be applied when the reserve ratio is at least 1.38 percent.

In January 2019, the FDIC provided notification to the Company that a credit in the amount of \$177,144 was calculated for The Bank of Greene County and a credit in the amount of \$91,090 was calculated for Greene County Commercial Bank. Because the DIF reserve ratio was below 1.38 percent as of December 31, 2018, and March 31, 2019, the FDIC did not offset regular deposit insurance assessments with credits on the March 2019 and June 2019 invoices.

### **Proposed Federal Regulation**

On September 10, 2018, the OCC issued a proposed rule implementing a section of the Economic Growth, Relief and Consumer Protection Act that permits an eligible federal savings association with total consolidated assets of \$20 billion or less as of December 31, 2017 to elect to operate with national bank powers without converting to a national bank charter. An eligible savings association is a federal savings association that: (1) is well capitalized; (2) has a CAMELs composite rating of 1 or 2; (3) has a consumer compliance rating of 1 or 2; (4) has a Community Reinvestment Act rating of "outstanding" or "satisfactory," if applicable; and (5) is not subject to an enforcement action. The proposed rule is subject to change, and the OCC will issue a final rule after reviewing all comments on the proposal.

**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 11 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, 2019, 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, 2019, The Bank of Greene County was in compliance with these reserve requirements.

### **Other Regulations**

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

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

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

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

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

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

**Capital.** Historically, savings and loan holding companies have not been subject to specific regulatory capital requirements. The Dodd-Frank Act, however, required the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. On January 29, 2015, the Federal Reserve Bank Board revised the Small Bank Holding Company Policy Statement ("Policy Statement") to raise the total consolidated asset limit from \$500 million to \$1 billion, and expand the scope of the Policy Statement to include savings and loan holding companies (SLHCs). In conjunction with these revisions, the Board proposed changes to regulatory reports effective in 2015 to lessen the reporting burden on smaller institutions. On September 10, 2018, the Federal Reserve Bank Board further revised the total consolidated asset limit from \$1 billion to \$3 billion. 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 \$0.50 per share to be declared by the Company for the four quarters ending June 30, 2019. The waiver of dividends beyond this period are subject to the MHC obtaining approval of its members at a special meeting of members and receive the non-objection of the Federal Reserve Bank of Philadelphia for such dividend waivers for the four quarters subsequent to the approval. Therefore, its ability to waive its right to receive dividends beyond this date cannot be reasonably determined at this time.

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

### **Commercial Bank Regulation**

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

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

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

At June 30, 2019, 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.

### **Reports to Security Holders**

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

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

### **ITEM 1A.      Risk Factors**

Not applicable to smaller reporting companies.

### **ITEM 1B.      Unresolved Staff Comments**

None.

### **ITEM 2.      Properties**

Greene County Bancorp, Inc. and The Bank of Greene County maintain their executive offices at the Administration Center, 302 Main Street, Catskill, New York. The Bank of Greene County also has an operations center and lending center located in Catskill, New York. At June 30, 2019, The Bank of Greene County conducted its business through 15 full-service banking offices. We own nine branch offices and lease seven branch offices located within Greene, Columbia, Albany and Ulster Counties. Greene County Commercial Bank conducts its business through the branch offices of The Bank of Greene County. In the opinion of management, the physical properties of our holding company and our various subsidiaries are suitable and adequate. For more information on our properties, see Notes 1, 5 and 15 set forth in Part II, Item 8 Financial Statements and Supplementary Data, of this Report.

### **ITEM 3.      Legal Proceedings**

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

### **ITEM 4.      Mine Safety Disclosures**

Not applicable.

## PART II

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

Greene County Bancorp, Inc.'s common stock is listed on the NASDAQ Capital Market under the symbol "GCBC". As of September 6, 2019 Greene County Bancorp, Inc. had 464 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms) and 8,537,814 shares outstanding. As of such date, Greene County Bancorp, MHC (the "MHC"), Greene County Bancorp, Inc.'s mutual holding company, held 4,609,264 shares of common stock, or 54.0% of total shares outstanding. Consequently, shareholders other than the MHC held 3,928,550 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 \$0.50 per share to be declared by the Company for the four quarters ending June 30, 2019. 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.

There were no sales of unregistered securities during fiscal 2019 or 2018. On August 22, 2007, the Board of Directors authorized a stock repurchase program pursuant of up to 5% of its outstanding shares (excluding shares held by Greene County Bancorp, MHC, the Company's mutual holding company), or up to 184,692 shares, adjusted for a 2-for-1 stock split. As of June 30, 2019, the Company had repurchased 124,956 shares in accordance with the stock repurchase program. There were no shares repurchased during fiscal 2019 or 2018. The Company currently does not intend to repurchase any additional shares under this stock repurchase program.

## **ITEM 6.      Selected Financial Data**

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

*(Dollars in thousands, except per share amounts)*

	2019	2018	2017
<b>SELECTED FINANCIAL CONDITION DATA:</b>			
Total assets	\$ 1,269,462	\$ 1,151,478	\$ 982,291
Loans receivable, net	785,738	704,431	624,187
Securities available-for-sale	122,728	120,806	91,299
Securities held-to-maturity	304,208	274,550	223,830
Equity Securities	253	217	184
Deposits	1,120,569	1,025,234	859,535
Shareholders' equity	112,369	96,191	83,521
<b>AVERAGE BALANCES:</b>			
Total assets	1,198,340	1,073,980	913,423
Interest-earning assets	1,180,201	1,056,101	895,659
Loans receivable, net	745,161	659,132	577,854
Securities	400,894	359,661	300,270
Deposits	1,052,146	952,753	786,923
Borrowings	30,192	22,913	38,760
Shareholders' equity	103,894	89,540	78,518
<b>SELECTED OPERATIONS DATA:</b>			
Total interest income	46,308	38,928	33,459
Total interest expense	6,308	4,014	3,077
Net interest income	40,000	34,914	30,382
Provision for loan losses	1,659	1,530	1,911
Net interest income after provision for loan losses	38,341	33,384	28,471
Total noninterest income	8,361	7,481	6,424
Total noninterest expense	25,676	22,362	19,967
Income before provision for income taxes	21,026	18,503	14,928
Provision for income taxes	3,542	4,095	3,741
Net income	17,484	14,408	11,187
<b>FINANCIAL RATIOS:</b>			
Return on average assets <sup>1</sup>	1.46%	1.34%	1.22%
Return on average shareholders' equity <sup>2</sup>	16.83	16.09	14.25
Noninterest expenses to average total assets	2.14	2.08	2.19
Average interest-earning assets to average interest-bearing liabilities	120.31	120.36	121.66
Net interest rate spread <sup>3</sup>	3.28	3.23	3.32
Net interest margin <sup>4</sup>	3.39	3.31	3.39
Efficiency ratio <sup>5</sup>	53.09	52.75	54.25
Shareholders' equity to total assets, at end of period	8.85	8.35	8.50
Average shareholders' equity to average assets	8.67	8.34	8.60
Dividend payout ratio <sup>6</sup>	19.51	23.08	28.79
Actual dividends declared to net income <sup>7</sup>	11.65	10.59	17.16
Nonperforming assets to total assets, at end of period	0.29	0.32	0.45
Nonperforming loans to net loans, at end of period	0.46	0.51	0.58
Allowance for loan losses to nonperforming loans	362.84	335.96	302.72
Allowance for loan losses to total loans receivable	1.65	1.68	1.74
Book value per share <sup>8</sup>	\$ 13.16	\$ 11.27	\$ 9.82
Basic earnings per share	2.05	1.69	1.32
Diluted earnings per share	2.05	1.69	1.31
<b>OTHER DATA:</b>			
Closing market price of common stock	\$ 29.42	\$ 33.90	\$ 27.20
Number of full-service offices	15	14	13
Number of full-time equivalent employees	169	156	144

<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.

## **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. At June 30, 2019, The Bank of Greene County operated 15 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 providing financial services to 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 54.0% 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, 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.

## 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.

## FINANCIAL OVERVIEW

Net income for the year ended June 30, 2019 amounted to \$17.5 million, or \$2.05 per basic and diluted share, as compared to \$14.4 million, or \$1.69 per basic and diluted share, for the year ended June 30, 2018, an increase of \$3.1 million, or 21.5%. The increase in net income was primarily the result of increases of \$5.1 million in net interest income, \$880,000 in noninterest income, and \$553,000 decrease in provision for income taxes which was partially offset by an increase of \$3.3 million in noninterest expense. The change in net interest income resulted from growth in interest-earning assets when comparing the years ended June 30, 2019 and 2018. Growth in interest-earning assets was within both investment securities and loans. Growth in loans was primarily in commercial real estate mortgages and commercial loans which are generally higher yielding assets.

Net interest spread and margin increased five and eight basis points respectively, when comparing the years ended June 30, 2019 and 2018. Net interest spread increased to 3.28% for the year ended June 30, 2019 compared to 3.23% for the year ended June 30, 2018. Net interest margin increased to 3.39% for the year ended June 30, 2019 compared to 3.31% for the year ended June 30, 2018. Changes in noninterest income and noninterest expense are more fully explained within the Comparison of Operating Results for the Years Ended June 30, 2019 and 2018 contained herein.

Total assets grew \$118.0 million, or 10.2%, to \$1.3 billion at June 30, 2019 as compared to \$1.2 billion at June 30, 2018. Net loans increased \$81.3 million, or 11.5%, to \$785.7 million at June 30, 2019 as compared to \$704.4 million at June 30, 2018. Securities classified as available-for-sale and held-to-maturity increased \$31.6 million, or 8.0%, to \$426.9 million at June 30, 2019 as compared to \$395.3 million at June 30, 2018. Deposits grew \$95.3 million, or 9.3%, to \$1.1 billion at June 30, 2019 as compared to \$1.0 billion at June 30, 2018. Total shareholders' equity amounted to \$112.4 million and \$96.2 million at June 30, 2019 and 2018, respectively, or 8.9% and 8.4% of total assets, respectively.

## Comparison of Financial Condition as of June 30, 2019 and 2018

### SECURITIES

Securities available-for-sale and held-to-maturity increased \$31.6 million, or 8.0%, to \$426.9 million at June 30, 2019 as compared to \$395.3 million at June 30, 2018. Securities purchased totaled \$191.3 million during the year ended June 30, 2019 and consisted of \$150.9 million of state and political subdivision securities, \$40.1 million of mortgage backed securities, and \$364,000 of other securities. Principal pay-downs and maturities during fiscal 2019 amounted to \$160.7 million, of which \$29.4 million were mortgage-backed securities, \$131.0 million were state and political subdivision securities, and \$250,000 consisted of corporate debt securities. Greene County Bancorp, Inc. holds 58.3% of its securities portfolio at June 30, 2019 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.

	At June 30,					
	2019		2018		2017	
	Carrying Amount	Percent of total	Carrying Amount	Percent of total	Carrying Amount	Percent of total
<i>(Dollars in thousands)</i>						
<i>Securities available-for-sale:</i>						
U.S. government sponsored enterprises	\$ 5,553	1.3 %	\$ 5,531	1.4 %	\$ 4,717	1.5 %
State and political subdivisions	96,570	22.6	92,255	23.4	58,112	18.4
Mortgage-backed securities-residential	2,645	0.6	3,247	0.8	4,913	1.6
Mortgage-backed securities-multi-family	16,410	3.8	18,069	4.6	20,765	6.6
Asset-backed securities	-	-	-	-	1	0.0
Corporate debt securities	1,550	0.4	1,704	0.4	2,791	0.9
Total securities available-for-sale	122,728	28.7	120,806	30.6	91,299	29.0
<i>Securities held-to-maturity:</i>						
U.S. government sponsored enterprises	9,249	2.2	9,245	2.3	6,000	1.9
State and political subdivisions	152,358	35.7	136,335	34.5	115,805	36.7
Mortgage-backed securities-residential	4,570	1.1	6,472	1.6	10,798	3.4
Mortgage-backed securities-multi-family	134,970	31.6	118,780	30.0	88,702	28.2
Corporate debt securities	1,478	0.3	1,466	0.4	1,000	0.3
Other securities	1,583	0.4	2,252	0.6	1,525	0.5
Total securities held-to-maturity	304,208	71.3	274,550	69.4	223,830	71.0
Total securities	\$ 426,936	100.0 %	\$ 395,356	100.0 %	\$ 315,129	100.0 %

#### Investment Maturity Schedule

The estimated fair value of debt securities at June 30, 2019 by contractual maturity are shown below. Mortgage-backed securities balances are presented based on final maturity date and do not reflect the expected cash flows from monthly principal repayments. Expected maturities may differ from contractual maturities, because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. No tax-equivalent adjustments were made in calculating the weighted average yield.

<i>(Dollars in thousands)</i>						Total
	In One Year or Less	After One Year through Five Years	After Five Years through Ten Years	After Ten Years		
<i>Securities available-for-sale:</i>						
U.S. government sponsored enterprises	\$ 4,037	\$ 516	\$ 1,000	\$ -	\$ 5,553	
State and political subdivisions	96,570	-	-	-	96,570	
Mortgage-backed securities-residential	-	100	1,614	931	2,645	
Mortgage-backed securities-multi-family	-	16,410	-	-	16,410	
Corporate debt securities	-	263	1,287	-	1,550	
Total securities available-for-sale	100,607	17,289	3,901	931	122,728	
<i>Securities held-to-maturity:</i>						
U.S. government sponsored enterprises	-	1,986	7,250	-	9,236	
State and political subdivisions	23,293	71,856	43,653	19,745	158,547	
Mortgage-backed securities-residential	26	1,719	2,101	821	4,667	
Mortgage-backed securities-multi-family	-	66,761	64,439	6,875	138,075	
Corporate debt securities	-	-	1,018	453	1,471	
Other securities	383	962	212	60	1,617	
Total securities held-to-maturity	23,702	143,284	118,673	27,954	313,613	
Total securities	\$ 124,309	\$ 160,573	\$ 122,574	\$ 28,885	\$ 436,341	
Weighted Average Yield	2.28 %	2.65 %	2.91 %	3.37 %	2.67 %	

## LOANS

Net loans receivable increased \$81.3 million, or 11.5%, to \$785.7 million at June 30, 2019 from \$704.4 million at June 30, 2018. The loan growth experienced during the year consisted primarily of \$45.7 million in commercial real estate loans, \$18.9 million in commercial loans, \$9.6 million in multi-family real estate loans, and \$12.0 million in residential real estate loans, partially offset by a \$5.6 million decrease in construction loans. The Company continues to experience loan growth as a result of continued growth in customer base within its newest markets in Ulster and Columbia counties, and its relationships with other financial institutions in originating loan participations. We believe that the continued low interest rate environment and strong customer satisfaction from personal service continued to enhance loan growth. If long term rates begin to rise, the Company anticipates some slowdown in new loan demand as well as refinancing activities. The Bank of Greene County continues to use a conservative underwriting policy in regard to all loan originations, and does not engage in sub-prime lending or other exotic loan products. A significant decline in home values, however, in the Company's markets could have a negative effect on the consolidated results of operations, as any such decline in home values would likely lead to a decrease in residential real estate loans and new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and the residential real estate loan portfolios and result in increased losses in these portfolios. Updated appraisals are obtained on loans when there is a reason to believe that there has been a change in the borrower's ability to repay the loan principal and interest, generally, when a loan is in a delinquent status. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure continued collateral adequacy.

### 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.

	2019		2018		At June 30, 2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<i>(Dollars in thousands)</i>										
Real estate loans:										
Residential real estate	\$ 267,802	33.55%	\$ 255,848	35.75%	\$ 245,331	38.67%	\$ 234,992	44.23%	\$ 226,648	50.28%
Residential construction and land	7,462	0.93	9,951	1.39	7,160	1.13	5,575	1.05	3,621	0.81
Multi-family	24,592	3.08	14,961	2.09	9,199	1.45	3,918	0.74	4,287	0.95
Commercial real estate	329,668	41.31	283,935	39.68	257,964	40.67	192,678	36.27	142,323	31.57
Commercial construction	36,361	4.56	39,366	5.50	28,430	4.48	20,159	3.79	8,936	1.98
Total real estate loans	665,885	83.43	604,061	84.41	548,084	86.40	457,322	86.08	385,815	85.59
Consumer loans										
Home equity	23,185	2.91	21,919	3.06	21,076	3.32	20,893	3.93	21,019	4.66
Consumer installment <sup>(1)</sup>	5,481	0.69	5,017	0.70	4,790	0.76	4,350	0.82	4,123	0.92
Total consumer loans	28,666	3.60	26,936	3.76	25,866	4.08	25,243	4.75	25,142	5.58
Commercial loans	103,554	12.97	84,644	11.83	60,381	9.52	48,725	9.17	39,798	8.83
Total consumer loans and commercial loans	132,220	16.57	111,580	15.59	86,247	13.60	73,968	13.92	64,940	14.41
Total gross loans	798,105	<u>100.00%</u>	715,641	<u>100.00%</u>	634,331	<u>100.00%</u>	531,290	<u>100.00%</u>	450,755	<u>100.00%</u>
Less:										
Allowance for loan losses	(13,200)		(12,024)		(11,022)		(9,485)		(8,142)	
Deferred fees and costs	833		814		878		959		883	
Total loans receivable, net	<u>\$ 785,738</u>		<u>\$ 704,431</u>		<u>\$ 624,187</u>		<u>\$ 522,764</u>		<u>\$ 443,496</u>	

<sup>(1)</sup> Includes direct automobile loans (on both new and used automobiles) and personal loans.

### Loan Maturity Schedule

The following table sets forth certain information as of June 30, 2019 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."

<i>(In thousands)</i>	Within 1 Year	1 Year Through 3 Years	3 Years Through 5 Years	5 Years Through 10 Years	Beyond 10 Years	Total
Residential real estate	\$ 6,350	\$ 17,129	\$ 37,974	\$ 54,660	\$ 151,689	\$ 267,802
Residential construction and land	7,028	37	62	335	-	7,462
Multi-family	2,062	6,111	8,980	7,018	421	24,592
Commercial real estate	77,956	57,549	79,495	90,589	24,079	329,668
Commercial construction	35,676	685	-	-	-	36,361
Consumer loans	18,289	2,310	3,912	4,108	47	28,666
Commercial loans	40,184	12,383	15,949	31,028	4,010	103,554
Total loan portfolio	<u>\$ 187,545</u>	<u>\$ 96,204</u>	<u>\$ 146,372</u>	<u>\$ 187,738</u>	<u>\$ 180,246</u>	<u>\$ 798,105</u>

The total amount of the above loans that mature or are due after June 30, 2020 that have fixed interest rates is \$372.6 million while the total amount of loans that mature or are due after such date that have adjustable interest rates is \$238.0 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, 2019, The Bank of Greene County had \$6.7 million of loans classified as substandard, and \$10.4 million of loans designated as special mention. No loans were classified as either doubtful or loss at June 30, 2019.

### Nonaccrual Loans and Nonperforming Assets

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

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

Allowance for Loan Losses and impaired loans please refer to Part II, Item 8 Financial Statements and Supplemental Data, *Note 4 Loans* of this Report. A loan does not have to be 90 days delinquent in order to be classified as nonperforming. Foreclosed real estate is considered to be a nonperforming asset.

Analysis of Nonaccrual Loans, Nonperforming Assets and Restructured Loans

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

<i>(Dollars in thousands)</i>	At June 30,				
	2019	2018	2017	2016	2015
<b>Nonaccrual loans:</b>					
Residential real estate	\$ 2,474	\$ 1,778	\$ 1,240	\$ 1,207	\$ 1,087
Commercial real estate	598	1,147	1,452	1,899	2,964
Commercial construction	-	-	176	-	-
Home equity	452	298	218	18	169
Consumer installment	6	18	10	-	-
Commercial	108	276	476	202	388
<b>Total nonaccrual loans</b>	<b>3,638</b>	<b>3,517</b>	<b>3,572</b>	<b>3,326</b>	<b>4,608</b>
<b>Accruing loans delinquent 90 days or more:</b>					
Residential real estate	-	62	69	77	84
<b>Total accruing loans delinquent 90 days or more</b>	<b>-</b>	<b>62</b>	<b>69</b>	<b>77</b>	<b>84</b>
<b>Foreclosed real estate:</b>					
Residential real estate	53	119	-	61	847
Residential construction & land	-	-	-	65	-
Commercial real estate	-	-	799	244	-
<b>Total foreclosed real estate</b>	<b>53</b>	<b>119</b>	<b>799</b>	<b>370</b>	<b>847</b>
<b>Total nonperforming assets</b>	<b>\$ 3,691</b>	<b>\$ 3,698</b>	<b>\$ 4,440</b>	<b>\$ 3,773</b>	<b>\$ 5,539</b>
<b>Troubled debt restructuring:</b>					
Nonperforming (included above)	\$ 531	\$ 774	\$ 932	\$ 1,645	\$ 2,002
Performing (accruing and excluded above)	1,368	1,557	916	934	965
Nonperforming assets to total assets	0.29 %	0.32 %	0.45 %	0.43 %	0.75 %
Nonperforming loans to net loans	0.46 %	0.51 %	0.58 %	0.65 %	1.06 %

The table below details additional information related to nonaccrual loans:

<i>(In thousands)</i>	For the years ended June 30,		
	2019	2018	2017
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 257	\$ 230	\$ 227
Interest income that was recorded on nonaccrual loans	146	125	148

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

<i>(In thousands)</i>	For the years ended June 30,		
	2019	2018	2017
Balance of impaired loans, with a valuation allowance	\$ 2,000	\$ 2,799	\$ 2,071
Allowances relating to impaired loans included in allowance for loan losses	262	482	436
Balance of impaired loans, without a valuation allowance	1,894	1,349	1,181
Average balance of impaired loans for the years ended	3,982	3,955	3,335
Interest income recorded on impaired loans during the years ended	160	100	137

Nonperforming assets amounted to \$3.7 million at June 30, 2019 and 2018, respectively. Total impaired loans amounted to \$3.9 million at June 30, 2019 compared to \$4.1 million at June 30, 2018, a decrease of \$254,000, or 6.1%. The decrease in impaired loans was the result of partial charge-offs on residential loans. Impaired loans include loans that have been modified in a troubled debt restructuring and are performing under the modified terms and have therefore been returned to performing status.

Loans on nonaccrual status totaled \$3.6 million at June 30, 2019 of which \$1.6 million were in the process of foreclosure. At June 30, 2019, there were 12 residential loans in the process of foreclosure totaling \$1.5 million. Included in nonaccrual loans were \$1.8 million of loans which were less than 90 days past due at June 30, 2019, 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 \$175,000 of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with The Bank of Greene County to bring the loans current over a specified period of time (resulting in an insignificant delay in repayment). During this term of the forbearance agreement, The Bank of Greene County has agreed not to continue foreclosure proceedings. Loans on nonaccrual status totaled \$3.5 million at June 30, 2018 of which \$1.9 million were in the process of foreclosure. Included in nonaccrual loans were \$1.3 million of loans which were less than 90 days past due at June 30, 2018, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due at June 30, 2018 were \$128,000 of loans which were making payments pursuant to forbearance agreements.

#### 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 Bank of Greene County's allowance for loan losses. Such agencies may require 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. 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 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. 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.

Analysis of allowance for loan losses activity

<i>(Dollars in thousands)</i>	At or for the Years Ended June 30,				
	2019	2018	2017	2016	2015
Balance at the beginning of the period	\$ 12,024	\$ 11,022	\$ 9,485	\$ 8,142	\$ 7,419
Charge-offs:					
Residential real estate	287	141	90	-	390
Multi-family	-	-	-	-	-
Commercial real estate	74	-	39	162	133
Home equity	-	-	-	-	121
Consumer installment	374	318	270	245	236
Commercial loans	51	159	66	20	48
Total loans charged off	786	618	465	427	928
Recoveries:					
Residential real estate	13	-	-	-	6
Commercial real estate	-	-	-	17	-
Consumer installment	137	85	88	78	61
Commercial loans	153	5	3	2	28
Total recoveries	303	90	91	97	95
Net charge-offs	483	528	374	330	833
Provisions charged to operations	1,659	1,530	1,911	1,673	1,556
Balance at the end of the period	\$ 13,200	\$ 12,024	\$ 11,022	\$ 9,485	\$ 8,142
Net charge-offs to average loans outstanding	0.06%	0.08%	0.06%	0.07%	0.20%
Net charge-offs to nonperforming assets	13.09	14.28	8.42	8.75	15.04
Allowance for loan losses to nonperforming loans	362.84	335.96	302.72	278.72	173.53
Allowance for loan losses to total loans receivable	1.65	1.68	1.74	1.79	1.81
Net charge-offs to average assets	0.04	0.05	0.04	0.04	0.12

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.

<i>(Dollars in thousands)</i>	At June 30,									
	2019		2018		2017		2016		2015	
	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans	Amount of loan loss allowance	Percent of loans in each category to total loans
Residential real estate	\$ 2,026	33.6 %	\$ 2,116	35.8 %	\$ 2,289	38.7 %	\$ 2,396	44.2 %	\$ 2,454	50.3 %
Residential construction and land	87	0.9	114	1.4	89	1.1	75	1.1	50	0.8
Multi-family	180	3.1	162	2.1	43	1.4	22	0.7	40	0.9
Commercial real estate	7,110	41.3	5,979	39.6	5,589	40.7	4,541	36.3	3,699	31.6
Commercial construction	872	4.5	950	5.5	687	4.5	502	3.8	233	2.0
Home equity	314	2.9	317	3.1	234	3.3	309	3.9	314	4.7
Consumer installment	250	0.7	224	0.7	231	0.8	228	0.8	223	0.9
Commercial loans	2,361	13.0	2,128	11.8	1,680	9.5	1,412	9.2	1,129	8.8
Unallocated	-	-	34	-	180	-	-	-	-	-
Totals	\$ 13,200	100.0 %	\$ 12,024	100.0 %	\$ 11,022	100.0 %	\$ 9,485	100.0 %	\$ 8,142	100.0 %

## PREMISES AND EQUIPMENT

Premises and equipment amounted to \$13.3 million at June 30, 2019 and 2018, respectively. Purchases totaled \$589,000 during the year ended June 30, 2019, consisting primarily of building improvements and equipment for a new branch located in Woodstock, New York. Purchases totaled \$324,000 during the year ended June 30, 2018, consisting primarily of building improvements and equipment for new branches located in Copake and Woodstock, NY. Depreciation for the year ended June 30, 2019 totaled \$638,000, compared to \$635,000 for the year ended June 30, 2018. There were no disposals of premises and equipment during the fiscal years ended June 30, 2019 and 2018.

## PREPAID EXPENSES AND OTHER ASSETS

Other assets, consisting primarily of accrued interest receivable, foreclosed real estate and prepaid expenses, totaled \$9.1 million at June 30, 2019, compared to \$7.7 million at June 30, 2018, an increase of \$1.4 million. This increase was due to an increase of \$713,000 in deferred taxes, accrued interest receivable of \$796,000, and prepaid expenses of \$43,000. The increase in accrued interest receivable was the result of the growth in interest-earning assets during the year ended June 30, 2019.

Real estate acquired as a result of foreclosure, or in-substance foreclosure, is classified as foreclosed real estate ("FRE") until such time as it is sold. When real estate is classified as FRE, it is recorded at its fair value, less estimated costs of disposal establishing a new cost basis. Upon transfer to FRE, if the value of the property is less than the loan, less any related specific loan loss provisions, the difference is charged against the allowance for loan losses. Any subsequent write-down of FRE is charged against earnings. FRE totaled \$53,000 at June 30, 2019, and consisted of one residential real estate property.

## DEPOSITS

Total deposits increased to \$1.1 billion at June 30, 2019 from \$1.0 billion at June 30, 2018, an increase of \$95.3 million, or 9.3%. This increase was partially the result of a \$37.5 million increase in municipal deposits at Greene County Commercial Bank, primarily from continued growth in new account relationships as well as tax collection. NOW deposits increased \$125.6 million, or 24.1%, and noninterest-bearing deposits increased \$4.8 million, or 4.7% when comparing June 30, 2019 and 2018. These increases were partially offset by a decrease in money market deposits of \$18.8 million, or 14.1%, certificates of deposit of \$14.8 million, or 28.8%, and savings deposits of \$1.4 million, or 1.0%, when comparing June 30, 2019 and 2018. Included within certificates of deposits were \$15.0 million of brokered certificate of deposits at June 30, 2018. At June 30, 2019, there were no brokered certificates of deposits.

<i>(Dollars in thousands)</i>	At June 30,					
	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
Transaction and savings deposits:						
Noninterest-bearing deposits	\$ 107,469	9.6 %	\$ 102,694	10.0 %	\$ 95,929	11.2 %
Certificates of deposit	36,542	3.3	51,317	5.0	53,742	6.3
Savings deposits	214,680	19.2	216,103	21.1	197,288	22.9
Money market deposits	114,915	10.2	133,753	13.0	119,806	13.9
NOW deposits	646,963	57.7	521,367	50.9	392,770	45.7
Total deposits	<u>\$ 1,120,569</u>	<u>100.0 %</u>	<u>\$ 1,025,234</u>	<u>100.0 %</u>	<u>\$ 859,535</u>	<u>100.0 %</u>

The amount of certificates of deposit by time remaining to maturity as of June 30, 2019 is set forth in Part II, Item 8 Financial Statements and Supplemental Data, Note 6, *Deposits* of this Report.

## BORROWINGS

Total borrowings from the Federal Home Loan Bank of New York ("FHLB") increased \$3.4 million to \$21.6 million at June 30, 2019 compared to \$18.2 million at June 30, 2018. The Company had \$8.0 million of overnight advances at June 30, 2019. The Company had no overnight advances at June 30, 2018. Long-term borrowings decreased \$4.6 million to \$13.6 million at June 30, 2019 from \$18.2 million at June 30, 2018. The Company's borrowing agreements are discussed further within Part II, Item 8 Financial Statements and Supplemental Data, Note 7 *Borrowings* of this Report.

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

<i>(Dollars in thousands)</i>	2019		2018	
<u>Short-term borrowings</u>				
Average outstanding balance	\$	15,085	\$	2,953
Interest expense		365		47
Weighted average interest rate during the year		2.42 %		1.62 %
Weighted average interest rate at end of year		2.45 %		2.11 %
<u>Long-term borrowings</u>				
Average outstanding balance	\$	15,107	\$	19,960
Interest expense		247		323
Weighted average interest rate during the year		1.64 %		1.62 %
Weighted average interest rate at end of year		1.68 %		1.63 %

#### OTHER LIABILITIES

Other liabilities, consisting primarily of accrued liabilities, totaled \$14.9 million at June 30, 2019, compared to \$11.9 million at June 30, 2018, an increase of \$3.0 million. This increase was due primarily to increased accrued expenses for various employee benefit plans, including short-term and long-term incentive plans, and supplemental executive retirement plan. For further information regarding these changes, see Part II, Item 8 Financial Statements and Supplemental Data, Note 10 *Employee Benefits Plans* and Note 11 *Stock Based Compensation* of this Report.

#### SHAREHOLDERS' EQUITY

Shareholders' equity increased \$16.2 million to \$112.4 million at June 30, 2019 from \$96.2 million at June 30, 2018, as net income of \$17.5 million was partially offset by dividends declared and paid of \$2.0 million. Other changes in equity consisted of a decrease in other comprehensive loss of \$617,000.

#### Selected Equity Data:

	At June 30,	
	2019	2018
Shareholders' equity to total assets, at end of period	8.85%	8.35%
Book value per share	\$13.16	\$11.27
Closing market price of common stock	\$29.42	\$33.90
	For the years ended June 30,	
	2019	2018
Average shareholders' equity to average assets	8.67%	8.34%
Dividend payout ratio <sup>1</sup>	19.51%	23.08%
Actual dividends paid to net income <sup>2</sup>	11.65%	10.59%

<sup>1</sup> The dividend payout ratio has been calculated based on the dividends declared per share divided by basic earnings per share. No adjustments have been made for dividends waived by Greene County Bancorp, MHC ("MHC"), the owner of 54.0% of the Company's shares outstanding.

<sup>2</sup> Dividends declared divided by net income. Dividends were paid to the MHC during the quarter ended September 30, 2018. The MHC waived its right to receive dividends declared during all other quarters within the fiscal years ended June 30, 2018 and 2019. 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.

## Comparison of Operating Results for the Years Ended June 30, 2019 and 2018

### Average Balance Sheet

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the years ended June 30, 2019 and 2018. For the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, are expressed both in dollars and rates. No tax equivalent adjustments were made. Average balances are based on daily averages. Average loan balances include nonperforming loans. The loan yields include net amortization of certain deferred fees and costs that are considered adjustments to yields.

	Fiscal Years Ended June 30,					
	2019			2018		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
<i>(Dollars in thousands)</i>						
Interest-earning Assets:						
Loans receivable <sup>1</sup>	\$ 757,722	\$ 35,050	4.63 %	\$ 670,499	\$ 29,692	4.43 %
Securities <sup>2</sup>	400,894	10,660	2.66	359,661	8,772	2.44
Interest-earning bank balances and federal funds	19,486	452	2.32	24,218	352	1.45
FHLB stock	2,099	146	6.96	1,723	112	6.50
Total interest-earning assets	1,180,201	46,308	3.92 %	1,056,101	38,928	3.69 %
Cash and due from banks	10,553			10,005		
Allowance for loan losses	(12,561)			(11,367)		
Other noninterest-earning assets	20,147			19,241		
Total assets	<u>\$ 1,198,340</u>			<u>\$ 1,073,980</u>		
Interest-Bearing Liabilities:						
Savings and money market deposits	\$ 331,377	\$ 1,247	0.38 %	\$ 333,278	\$ 1,081	0.32 %
NOW deposits	578,719	3,964	0.69	481,524	2,219	0.46
Certificates of deposit	40,658	485	1.19	39,731	344	0.87
Borrowings	30,192	612	2.03	22,913	370	1.61
Total interest-bearing liabilities	980,946	6,308	0.64 %	877,446	4,014	0.46 %
Noninterest-bearing deposits	101,392			98,220		
Other noninterest-bearing liabilities	12,108			8,774		
Shareholders' equity	103,894			89,540		
Total liabilities and equity	<u>\$ 1,198,340</u>			<u>\$ 1,073,980</u>		
Net interest income		<u>\$ 40,000</u>			<u>\$ 34,914</u>	
Net interest rate spread			3.28 %			3.23 %
Net earnings assets	\$ 199,255			\$ 178,655		
Net interest margin			3.39 %			3.31 %
Average interest-earning assets to average interest-bearing liabilities		120.31 %			120.36 %	

<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.

### Taxable-equivalent net interest income and net interest margin

	For the year ended June 30,	
	2019	2018
<i>(Dollars in thousands)</i>		
Net interest income (GAAP)	\$ 40,000	\$ 34,914
Tax-equivalent adjustment <sup>(1)</sup>	1,999	2,223
Net interest income (fully taxable-equivalent)	<u>\$ 41,999</u>	<u>\$ 37,137</u>
Average interest-earning assets	\$1,180,201	\$1,056,101
Net interest margin (fully taxable-equivalent)	3.56%	3.52%

<sup>(1)</sup> Net interest income on a taxable-equivalent basis includes the additional amount of interest income that would have been earned if the Company's investment in tax-exempt securities and loans had been subject to federal and New York State income taxes yielding the same after-tax income. The rate used for this adjustment was approximately 21.0%, and 28.1% for federal income taxes and 3.98%, and 3.62% for New York State income taxes for the period ended June 30, 2019 and 2018, respectively.

## 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.

<i>(In thousands)</i>	Years Ended June 30,					
	2019 versus 2018			2018 versus 2017		
	Increase/(Decrease)		Total	Increase/(Decrease)		Total
	Due To		Increase/	Due To		Increase/
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
<b>Interest-earning Assets:</b>						
Loans receivable, net <sup>1</sup>	\$ 3,978	\$ 1,380	\$ 5,358	\$ 3,631	\$ 177	\$ 3,808
Securities <sup>2</sup>	1,057	831	1,888	1,450	(91)	1,359
Interest-earning bank balances and federal funds	(79)	179	100	258	56	314
FHLB stock	26	8	34	(42)	30	(12)
Total interest-earning assets	4,982	2,398	7,380	5,297	172	5,469
<b>Interest-Bearing Liabilities:</b>						
Savings and money market deposits	(7)	173	166	121	-	121
NOW deposits	502	1,243	1,745	567	320	887
Certificates of deposit	8	133	141	(22)	46	24
Borrowings	133	109	242	(225)	130	(95)
Total interest-bearing liabilities	636	1,658	2,294	441	496	937
Net change in net interest income	\$ 4,346	\$ 740	\$ 5,086	\$ 4,856	\$ (324)	\$ 4,532

<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, 2019 has been affected most significantly by the increase in the volume and yield of loans and securities which has been partially offset by an increase in rate on interest-bearing liabilities. Net interest rate spread increased five basis points to 3.28% for the fiscal year ended June 30, 2019 as compared to 3.23% for the fiscal year ended June 30, 2018. Net interest margin increased eight basis points to 3.39% for the fiscal year ended June 30, 2019 as compared to 3.31% for the fiscal year ended June 30, 2018.

## INTEREST INCOME

Interest income for the year ended June 30, 2019 amounted to \$46.3 million as compared to \$38.9 million for the year ended June 30, 2018, an increase of \$7.4 million, or 19.0%. The increase in average loan and securities balances and the increase in yields on loans had the greatest impact on interest income when comparing the years ended June 30, 2019 and 2018. Interest income is derived from loans, securities and other interest-earning assets. Total average interest-earning assets increased to \$1.2 billion for the year ended June 30, 2019 as compared to \$1.1 billion for the year ended June 30, 2018, an increase of \$124.1 million, or 11.8%. The yield earned on such assets increased 23 basis points to 3.92% for the year ended June 30, 2019 as compared to 3.69% for the year ended June 30, 2018.

Interest income earned on loans amounted to \$35.1 million for the year ended June 30, 2019 as compared to \$29.7 million for the year ended June 30, 2018. Average loans outstanding increased \$87.2 million, or 13.0%, to \$757.7 million for the year ended June 30, 2019 as compared to \$670.5 million for the year ended June 30, 2018. The yield on such loans increased 20 basis points to 4.63% for the year ended June 30, 2019 as compared to 4.43% for the year ended June 30, 2018. At June 30, 2019, approximately 48.6% of the loan portfolio was adjustable rate, of which a large portion is tied to the Prime Rate.

Interest income earned on securities (excluding FHLB stock) increased to \$10.7 million for the year ended June 30, 2019 as compared to \$8.8 million for the year ended June 30, 2018. The average balance of securities increased \$41.2 million to \$400.9 million for the year ended June 30, 2019 as compared to \$359.7 million for the year ended June 30, 2018. The average yield on such securities increased 22 basis points to 2.66% for the year ended June 30, 2019 as compared to 2.44% for the year ended June 30, 2018. 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 \$452,000 for the year ended June 30, 2019 as compared to \$352,000 for the year ended June 30, 2018. The average balance of federal funds and interest-earning deposits decreased \$4.7 million when comparing the years ended June 30, 2019 and 2018. Dividends on FHLB stock increased to \$146,000 for the year ended June 30, 2019 as compared to \$112,000 for the year ended June 30, 2018.

## INTEREST EXPENSE

Interest expense for the year ended June 30, 2019 amounted to \$6.3 million as compared to \$4.0 million for the year ended June 30, 2018, an increase of \$2.3 million, or 57.5%. This increase was the result of an increase in the average balance of interest-bearing liabilities, as well as higher rates paid on average deposits. Total average interest-bearing liabilities increased to \$980.9 million for the year ended June 30, 2019 as compared to \$877.4 million for the year ended June 30, 2018, an increase of \$103.5 million, or 11.8%. Much of this increase related to NOW accounts. The overall rate paid on interest-bearing liabilities increased 18 basis points to 0.64% for the year ended June 30, 2019 compared to 0.46% for the year ended June 30, 2018.

Interest expense paid on savings and money market accounts amounted to \$1.2 million for the year ended June 30, 2019 as compared to \$1.1 million for the year ended June 30, 2018, an increase of \$166,000, or 15.4%. The rate paid on savings and money market accounts increased six basis points to 0.38% for the year ended June 30, 2019 as compared to 0.32% for the year ended June 30, 2018. The average balance of savings and money market accounts decreased by \$1.9 million to \$331.4 million for the year ended June 30, 2019 as compared to \$333.3 million for the year ended June 30, 2018.

Interest expense paid on NOW accounts amounted to \$4.0 million and \$2.2 million for the years ended June 30, 2019 and 2018, respectively. The average balance of NOW accounts increased to \$578.7 million for the year ended June 30, 2019 as compared to \$481.5 million for the year ended June 30, 2018, an increase of \$97.2 million. The average rate paid on NOW accounts increased 23 basis points to 0.69% for the year ended June 30, 2019 as compared to 0.46% for the year ended June 30, 2018.

Interest expense paid on certificates of deposit amounted to \$485,000 for the year ended June 30, 2019 as compared to \$344,000 for the year ended June 30, 2018, an increase of \$141,000. The average rate paid on certificates of deposit increased 32 basis points to 1.19% for the year ended June 30, 2019 as compared to 0.87% for the year ended June 30, 2018. The average balance on certificates of deposit increased to \$40.7 million for the year ended June 30, 2019 as compared to \$39.7 million for the year ended June 30, 2018.

Interest expense on borrowings amounted to \$612,000 for the year ended June 30, 2019 as compared to \$370,000 for the year ended June 30, 2018, as the average balance of borrowings increased \$7.3 million to \$30.2 million for the year ended June 30, 2019 as compared to \$22.9 million for the year ended June 30, 2018. The average rate paid on borrowings increased 42 basis points to 2.03% from 1.61% during the period. The increase in the average balance on borrowings was due to an increase in overnight borrowings with the Federal Home Loan Bank of New York.

## 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 level of provision increased during the period ended June 30, 2019 as a result of higher growth in average loan balances. Net loans grew \$81.3 million during the year ended June 30, 2019 compared to \$80.2 million for the year ended June 30, 2018, as the Company continues to focus on commercial lending. Nonperforming loans amounted to \$3.6 million at June 30, 2019 and 2018, respectively. At June 30, 2019 and June 30, 2018, respectively, nonperforming assets to total assets were 0.29% and 0.32% and nonperforming loans to net loans were 0.46% and 0.51%. Net charge-offs amounted to \$483,000, and \$528,000 for the years ended June 30, 2019 and 2018, respectively. The level of allowance for loan losses to total loans receivable decreased to 1.65% at June 30, 2019 compared to 1.68% at June 30, 2018. Despite the significant increases in net loans over the past two years, the level of nonperforming loans has remained stable and the level of charge-off activity has been low, which has led to this decrease in the allowance for loan losses to total loans receivable. 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 ended June 30,		Change from Prior Year	
	2019	2018	Amount	Percent
Service charges on deposit accounts	\$ 4,117	\$ 3,707	\$ 410	11.06%
Debit card fees	2,624	2,362	262	11.09
Investment services	544	469	75	15.99
E-commerce fees	139	139	-	-
Other operating income	937	804	133	16.54
Total noninterest income	<u>\$ 8,361</u>	<u>\$ 7,481</u>	<u>\$ 880</u>	<u>11.76%</u>

Noninterest income increased \$880,000, or 11.8%, to \$8.4 million for the year ended June 30, 2019 as compared to \$7.5 million for the year ended June 30, 2018. This increase was primarily due to increases in debit card fees and service charges on deposit accounts resulting from continued growth in the number of checking accounts with debit cards, as well as increased monthly or transactional service charges on deposit accounts. Investment services income also increased during the period due to higher sales volume of investment products. The increase in other operating income was primarily the result of an increase in fee income related to loans.

## NONINTEREST EXPENSE

*(Dollars in thousands)*

	For the years ended June 30,		Change from Prior Year	
	2019	2018	Amount	Percent
Salaries and employee benefits	\$ 15,488	\$ 13,350	\$ 2,138	16.01%
Occupancy expense	1,722	1,579	143	9.06
Equipment and furniture expense	580	540	40	7.41
Service and data processing fees	2,149	2,080	69	3.32
Computer software, supplies and support	926	714	212	29.69
Advertising and promotion	461	354	107	30.23
FDIC insurance premiums	461	440	21	4.77
Legal and professional fees	1,146	956	190	19.87
Other	2,743	2,349	394	16.77
Total noninterest expense	<u>\$ 25,676</u>	<u>\$ 22,362</u>	<u>\$ 3,314</u>	<u>14.82%</u>

Noninterest expense increased \$3.3 million, or 14.8%, to \$25.7 million for the year ended June 30, 2019 as compared to \$22.4 million for year ended June 30, 2018. These increases in noninterest expense are primarily the result of an increase in salaries and employee benefits expenses as well as other operating costs resulting from the opening of a new branch located in Woodstock, New York and the addition of staffing in anticipation of opening of a new branch in Kinderhook - Valatie, New York. The increase was also the result of the addition of our new Corporate Cash Management Department, and growth within our lending department, customer service center, information technology department, BSA department, operations center, and investment center. Also, other noninterest expense increased as a result of an increase in foreclosed real estate losses, fees related to correspondent bank activity, and a general increase in other expenses related to branch expansion and balance sheet growth.

## INCOME TAXES

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 16.9% and 22.1% for the years ended June 30, 2019 and 2018, respectively. The decrease in the effective tax rate for the year ended June 30, 2019 is primarily the result of the impact of the enactment of the TCJA in December 2017. The TCJA permanently reduces the maximum corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. The statutory tax rate is impacted by the benefits derived from tax exempt bond and loan income, the Company's real estate investment trust subsidiary income, as well as the tax benefits derived from premiums paid to the Company's pooled captive insurance subsidiary to arrive at the effective tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

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

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, 2019, cash and cash equivalents totaled \$29.5 million, or 2.3% of total assets.

Greene County Bancorp, Inc.'s primary investing activities are the origination of residential and commercial real estate mortgage loans, other consumer and commercial loans, and the purchase of securities. Loan originations exceeded repayments by \$83.5 million and \$82.6 million and purchases of securities totaled \$191.3 million and \$183.3 million for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, as Greene County Bancorp, Inc. originated loans for retention in its portfolio.

Greene County Bancorp, Inc. experienced a net increase in total deposits of \$95.3 million and \$165.7 million for the years ended June 30, 2019 and 2018, 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 interest-earning deposits with the Federal Reserve Bank of New York. 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, 2019, The Bank of Greene County's maximum borrowing from FHLB reached \$96.0 million and the minimum amounted to \$12.7 million. The \$21.6 million borrowing at June 30, 2019 consisted of \$8.0 million of overnight borrowings and \$13.6 million of long term borrowings with maturities ranging between 2019 through 2022. The liquidity position can be significantly impacted on a daily basis by funding needs associated with Greene County Commercial Bank. These funding needs are also impacted by the collection of taxes and state aid for the municipalities using the services of Greene County Commercial Bank.

**Off-balance sheet arrangements.** In the normal course of business the Company is party to certain financial instruments, which in accordance with accounting principles generally accepted in the United States, are not included in its Consolidated Statements of Condition. These transactions include commitments to fund new loans and unused portions of lines of credit and are undertaken to accommodate the financing needs of the Company's customers. Loan commitments are agreements by the Company to lend monies at a future date. These loan commitments are subject to the same credit policies and reviews as the Company's loans. Because most of these loan commitments expire within one year from the date of issue, the total amount of these loan commitments as of June 30, 2019, are not necessarily indicative of future cash requirements. The Bank of Greene County's unfunded loan commitments and unused lines of credit are as follows at June 30, 2019 and 2018:

<i>(In thousands)</i>	2019	2018
Unfunded loan commitments	\$ 55,874	\$ 36,624
Unused lines of credit	69,190	58,863
Total commitments	<u>\$ 125,064</u>	<u>\$ 95,487</u>

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, 2019 totaled \$18.2 million. Based upon Greene County Bancorp, Inc.'s experience and its current pricing strategy, management believes that a significant portion of such deposits will remain with Greene County Bancorp, Inc.

The Company has an Irrevocable Letter of Credit Reimbursement Agreement with the FHLB, whereby upon The Bank of Greene County's request, on behalf of Greene County Commercial Bank, an irrevocable letter of credit is issued to secure municipal transactional deposit accounts. These letters of credit are secured by residential and commercial real estate mortgage loans. The amount of funds available to the Company through the FHLB line of credit is reduced by any letters of credit outstanding. At June 30, 2019, there were \$80.6 million of municipal letters of credit outstanding.

**Capital Resources.** At June 30, 2019 and 2018, 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 18. *Regulatory Matters* of this Report. Shareholders' equity represented 8.9% and 8.4% of total consolidated assets at June 30, 2019 and 2018, respectively.

## IMPACT OF INFLATION AND CHANGING PRICES

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

## IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

## UNAUDITED QUARTERLY FINANCIAL DATA

The following table sets forth a summary of selected financial data at and for the years ended June 30, 2019 and 2018 and quarter ends within those years.

<i>(In thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>The year ended June 30, 2019</b>				
Loans receivable, net	\$ 724,526	\$ 750,370	\$ 763,285	\$ 785,738
Deposits	1,002,461	1,009,220	1,139,778	1,120,569
Interest income	10,997	11,406	11,708	12,197
Interest expense	1,340	1,411	1,682	1,875
Net interest income	9,657	9,995	10,026	10,322
Provision for loan losses	354	354	350	601
Noninterest income	2,052	2,141	2,010	2,158
Noninterest expense	5,961	6,247	6,486	6,982
Income before provision for income taxes	5,394	5,535	5,200	4,897
Net income	4,380	4,584	4,356	4,164
Basic earnings per share	0.51	0.54	0.51	0.49
Diluted earnings per share	0.51	0.54	0.51	0.49
<b>The year ended June 30, 2018</b>				
Loans receivable, net	\$ 638,446	\$ 663,873	\$ 678,495	\$ 704,431
Deposits	917,569	920,751	1,052,247	1,025,234
Interest income	9,089	9,420	9,876	10,543
Interest expense	919	960	1,016	1,119
Net interest income	8,170	8,460	8,860	9,424
Provision for loan losses	347	352	345	486
Noninterest income	1,740	1,887	1,859	1,995
Noninterest expense	4,893	5,312	5,782	6,375
Income before provision for income taxes	4,670	4,683	4,592	4,558
Net income	3,472	3,640	3,677	3,619
Basic earnings per share	0.41	0.43	0.43	0.42
Diluted earnings per share	0.41	0.43	0.43	0.42

## **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

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

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

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

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

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.

**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, 2019. 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, 2019. 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 following sets forth Greene County Bancorp, Inc.’s EVE as of June 30, 2019.

Changes in Market Interest Rates (Basis Points)						
<i>(Dollars in thousands)</i>	Company EVE	\$ Change From Par	% Change From Par	EVE Ratio <sup>1</sup>	Change <sup>2</sup>	
+300 bp	\$ 161,998	\$ (26,015)	(13.84) %	13.42 %	(109) bps	
+200 bp	174,714	(13,299)	(7.07)	14.12	(39)	
+100 bp	184,097	(3,916)	(2.08)	14.52	1	
PAR	188,013	-	-	14.51	-	
-100 bp	187,053	(960)	(0.51)	14.13	(38)	
-200 bp	181,274	(6,739)	(3.58)	13.42	(109)	

<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 low yield on assets increases price sensitivity to large rate shocks. EVE sensitivity will increase further as rates rise and loans and investments lose value and move out the sensitivity curve. Greene County Bancorp, Inc.’s EVE modeling projects that the EVE will decrease in instantaneous rate shocks, however, the level of sensitivity resulting from these rate shocks is within the Company’s policy limits and regulatory guidance. In anticipation of continued rising interest rates, 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, 2019, 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 24.67% and 24.46% respectively.

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.

**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, 2019. 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, 2019, the Company’s internal control over financial reporting was effective based on those criteria.

*/s/ Donald E Gibson*

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Donald E. Gibson  
President and Chief Executive Officer

*/s/ Michelle Plummer*

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial condition of Greene County Bancorp, Inc. (the “Company”) as of June 30, 2019 and 2018 and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the each of the years in the two-year period ended June 30, 2019, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 12, 2019, expressed an unqualified opinion.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2018.

/s/ Bonadio & Co., LLP  
Syracuse, New York

September 12, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

September 12, 2019

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

### **Opinion on Internal Control over Financial Reporting**

We have audited Greene County Bancorp's (the Company's) internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows of the Company, and our report dated September 12, 2019, expressed an unqualified opinion.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Bonadio & Co., LLP  
Syracuse, New York  
September 12, 2019

**Greene County Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**As of June 30, 2019 and 2018**  
*(In thousands, except share and per share amounts)*

<i>ASSETS</i>	2019	2018
Total cash and cash equivalents	\$ 29,538	\$ 26,504
Long term certificates of deposit	2,875	2,385
Securities available-for-sale, at fair value	122,728	120,806
Securities held-to-maturity, at amortized cost (fair value \$313,613 at June 30, 2019; \$274,177 at June 30, 2018)	304,208	274,550
Equity securities, at fair value	253	217
Federal Home Loan Bank stock, at cost	1,759	1,545
Loans	798,105	715,641
Allowance for loan losses	(13,200)	(12,024)
Unearned origination fees and costs, net	833	814
Net loans receivable	785,738	704,431
Premises and equipment, net	13,255	13,304
Accrued interest receivable	5,853	5,057
Foreclosed real estate	53	119
Prepaid expenses and other assets	3,202	2,560
Total assets	\$ 1,269,462	\$ 1,151,478
<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>		
Noninterest-bearing deposits	\$ 107,469	\$ 102,694
Interest-bearing deposits	1,013,100	922,540
Total deposits	1,120,569	1,025,234
Borrowings from Federal Home Loan Bank, short-term	8,000	-
Borrowings from Federal Home Loan Bank, long-term	13,600	18,150
Accrued expenses and other liabilities	14,924	11,903
Total liabilities	1,157,093	1,055,287
<i>SHAREHOLDERS' EQUITY</i>		
Preferred stock, Authorized - 1,000,000 shares; Issued - None	-	-
Common stock, par value \$.10 per share; Authorized - 12,000,000 shares; Issued - 8,611,340		
Outstanding - 8,537,814	861	861
Additional paid-in capital	11,017	11,017
Retained earnings	101,774	86,213
Accumulated other comprehensive loss	(1,006)	(1,623)
Treasury stock, at cost 73,526 shares	(277)	(277)
Total shareholders' equity	112,369	96,191
Total liabilities and shareholders' equity	\$ 1,269,462	\$ 1,151,478

*See notes to consolidated financial statements*

**Greene County Bancorp, Inc.**  
**Consolidated Statements of Income**  
**For the Years Ended June 30, 2019, and 2018**  
*(In thousands, except share and per share amounts)*

	2019	2018
Interest income:		
Loans	\$ 35,050	\$ 29,692
Investment securities - taxable	798	704
Mortgage-backed securities	4,285	3,610
Investment securities - tax exempt	5,723	4,570
Interest-bearing deposits and federal funds sold	452	352
Total interest income	46,308	38,928
Interest expense:		
Interest on deposits	5,696	3,644
Interest on borrowings	612	370
Total interest expense	6,308	4,014
Net interest income	40,000	34,914
Provision for loan losses	1,659	1,530
Net interest income after provision for loan losses	38,341	33,384
Noninterest income:		
Service charges on deposit accounts	4,117	3,707
Debit card fees	2,624	2,362
Investment services	544	469
E-commerce fees	139	139
Other operating income	937	804
Total noninterest income	8,361	7,481
Noninterest expense:		
Salaries and employee benefits	15,488	13,350
Occupancy expense	1,722	1,579
Equipment and furniture expense	580	540
Service and data processing fees	2,149	2,080
Computer software, supplies and support	926	714
Advertising and promotion	461	354
FDIC insurance premiums	461	440
Legal and professional fees	1,146	956
Other	2,743	2,349
Total noninterest expense	25,676	22,362
Income before provision for income taxes	21,026	18,503
Provision for income taxes	3,542	4,095
Net income	\$ 17,484	\$ 14,408
Basic earnings per share	\$ 2.05	\$ 1.69
Basic average shares outstanding	8,537,814	8,513,558
Diluted earnings per share	\$ 2.05	\$ 1.69
Diluted average shares outstanding	8,537,814	8,534,909
Dividends per share	\$ 0.40	\$ 0.39

*See notes to consolidated financial statements*

**Greene County Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**For the Years ended June 30, 2019 and 2018**  
*(In thousands)*

	2019	2018
Net income	\$ 17,484	\$ 14,408
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale securities, net of income tax expense (benefit) of \$331 and (\$319), respectively	936	(659)
Pension actuarial (loss) gain, net of income tax (benefit) expense of (\$108) and \$58, respectively	(344)	163
Amortization of pension actuarial losses recognized in salaries and benefits, net of income taxes of \$36 and \$44, respectively	139	124
Total other comprehensive income (loss) net of taxes	731	(372)
Comprehensive income	\$ 18,215	\$ 14,036

*See notes to consolidated financial statements*

**Greene County Bancorp, Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended June 30, 2019 and 2018**  
*(In thousands)*

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2017	\$ 861	\$ 10,990	\$ 73,072	\$ (992)	\$ (410)	\$ 83,521
Options exercised		27			133	160
Dividends declared			(1,526)			(1,526)
Net income			14,408			14,408
Reclassification adjustment <sup>(1)</sup>			259	(259)		-
Other comprehensive loss, net of taxes				(372)		(372)
Balance at June 30, 2018	\$ 861	\$ 11,017	\$ 86,213	\$ (1,623)	\$ (277)	\$ 96,191
Impact of Adopting ASU 2016-01 <sup>(2)</sup>			114	(114)		-
Dividends declared			(2,037)			(2,037)
Net income			17,484			17,484
Other comprehensive income, net of taxes				731		731
Balance at June 30, 2019	<u>\$ 861</u>	<u>\$ 11,017</u>	<u>\$ 101,774</u>	<u>\$ (1,006)</u>	<u>\$ (277)</u>	<u>\$ 112,369</u>

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

<sup>(2)</sup> See Note 1 Impact of Recent Accounting Pronouncements – cumulative effect of change in measurement of equity securities.

*See notes to consolidated financial statements.*

**Greene County Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended June 30, 2019 and 2018**  
*(In thousands)*

	2019	2018
Cash flows from operating activities:		
Net Income	\$ 17,484	\$ 14,408
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	638	635
Deferred income tax (benefit) expense	(967)	56
Net amortization of premiums and discounts	303	602
Net amortization of deferred loan costs and fees	495	508
Provision for loan losses	1,659	1,530
Net gain on equity securities	(36)	-
Net loss (gain) on sale of foreclosed real estate	35	(42)
Net increase in accrued income taxes	109	1,774
Net increase in accrued interest receivable	(796)	(1,024)
Net increase in prepaid expenses and other assets	(43)	(382)
Net increase in accrued expenses and other liabilities	2,744	2,607
Net cash provided by operating activities	21,625	20,672
Cash flows from investing activities:		
Securities available-for-sale:		
Proceeds from maturities	105,479	63,540
Purchases of securities	(108,958)	(97,725)
Principal payments on securities	2,793	3,617
Securities held-to-maturity:		
Proceeds from maturities	25,785	18,444
Purchases of securities	(82,365)	(85,568)
Principal payments on securities	26,650	15,852
Net (purchase) redemption of Federal Home Loan Bank Stock	(214)	586
Purchase of long term certificate of deposit	(735)	(735)
Maturity of long term certificate of deposit	245	495
Net increase in loans receivable	(83,495)	(82,563)
Proceeds from sale of foreclosed real estate	65	1,003
Purchases of premises and equipment	(589)	(324)
Net cash used in investing activities	(115,339)	(163,378)
Cash flows from financing activities:		
Net decrease (increase) in short-term FHLB advances	8,000	(6,900)
Proceeds from long-term FHLB advances	950	-
Repayment of long-term FHLB advances	(5,500)	(4,500)
Payment of cash dividends	(2,037)	(1,526)
Proceeds from issuance of stock options	-	160
Net increase in deposits	95,335	165,699
Net cash provided by financing activities	96,748	152,933
Net increase in cash and cash equivalents	3,034	10,227
Cash and cash equivalents at beginning of year	26,504	16,277
Cash and cash equivalents at end of year	\$ 29,538	\$ 26,504
Non-cash investing activities:		
Foreclosed loans transferred to other real estate	\$ 34	\$ 273
Cash paid during period for:		
Interest	\$ 6,286	\$ 4,018
Income taxes	\$ 4,400	\$ 2,325

*See notes to consolidated financial statements*

**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. 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. At June 30, 2019, The Bank of Greene County has 15 full-service offices and an operations center located in its market area consisting of the Hudson Valley of New York. The Bank of Greene County is primarily engaged in the business of attracting deposits from the general public in The Bank of Greene County’s market area, and investing such deposits, together with other sources of funds, in loans and investment securities. Greene County Commercial Bank’s primary business is to attract deposits from, and provide banking services to, local municipalities. Greene Property Holdings, Ltd. was formed as a New York corporation that has elected under the Internal Revenue Code to be a real estate investment trust. Currently, certain mortgages and loan notes held by The Bank of Greene County are transferred and beneficially owned by Greene Property Holdings, Ltd. The Bank of Greene County continues to service these loans. Greene Risk Management, Inc. was formed in December 2014 as a pooled captive insurance company subsidiary of Greene County Bancorp, Inc., incorporated in the State of Nevada. The purpose of this company is to provide additional insurance coverage for the Company and its subsidiaries related to the operations of the Company for which insurance may not be economically feasible.

*Charter*

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

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

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

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

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

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

A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. During the years ended June 30, 2019 and 2018, The Bank of Greene County elected to utilize the IRS DBLA test and satisfied the requirements of this test at and for the years ended June 30, 2019 and 2018.

#### *Use of Estimates*

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

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

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

#### *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits at other financial institutions, investments (with original maturity of three months or less), and overnight federal funds sold. The amounts of interest-bearing deposits included as cash equivalents at June 30, 2019 and 2018 were \$19.3 million and \$16.7 million, respectively.

#### *Securities*

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

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 17, *Fair Value Measurements and Fair Value of Financial Instruments*. Amortization of bond premiums and accretion of bond discounts are amortized over the expected life of the securities using the interest method.

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

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

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

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

### *Loans*

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

### *Allowance for Loan Losses*

The allowance for loan losses is maintained by a provision for loan losses charged to expense, reduced by net charge-offs and increased by recoveries of loans previously charged off. The level of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, payment status of the loan and economic conditions. The Bank of Greene County considers smaller balance residential mortgages, home equity loans, commercial real estate, business loans and installment loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience. Larger balance residential, commercial real estate mortgage and business loans are reviewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is generally based on the fair value of the underlying collateral, less estimated costs to sell. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. As a result, the level of impaired loans may only be a portion of nonaccrual loans. Loans that are delinquent or slow paying may not be impaired. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other factors. Based on this evaluation, a delinquent loan's risk rating may be downgraded to either pass-watch, special mention, or substandard, and the allocation of the allowance for loan loss is based upon the risk associated with such designation.

### *Income Recognition on Impaired and Nonaccrual loans*

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

### *Foreclosed Real Estate (FRE)*

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

### *Premises and Equipment*

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

### *Treasury Stock*

Common stock repurchases are recorded at cost and then held as treasury stock. From time to time, Greene County Bancorp, Inc. may repurchase shares of common stock under an approved plan if, in its judgment, such shares are an attractive investment, in view of the current price at which the common stock is trading relative to Greene County Bancorp, Inc.'s earnings per share, book value per share and general market and economic factors. The Company has a stock repurchase program which allows for the repurchase of up to 184,692 shares. As of June 30, 2019, 124,956 shares had been repurchased under this plan. The Company currently does not intend to repurchase any additional shares under this stock repurchase program. For more information regarding these plans see Note 11, *Stock-Based Compensation* of this Report. No repurchases of stock were made during the years ended June 30, 2019 and 2018.

### *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, 2019 and 2018.

### *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 \$461,000 and \$354,000 for the years ended June 30, 2019 and 2018, 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. See Note 12 for calculation of EPS.

## Impact of Recent Accounting Pronouncements

### Accounting Pronouncements Recently Adopted

#### **The following accounting standards have been adopted in the first quarter of the fiscal year ended June 30, 2019:**

On July 1, 2018, Greene County Bancorp, Inc. adopted Accounting Standard Update (“ASU”) 2014-09 amending 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 replaces most existing revenue recognition guidance under GAAP. A significant amount of the Company’s revenues are derived from net interest income on financial assets and liabilities, which are excluded from the scope of the amended guidance. With respect to noninterest income, the Company has identified revenue streams within the scope of the guidance, which include service charges on deposits, interchange income, investment services fees and gains (losses) from the transfer of other real estate owned. Further details regarding the revenue recognition of these revenue streams is provided in Note 9 to these Consolidated Financial Statements.

On July 1, 2018, Greene County Bancorp, Inc. adopted ASU 2016-01 amending guidance on “Financial Instruments (Subtopic 825-10)”. This amendment addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. These amendments require equity securities to be measured at fair value with changes in the fair value to be recognized through net income. The amendments also simplify the impairment assessment of equity investments without readily determinable fair values by requiring assessment for impairment qualitatively at each reporting period. As of June 30, 2018, the Company had several small equity investments with a cost of \$62,000 and a fair value of \$217,000. On July 1, 2018, the Company recorded a cumulative-effect adjustment to increase retained earnings in the amount of \$114,000 representing the unrealized gain, net of tax, on these equity securities. Changes in fair value during the three and nine months ended March 31, 2019 have been recognized in net income. ASU 2016-01 also emphasized the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans as part of adopting this standard. See Note 17, Fair Value Measurements and Fair Value of Financial Instruments, for further information.

On July 1, 2018, Greene County Bancorp, Inc. adopted ASU 2017-07 amending guidance on “Compensation - Retirement Benefits (Topic 715)” to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. Prior to adoption of this update, the Company presented all components of net periodic pension cost in “salaries and employee benefits” on its income statement. The Company is presenting all components of net period pension cost in “other expense” for the three and nine months ended March 31, 2019 and 2018, as the Company’s defined pension plan does not have a service cost component since the plan was frozen in 2006. Further details regarding the Company’s net periodic pension cost are provided in Note 10, Employee Benefit Plans, to these Consolidated Financial Statements.

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 adoption of this guidance had no impact on our consolidated results of operations or financial position.

In August 2016, the FASB issued an Update (ASU 2016-15) which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. The amendment covers the following cash flows: Cash payments for debt prepayment or extinguishment costs will be classified in financing activities. Upon settlement of zero-coupon bonds and bonds with insignificant cash coupons, the portion of the payment attributable to imputed interest will be classified as an operating activity, while the portion of the payment attributable to principal will be classified as a financing activity. Cash paid by an acquirer that isn’t soon after a business combination for the settlement of a contingent consideration liability will be separated between financing activities and operating activities. Cash payments up to the amount of the contingent consideration liability recognized at the acquisition date will be classified in financing activities; any excess will be classified in operating activities. Cash paid soon after the business combination will be classified in investing activities. Cash proceeds received from the settlement of insurance claims will be classified on the basis of the related insurance coverage (that is, the nature of the loss). Cash proceeds from lump-sum settlements will be classified based on the nature of each loss included in the settlement. Cash proceeds received from the settlement of corporate-owned life insurance (COLI) and bank-owned life insurance

(BOLI) policies will be classified as cash inflows from investing activities. Cash payments for premiums on COLI and BOLI may be classified as cash outflows for investing, operating, or a combination of both. A transferor's beneficial interest obtained in a securitization of financial assets will be disclosed as a noncash activity, and cash received from beneficial interests will be classified in investing activities. Distributions received from equity method investees will be classified using either a cumulative earnings approach or a look-through approach as an accounting policy election. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance. The adoption of this guidance had no impact on our consolidated results of operations or financial position.

In November 2016, the FASB issued an Update (ASU 2016-18) to its guidance on "Statement of Cash Flows (Topic 230) Restricted Cash" addresses diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing or financing activities or as a combination of those activities in the statement of cash flows. The ASU requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows. The adoption of this guidance had no impact on our consolidated results of operations or financial position.

In May 2017, the FASB issued an Update (ASU 2017-09) to its guidance on "Compensation - Stock Compensation (Topic 718)" such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification. (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification. (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification. The adoption of this guidance had no impact on our consolidated results of operations or financial position.

#### Accounting Pronouncements to be adopted in future periods

In February 2016, the FASB issued an Update (ASU 2016-02) to its guidance on "Leases (Topic 842)". The new leases standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this ASU will result in a gross up of the Consolidated Statements of Financial Condition for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842 - Leases to address certain narrow aspects of the guidance issued in ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which amends FASB Accounting Standards Codification (ASC), Leases (Topic 842), to (1) add an optional transition method that would permit entities to apply the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption, and (2) provide a practical expedient for lessors regarding the separation of the lease and non-lease components of a contract. In December 2018, the FASB issued ASU No. 2018-20, Narrow-Scope Improvements for Lessors, which addresses issues related to (1) sales tax and similar taxes collected from lessees, (2) certain lessor costs, and (3) recognition of variable payments for contracts with lease and non-lease components. In March 2019, the FASB issued ASU No. 2019-01, Leases (Topic 842): Codification Improvements, which addresses several issues related to the implementation of Topic 842. These issues include (1) determining the fair value of the underlying asset by lessors that are not manufacturers or dealers, (2) presentation on the statement of cash flows for sales-type and direct financing leases, and (3) transition disclosures related to Topic 250, Accounting Changes and Error Corrections. The Company is evaluating the significance and other effects of adoption on the consolidated financial statements and related disclosures. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations. Branch building leases have been reviewed and are considered immaterial to the financial statements; there are no equipment leases to consider.

In June 2016, the FASB issued an Update (ASU 2016-13) to its guidance on "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected

credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price (“gross up approach”) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which aligns the implementation date for nonpublic entities’ annual financial statements with the implementation date for their interim financial statements and clarifies the scope of the guidance in the amendments in ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. ASU 2019-04 clarifies or addresses stakeholders’ specific issues about certain aspects of the amendments in Update 2016-13 related to measuring the allowance for loan losses under the new guidance. The effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in Update 2016-13. The Company is currently evaluating the potential impact on our consolidated results of operations or financial position. The initial adjustment will not be reported in earnings and therefore will not have any material impact on our consolidated results of operations, but it is expected that it will have an impact on our consolidated financial position at the date of adoption of this Update. At this time, we have not calculated the estimated impact that this Update will have on our Allowance for Loan Losses, however, we anticipate it will have a significant impact on the methodology process we utilize to calculate the allowance. A vendor has been selected and alternative methodologies are currently being considered. Data requirements and integrity are being reviewed and enhancements incorporated into standard processes. On August 15, 2019, FASB proposed an ASU to topic 326, Financial Instruments – Credit Losses which would amend the implementation effective date for Small Report Companies, such as the Company, for fiscal years beginning after December 15, 2022. The Company is in the early stages of evaluation and implementation of the guidance.

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

In August 2018, the FASB issued an Update (ASU 2018-13) to its guidance on “Fair Value Measurement (Topic 820)”. This update modifies the disclosure requirements on fair value measurements. The following disclosure requirements were removed from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) the policy for timing of transfers between levels; (3) the valuation processes for Level 3 fair value measurements; and (4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The following disclosure requirements were modified in Topic 820: (1) in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee’s assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added to Topic 820; however, the disclosures are not required for nonpublic entities: (1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information

would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. In addition, the amendments eliminate at a minimum from the phrase “an entity shall disclose at a minimum” to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments in ASU No. 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU No. 2018-13 and delay adoption of the additional disclosures until their effective date. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In August 2018, the FASB has issued an Update (ASU No. 2018-14), “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”, that applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The following disclosure requirements were removed from Subtopic 715-20: (1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; (2) the amount and timing of plan assets expected to be returned to the employer; (3) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan; (4) for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets; and (5) for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements were added to Subtopic 715-20: (1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: (1) the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets; and (2) the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities. The adoption of this guidance is not expected to have a material impact on our consolidated results of operations or financial position.

In April 2019, the FASB issued an Update (ASU 2019-04), Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. The amendments to Topic 326 and other Topics in this Update include items related to the amendments in Update 2016-13 discussed at the June 2018 and November 2018 Credit Losses TRG meetings. The amendments clarify or address stakeholders’ specific issues about certain aspects of the amendments in Update 2016-13 on a number of different topics, including the following: Accrued Interest, Transfers between Classifications or Categories for Loans and Debt Securities, Recoveries, Consideration of Prepayments in Determining the Effective Interest Rate, Consideration of Estimated Costs to Sell When Foreclosure Is Probable, Vintage Disclosures— Line-of-Credit Arrangements Converted to Term Loans, and Contractual Extensions and Renewals. The ASU also covered a number of issues that related to hedge accounting including: Partial-Term Fair Value Hedges of Interest Rate Risk, Amortization of Fair Value Hedge Basis Adjustments, Disclosure of Fair Value Hedge Basis Adjustments, Consideration of the Hedged Contractually Specified Interest Rate under the Hypothetical Derivative Method, Scoping for Not-for-Profit Entities, Hedge Accounting Provisions Applicable to Certain Private Companies and Not-for-Profit Entities, Application of a First- Payments-Received Cash Flow Hedging Technique to Overall Cash Flows on a Group of Variable Interest Payments, and Transition Guidance For Codification Improvements specific to ASU 2016-01, the following topics were covered within ASU 2019-04: Scope Clarifications, Held-to-Maturity Debt Securities Fair Value Disclosures, Applicability of Topic 820 to the Measurement Alternative, and Remeasurement of Equity Securities at Historical Exchange Rates. ASU 2019-04 has various implementation dates dependent on a number of factors as it pertains to the above items. The Company is in the early stages of evaluation of the guidance.

## **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 \$3.3 million and \$2.9 million at June 30, 2019 and 2018, 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, 2019, 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 generally does not engage in any derivative or hedging transactions, such as interest rate swaps or caps.

Securities at June 30, 2019 consisted of the following:

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Securities available-for-sale:</i>				
U.S. government sponsored enterprises	\$ 5,522	\$ 31	\$ -	\$ 5,553
State and political subdivisions	95,782	788	-	96,570
Mortgage-backed securities-residential	2,634	31	20	2,645
Mortgage-backed securities-multi-family	16,151	259	-	16,410
Corporate debt securities	1,513	37	-	1,550
Total securities available-for-sale	121,602	1,146	20	122,728
<i>Securities held-to-maturity:</i>				
U.S. government sponsored enterprises	9,249	1	14	9,236
State and political subdivisions	152,358	6,212	23	158,547
Mortgage-backed securities-residential	4,570	97	-	4,667
Mortgage-backed securities-multi-family	134,970	3,122	17	138,075
Corporate debt securities	1,478	18	25	1,471
Other securities	1,583	34	-	1,617
Total securities held-to-maturity	304,208	9,484	79	313,613
Total securities	\$ 425,810	\$ 10,630	\$ 99	\$ 436,341

Securities at June 30, 2018 consisted of the following:

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

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, 2019.

<i>(In thousands, except number of securities)</i>	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
<i>Securities available-for-sale:</i>									
Mortgage-backed securities-residential	\$ 856	\$ 20	1	\$ -	\$ -	-	\$ 856	\$ 20	1
Total securities available-for-sale	<u>856</u>	<u>20</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>856</u>	<u>20</u>	<u>1</u>
<i>Securities held-to-maturity:</i>									
U.S. government sponsored enterprises	-	-	-	1,986	14	1	1,986	14	1
State and political subdivisions	3,541	17	22	2,111	6	13	5,652	23	35
Mortgage-backed securities-multi-family	1,250	6	1	3,799	11	3	5,049	17	4
Corporate debt securities	-	-	-	452	25	1	452	25	1
Total securities held-to-maturity	<u>4,791</u>	<u>23</u>	<u>23</u>	<u>8,348</u>	<u>56</u>	<u>18</u>	<u>13,139</u>	<u>79</u>	<u>41</u>
Total securities	<u>\$ 5,647</u>	<u>\$ 43</u>	<u>24</u>	<u>\$ 8,348</u>	<u>\$ 56</u>	<u>18</u>	<u>\$ 13,995</u>	<u>\$ 99</u>	<u>42</u>

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2018.

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

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, 2019. 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, 2019 or 2018. During the years ended June 30, 2019 and 2018, there were no sales of securities and no gains or losses were recognized. There were no other-than-temporary impairment losses recognized during the years ended June 30, 2019 and 2018.

The estimated fair values of debt securities at June 30, 2019, 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	\$ 99,795	\$ 100,607
After one year through five years	767	779
After five years through ten years	2,255	2,287
After ten years	-	-
Total available-for-sale debt securities	102,817	103,673
Mortgage-backed and asset-backed securities	18,785	19,055
Total available-for-sale securities	121,602	122,728
Held-to-maturity debt securities		
Within one year	23,317	23,676
After one year through five years	72,777	74,804
After five years through ten years	49,864	52,133
After ten years	18,710	20,258
Total held-to-maturity debt securities	164,668	170,871
Mortgage-backed	139,540	142,742
Total held-to-maturity securities	304,208	313,613
Total securities	\$ 425,810	\$ 436,341

As of June 30, 2019 and 2018, respectively, securities with an aggregate fair value of \$425.7 million and \$383.0 million were pledged as collateral for deposits in excess of FDIC insurance limits for various municipalities placing deposits with Greene County Commercial Bank. As of June 30, 2019 and 2018, securities with an aggregate fair value of \$1.5 million and \$1.7 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, 2019 or 2018.

#### Note 4. Loans

Loan segments and classes at June 30, 2019 and 2018 are summarized as follows:

<i>(In thousands)</i>	At June 30,	
	2019	2018
Residential real estate:		
Residential real estate	\$ 267,802	\$ 255,848
Residential construction and land	7,462	9,951
Multi-family	24,592	14,961
Commercial real estate:		
Commercial real estate	329,668	283,935
Commercial construction	36,361	39,366
Consumer loan:		
Home equity	23,185	21,919
Consumer installment	5,481	5,017
Commercial loans	103,554	84,644
Total gross loans	798,105	715,641
Allowance for loan losses	(13,200)	(12,024)
Deferred fees and costs	833	814
Loans receivable, net	<u>\$ 785,738</u>	<u>\$ 704,431</u>

At June 30, 2019 and 2018, loans to related parties including officers and directors were immaterial as a percentage of our loan portfolio.

#### Credit Quality Indicators

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

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

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

The Bank of Greene County's primary lending activity historically has been the origination of residential mortgage loans, including home equity loans, which are collateralized by residences. Generally, residential mortgage loans are made in amounts up to 89.9% of the appraised value of the property. However, 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.

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. Over the past few years, The Bank of Greene County has shifted more focus on the origination of commercial loans including commercial real estate. The Bank of Greene County has also formed relationships with other community banks within our region to participate in larger commercial loan relationships. These types of loans are generally considered to be riskier due to the size and complexity of the loan relationship. By entering into a participation agreement with the other bank, The Bank of Greene County can obtain the loan relationship while limiting its exposure to credit loss. Management completes its due diligence in underwriting these loans and monitors the servicing of these loans.

Loan balances by internal credit quality indicator as of June 30, 2019 are shown below.

<i>(In thousands)</i>	Performing	Watch	Special Mention	Substandard	Total
Residential real estate	\$ 264,138	\$ 874	\$ 86	\$ 2,704	\$ 267,802
Residential construction and land	7,462	-	-	-	7,462
Multi-family	22,544	137	1,835	76	24,592
Commercial real estate	318,703	616	7,435	2,914	329,668
Commercial construction	36,259	-	-	102	36,361
Home equity	22,392	20	-	773	23,185
Consumer installment	5,461	14	-	6	5,481
Commercial loans	102,103	261	1,082	108	103,554
Total gross loans	\$ 779,062	\$ 1,922	\$ 10,438	\$ 6,683	\$ 798,105

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

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

The Company had no loans classified Doubtful or Loss at June 30, 2019 or 2018.

#### Nonaccrual Loans

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. A nonaccrual loan is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Loans on nonaccrual status totaled \$3.6 million at June 30, 2019 of which \$1.6 million were in the process of foreclosure. At June 30, 2019, there were 12 residential loans in the process of foreclosure totaling \$1.5 million. Included in nonaccrual loans were \$1.8 million of loans which were less than 90 days past due at June 30, 2019, 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 \$175,000 of loans which were making payments pursuant to forbearance agreements. Loans on nonaccrual status totaled \$3.5 million at June 30, 2018 of which \$1.9 million were in the process of foreclosure. At June 30, 2018, there were 11 residential loans in the process of foreclosure totaling \$1.2 million. Included in nonaccrual loans were \$1.3 million of loans which were less than 90 days past due at June 30, 2018, but have a recent history of delinquency greater than 90 days past due.

The following table sets forth information regarding delinquent and/or nonaccrual loans as of June 30, 2019:

<i>(In thousands)</i>	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total Loans	Loans on Non- accrual
Residential real estate	\$ 2,144	\$ 870	\$ 1,385	\$ 4,399	\$ 263,403	\$ 267,802	\$ 2,474
Residential construction and land	-	-	-	-	7,462	7,462	-
Multi-family	1	137	-	138	24,454	24,592	-
Commercial real estate	280	1,108	102	1,490	328,178	329,668	598
Commercial construction	-	-	-	-	36,361	36,361	-
Home equity	16	136	309	461	22,724	23,185	452
Consumer installment	32	14	6	52	5,429	5,481	6
Commercial loans	430	342	28	800	102,754	103,554	108
Total gross loans	<u>\$ 2,903</u>	<u>\$ 2,607</u>	<u>\$ 1,830</u>	<u>\$ 7,340</u>	<u>\$ 790,765</u>	<u>\$ 798,105</u>	<u>\$ 3,638</u>

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

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

The Bank of Greene County had no accruing loans delinquent 90 days or more at June 30, 2019 and \$62,000 at June 30, 2018. 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 loans 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:

<i>(In thousands)</i>	2019	2018
Interest income that would have been recorded if loans had been performing in accordance with original terms	\$ 257	\$ 230
Interest income that was recorded on nonaccrual loans	146	125

#### Impaired Loan Analysis

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

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

	As of June 30, 2019			For the year ended June 30, 2019	
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>					
With no related allowance recorded:					
Residential real estate	\$ 727	\$ 727	\$ -	\$ 170	\$ 20
Commercial real estate	717	717	-	915	57
Commercial Construction	-	-	-	34	-
Home equity	309	309	-	288	-
Commercial loans	141	141	-	150	-
Impaired loans with no allowance	1,894	1,894	-	1,557	77
With an allowance recorded:					
Residential real estate	1,420	1,420	188	1,809	61
Commercial real estate	-	-	-	91	-
Commercial construction	102	102	2	111	-
Home equity	348	348	59	338	19
Commercial Loans	130	130	13	76	3
Impaired loans with allowance	2,000	2,000	262	2,425	83
Total impaired:					
Residential real estate	2,147	2,147	188	1,979	81
Commercial real estate	717	717	-	1,006	57
Commercial construction	102	102	2	145	-
Home equity	657	657	59	626	19
Commercial loans	271	271	13	226	3
Total impaired loans	\$ 3,894	\$ 3,894	\$ 262	\$ 3,982	\$ 160
As of June 30, 2018					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>					
With no related allowance recorded:					
Residential real estate	\$ 22	\$ 22	\$ -	\$ 2	\$ 3
Commercial real estate	799	799	-	803	29
Home equity	181	181	-	182	-
Commercial loans	347	347	-	328	-
Impaired loans with no allowance	1,349	1,349	-	1,315	32
With an allowance recorded:					
Residential real estate	1,922	1,922	332	1,731	52
Commercial real estate	379	379	60	409	-
Commercial construction	176	176	29	176	-
Home equity	322	322	61	324	16
Impaired loans with allowance	2,799	2,799	482	2,640	68
Total impaired loans:					
Residential real estate	1,944	1,944	332	1,733	55
Commercial real estate	1,178	1,178	60	1,212	29
Commercial construction	176	176	29	176	-
Home equity	503	503	61	506	16
Commercial loans	347	347	-	328	-
Total impaired loans	\$ 4,148	\$ 4,148	\$ 482	\$ 3,955	\$ 100

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

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Outstanding Recorded Investment
<i>(Dollars in thousands)</i>				
<u>For the year ended June 30, 2019</u>				
Commercial loans	1	\$ 127	\$ 131	\$ 131
Residential	1	294	169	169

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Outstanding Recorded Investment
<i>(Dollars in thousands)</i>				
<u>For the year ended June 30, 2018</u>				
Residential	1	\$ 184	\$ 184	\$ 184
Home equity	1	325	325	322

There were two loans modified as a troubled debt restructuring during the year ended June 30, 2019. During the year ended June 30, 2019, a commercial loan and residential loan were both modified to reduce the interest rate thereby reducing the monthly payments for the borrower. The Company recognized a partial charge-off on this loan during the year ended June 30, 2019. There were no loans that had been modified as a troubled debt restructuring during the twelve months prior to June 30, 2019 or 2018 which have subsequently defaulted during the twelve months ended June 30, 2019 or 2018, respectively.

#### Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of certain identified loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, payment status of the loan, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review The Bank of Greene County's allowance for loan losses. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank of Greene County considers smaller balance residential mortgages, home equity loans, commercial loans and installment loans to customers as small, homogeneous loans, which are evaluated for impairment collectively based on historical loss experience. Larger balance residential, commercial mortgage and business loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreements. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The Bank of Greene County charges loans off against the allowance for credit losses when it becomes evident that a loan cannot be collected within a reasonable amount of time or that it will cost the Bank more than it will receive, and all possible avenues of repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers. Generally, consumer loans and smaller business loans (not secured by real estate) in excess of 90 days are charged-off against the allowance for loan losses, unless equitable arrangements are made. Included within consumer installment loan charge-offs and recoveries are deposit accounts that have been overdrawn in excess of 60 days. With continued growth in the number of deposit accounts, charge-off activity within this category has also grown, as can be seen from the tables below. 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.

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.

<i>(In thousands)</i>	Activity for the year ended June 30, 2019				
	Balance June 30,	Charge-offs	Recoveries	Provision	Balance June 30,
	2018				2019
Residential real estate	\$ 2,116	\$ 287	\$ 13	\$ 184	\$ 2,026
Residential construction and land	114	-	-	(27)	87
Multi-family	162	-	-	18	180
Commercial real estate	5,979	74	-	1,205	7,110
Commercial construction	950	-	-	(78)	872
Home equity	317	-	-	(3)	314
Consumer installment	224	374	137	263	250
Commercial loans	2,128	51	153	131	2,361
Unallocated	34	-	-	(34)	-
<b>Total</b>	<b>\$ 12,024</b>	<b>\$ 786</b>	<b>\$ 303</b>	<b>\$ 1,659</b>	<b>\$ 13,200</b>

<i>(In thousands)</i>	Activity for the year ended June 30, 2018				
	Balance June 30,	Charge-offs	Recoveries	Provision	Balance June 30,
	2017				2018
Residential real estate	\$ 2,289	\$ 141	\$ -	\$ (32)	\$ 2,116
Residential construction and land	89	-	-	25	114
Multi-family	43	-	-	119	162
Commercial real estate	5,589	-	-	390	5,979
Commercial construction	687	-	-	263	950
Home equity	234	-	-	83	317
Consumer installment	231	318	85	226	224
Commercial loans	1,680	159	5	602	2,128
Unallocated	180	-	-	(146)	34
<b>Total</b>	<b>\$ 11,022</b>	<b>\$ 618</b>	<b>\$ 90</b>	<b>\$ 1,530</b>	<b>\$ 12,024</b>

<i>(In thousands)</i>	Allowance for Loan Losses		Loans Receivable	
	Ending Balance June 30, 2019		Ending Balance June 30, 2019	
	Impairment Analysis		Impairment Analysis	
	Individually Evaluated	Collectively Evaluated	Individually Evaluated	Collectively Evaluated
Residential real estate	\$ 188	\$ 1,838	\$ 2,147	\$ 265,655
Residential construction and land	-	87	-	7,462
Multi-family	-	180	-	24,592
Commercial real estate	-	7,110	717	328,951
Commercial construction	2	870	102	36,259
Home equity	59	255	657	22,528
Consumer installment	-	250	-	5,481
Commercial loans	13	2,348	271	103,283
Unallocated	-	-	-	-
<b>Total</b>	<b>\$ 262</b>	<b>\$ 12,938</b>	<b>\$ 3,894</b>	<b>\$ 794,211</b>

	Allowance for Loan Losses		Loans Receivable	
	Ending Balance June 30, 2018		Ending Balance June 30, 2018	
	Impairment Analysis		Impairment Analysis	
(In thousands)	Individually Evaluated	Collectively Evaluated	Individually Evaluated	Collectively Evaluated
Residential real estate	\$ 332	\$ 1,784	\$ 1,944	\$ 253,904
Residential construction and land	-	114	-	9,951
Multi-family	-	162	-	14,961
Commercial real estate	60	5,919	1,178	282,757
Commercial construction	29	921	176	39,190
Home equity	61	256	503	21,416
Consumer installment	-	224	-	5,017
Commercial loans	-	2,128	347	84,297
Unallocated	-	34	-	-
Total	\$ 482	\$ 11,542	\$ 4,148	\$ 711,493

#### Foreclosed real estate (FRE)

FRE consists of properties acquired through mortgage loan foreclosure proceedings or in full or partial satisfaction of loans. The following table sets forth information regarding FRE as of June 30, 2019 and 2018:

(in thousands)	2019	2018
Residential real estate	\$53	\$119
Total foreclosed real estate	\$53	\$119

#### **Note 5. Premises and Equipment**

A summary of premises and equipment at June 30, 2019 and 2018, is as follows:

(In thousands)	2019	2018
Land	\$ 2,883	\$ 2,883
Building and improvements	16,376	16,006
Furniture and equipment	4,639	4,420
Less: accumulated depreciation	(10,643)	(10,005)
Total premises and equipment	\$ 13,255	\$ 13,304

#### **Note 6. Deposits**

Major classifications of deposits at June 30, 2019 and 2018 are summarized as follows:

(In thousands)	2019	2018
Noninterest-bearing deposits	\$ 107,469	\$ 102,694
Certificates of deposit	36,542	51,317
Savings deposits	214,680	216,103
Money market deposits	114,915	133,753
NOW deposits	646,963	521,367
Total deposits	\$ 1,120,569	\$ 1,025,234

Advance payments by borrowers for taxes and insurance totaling \$8,279,000 and \$7,597,000 at June 30, 2019 and 2018, respectively, are included in savings deposits.

Related party deposits were not material at June 30, 2019 and 2018.

The following indicates the amount of certificates of deposit by time remaining to maturity as of June 30, 2019.

<i>(In thousands)</i>	3 Months or Less	3 to 6 Months	7 to 12 Months	Over 12 Months	Total
Certificates of deposit less than \$100,000	\$ 3,899	\$ 3,281	\$ 4,321	\$ 12,455	\$ 23,956
Certificates of deposit \$100,000 or more	2,630	1,491	2,607	5,858	12,586
Total certificates of deposit	<u>\$ 6,529</u>	<u>\$ 4,772</u>	<u>\$ 6,928</u>	<u>\$ 18,313</u>	<u>\$ 36,542</u>

The aggregate amount of certificates of deposit in denominations of \$250,000 or more (the amount which exceeds the FDIC insurance limit) was \$1,327,000 and \$1,834,000 at June 30, 2019 and 2018, respectively.

Scheduled maturities of certificates of deposit at June 30, 2019 were as follows:

<i>(In thousands)</i>	
The year ended June 30,	
2020	\$ 18,229
2021	8,945
2022	4,552
2023	1,591
2024	3,225
	<u>\$ 36,542</u>

#### **Note 7. Borrowings**

At June 30, 2019, The Bank of Greene County had pledged approximately \$317.0 million of its residential and commercial mortgage portfolios as collateral for borrowing and stand-by letters of credit at the Federal Home Loan Bank of New York (“FHLB”). The maximum amount of funding available from the FHLB was \$254.1 million at June 30, 2019, of which \$21.6 million in borrowings and \$80.6 million of stand-by letters of credit were outstanding at June 30, 2019. There were \$8.0 million of short-term or overnight borrowings outstanding at June 30, 2019. There were no short-term borrowings outstanding at June 30, 2018. Interest rates on short term borrowings are determined at the time of borrowing. Long-term fixed rate, fixed term advances totaled \$13.6 million at June 30, 2019, with a weighted average rate of 1.68% and a weighted average maturity of 18 months. The Bank of Greene County has established an Irrevocable Letter of Credit Reimbursement Agreement with the FHLB, whereby upon The Bank of Greene County’s request, on behalf of Greene County Commercial Bank, an irrevocable stand-by letter of credit is issued to secure municipal transactional deposit accounts. At June 30, 2019, \$80.6 million of stand-by letters of credit with the FHLB have been issued to secure municipal transactional deposit accounts, on behalf of Greene County Commercial Bank. There were \$40.0 million of stand-by letters of credit issued and outstanding at June 30, 2018.

The Bank of Greene County also pledges securities as collateral at the Federal Reserve Bank discount window for overnight borrowings. At June 30, 2019, approximately \$1.5 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, 2019 or 2018.

The Bank of Greene County has established unsecured lines of credit with Atlantic Central Bankers Bank for \$10.0 million and two other financial institutions for \$40.0 million. Greene County Bancorp, Inc. has also established an unsecured line of credit with Atlantic Central Bankers Bank for \$7.5 million. The lines of credit provide for overnight borrowing and the interest rate is determined at the time of the borrowing. At June 30, 2019 and 2018, there were no balances outstanding on any of these lines of credit.

Scheduled maturities of long-term borrowings at June 30, 2019 were as follows:

<i>(In thousands)</i>	
Within the twelve months ended June 30,	
2020	\$ 6,000
2021	1,800
2022	5,800
	<u>\$ 13,600</u>

## Note 8. Accumulated Other Comprehensive Loss

The balances and changes in the components of accumulated other comprehensive loss as of June 30, 2019 and 2018, respectively, are presented in the following table:

	Unrealized gain (losses) on securities available- for-sale	Unrealized losses on securities transferred to held to maturity	Pension benefits	Total
Balance - June 30, 2017	\$ 612	\$ -	\$ (1,604)	\$ (992)
Other comprehensive (loss) income before reclassification	(659)	-	163	(496)
Amounts reclassified from accumulated other comprehensive income	-	-	124	124
Other comprehensive (loss) income for the year ended June 30, 2017	(659)	-	287	(372)
Reclassification of stranded tax effect	57	-	(316)	(259)
Balance - June 30, 2018	10	-	(1,633)	(1,623)
Other comprehensive (loss) income before reclassification	936	-	(344)	592
Amounts reclassified from accumulated other comprehensive income	-	-	139	139
Other comprehensive (loss) income for the year ended June 30, 2018	936	-	(205)	731
Impact of adopting ASU 2016-01	(114)	-	-	(114)
Balance - June 30, 2019	\$ 832	\$ -	\$ (1,838)	\$ (1,006)

## Note 9. Revenue from Contract with Customers

The majority of the Company's revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as loans and investment securities which are presented in our consolidated income statements as components of net interest income. All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income, with the exception of net gains and losses from sales of foreclosed real estate, which is recognized within non-interest expense. The following table presents revenues subject to ASC 606 for the years ended June 30, 2019 and 2018, respectively.

<i>(In thousands)</i>	2019	2018
<b>Service charges on deposit accounts</b>		
Insufficient funds fees	\$ 3,694	\$ 3,324
Deposit related fees	155	153
ATM/point of sale fees	268	230
Total service charges	4,117	3,707
<b>Interchange fee income</b>		
Debit card interchange fees	2,624	2,362
<b>E-commerce fee income</b>		
E-commerce fees	139	139
<b>Investment services income</b>		
Investment services	544	469
<b>Sales of assets</b>		
Net (loss) gain on sale of foreclosed real estate	(35)	42

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which included services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are recognized at the time the maintenance occurs. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit Card Interchange Fee Income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa DPS payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to cardholder.

**E-commerce income:** The Company earns fees for merchant transaction processing services provided to its business customers by a third party service provider. The fees represent a percentage of the monthly transaction activity net of related costs, and are received from the service provider on a monthly basis.

**Investment Services Income:** The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The Company (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers. Investment brokerage fees are presented net of related costs.

**Net Gains/Losses on Sales of Foreclosed Real Estate:** The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

**Note 10. 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.

Information regarding the single-employer defined benefit pension plan at June 30, 2019 and 2018 is as follows:

*(In thousands)*

	2019	2018
Change in projected benefit obligation:		
Benefit obligation at beginning of period	\$ 5,410	\$ 5,867
Interest cost	215	219
Actuarial gain (loss)	579	(250)
Benefits paid	(339)	(426)
Benefit obligation at June 30	5,865	5,410
Change in fair value of plan assets:		
Fair value of plan assets at beginning of period	4,851	5,058
Actual return on plan assets	397	219
Employer contributions	230	-
Benefits paid	(339)	(426)
Fair value of plan assets at June 30	5,139	4,851
Underfunded status at June 30 included in other liabilities	\$ 726	\$ 559

The Company does not anticipate that it will make any contributions during the year ended June 30, 2020.

The components of net periodic pension costs related to the defined benefit pension plan for the years ended June 30, 2019 and 2018 were as follows:

<i>(In thousands)</i>	2019	2018
Interest cost	\$ 215	\$ 219
Expected return on plan assets	(235)	(247)
Amortization of net loss	139	168
Net periodic pension expense	<u>\$ 119</u>	<u>\$ 140</u>

The accumulated benefit obligation for the pension plan was \$5.9 million and \$5.4 million at June 30, 2019 and 2018, respectively.

Changes in plan assets and benefit obligations recognized in other comprehensive loss during the years ended June 30, 2019 and 2018 consisted of the following:

<i>(In thousands)</i>	2019	2018
Actuarial loss (gain) on plan assets and benefit obligations	\$ 277	\$ (389)
Deferred tax expense	72	(102)
Net change in plan assets and benefit obligations recognized in other comprehensive income	<u>\$ 205</u>	<u>\$ (287)</u>

Amounts recognized in our consolidated statements of financial condition related to our pension plan for the years ended June 30, 2019 and 2018 are as follows:

<i>(In thousands)</i>	2019	2018
Other liabilities:		
Projected benefit obligation in excess of fair value of pension plan	\$ 726	\$ 559
Accumulated other comprehensive loss, net of taxes:		
Net losses and past service liability	\$ (1,838)	\$ (1,633)

The principal actuarial assumptions used were as follows:

Projected benefit obligation:	2019	2018
Discount rate	3.41 %	4.09 %
Net periodic pension expense:		
Amortization period, in years	12	12
Discount rate	4.09 %	3.81 %
Expected long-term rate of return on plan assets	5.00 %	5.00 %

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 pension 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 pension plan assets at June 30, 2019 and 2018 was as follows:

<i>(Dollars in thousands)</i>	2019		2018	
	Fair Value		Fair Value	
Money market accounts	\$ -	-	\$ -	-
Mutual funds	5,139	100.0	4,851	100.0
Total plan assets	<u>\$ 5,139</u>	<u>100.0 %</u>	<u>\$ 4,851</u>	<u>100.0 %</u>

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 60% consisting of short-term and intermediate-term fixed income bond funds and 40% 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, 2020 is expected to be \$158,000.

Expected benefit payments under the pension plan over the next ten years at June 30, 2019 are as follows:

*(In thousands)*

2020	\$	221
2021		227
2022		230
2023		230
2024		230
2025-2029		1,225

### **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 \$318,000 and \$247,000 in the years ended June 30, 2019 and 2018, respectively.

### **Employee Stock Ownership Plan (“ESOP”)**

All Bank employees meeting certain age and service requirements are eligible to participate in the ESOP. Participants’ benefits become fully vested after three years of service. During the years ended June 30, 2019 and 2018, the Board of Directors authorized the payment of \$130,000 and \$120,000, respectively, to the ESOP trustee for the purposes of purchasing additional shares of stock to be allocated to employees as of December 2019 and 2018, respectively. ESOP expense was \$127,100 and \$115,000 for the years ended June 30, 2019 and 2018, respectively. There were no unearned shares at June 30, 2019 or 2018.

### **Supplemental Executive Retirement Plan**

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 provides a benefit from the Bank upon retirement, death or disability or voluntary or involuntary termination of service (other than “for cause”) to certain key senior executives of the Bank who are selected by the Board to participate. 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, 2019 and 2018 were \$916,000 and \$686,000, respectively, consisting primarily of service and interest costs. The total liability for the SERP was \$5.0 million and \$3.9 million as of June 30, 2019 and June 30, 2018, respectively, and is included in accrued expenses and other liabilities.

## Note 11. Stock-Based Compensation

### Stock Option Plan

Greene County Bancorp, Inc. had a stock-based compensation plan (the “2008 Option Plan”) which allowed the Company to issue up to 360,000 options and stock appreciation rights. In 2008, the Board of Directors granted 329,000 options and stock appreciation rights (in tandem) to buy stock under the 2008 Option Plan at an exercise price of \$6.25, the fair value of the stock on that date. These options had a 10-year term and vested over a three year period upon meeting specific earnings performance goals. During the year ended June 30, 2018, the remaining 37,770 options that were outstanding at June 30, 2017 were exercised. The total intrinsic value of the options exercised during the year ended June 30, 2018 was approximately \$997,000. The 2008 Option Plan expired in August 2019 and no new plans have been approved by the Board of Directors.

### 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. At June 30, 2019 and 2018, the Plan had 5,800,000 options authorized, respectively, of which, 4,159,882 and 3,567,182 options had been granted to date, respectively. 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). The liability for the phantom stock option plan is re-measured at each reporting period based on the difference between the strike price and the current period end book value per share of the Company’s common stock, excluding 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, 2019 and 2018 is as follows:

	2019	2018
Number of options outstanding at beginning of year	1,634,160	1,522,720
Options granted	592,700	594,200
Options forfeited	(12,500)	(27,000)
Options paid in cash upon vesting	(502,760)	(455,760)
Number of options outstanding at period end	<u>1,711,600</u>	<u>1,634,160</u>

*(In thousands)*

	2019	2018
Cash paid out on options vested	\$ 1,745	\$ 1,187
Compensation expense recognized	2,901	2,140

The total liability for the long-term incentive plan was \$4.1 million and \$3.0 million at June 30, 2019 and 2018, respectively, and is included in accrued expenses and other liabilities.

## Note 12. 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, 2019 and 2018.

	2019	2018
Net Income	\$17,484,000	\$14,408,000
Weighted Average Shares – Basic	8,537,814	8,513,558
Effect of Dilutive Stock Options	-	21,351
Weighted Average Shares - Dilute	8,537,814	8,534,909
Earnings per share - Basic	\$2.05	\$1.69
Earnings per share - Diluted	\$2.05	\$1.69

## Note 13. Income Taxes

The provision for income taxes consists of the following for the years ended June 30, 2019 and 2018:

<i>(In thousands)</i>	2019	2018
Current expense:		
Federal	\$ 4,028	\$ 3,819
State	481	220
Total current expense	4,509	4,039
Deferred (benefit) expense	(967)	56
Total provision for income taxes	\$ 3,542	\$ 4,095

The effective tax rate differs from the federal statutory rate as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Tax based on federal statutory rate	21.00 %	28.10 %
State income taxes, net of federal benefit	0.80	0.49
Tax-exempt income	(5.74)	(7.03)
Captive insurance premium income	(1.35)	(1.78)
Other, net	2.14	2.35
Total income tax expense	16.85 %	22.13 %

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

<i>(In thousands)</i>	2019	2018
Deferred tax assets:		
Allowance for loan losses	\$ 3,450	\$ 3,142
Pension benefits	190	146
Other benefit plans	2,454	1,388
Total deferred tax assets	6,094	4,676
Deferred tax liabilities:		
Depreciation	903	919
Loan costs	831	763
Real estate investment trust income	2,553	2,253
Unrealized gains on securities	345	3
Other	204	189
Total deferred tax liabilities	4,836	4,127
Net deferred tax asset included in prepaid expenses and other assets	\$ 1,258	\$ 549

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 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.

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.

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

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As a result of the reduction in the corporate income tax rate under the Act, the Company revalued its deferred tax assets and liabilities at December 31, 2017. These re-measurements resulted in a discrete tax benefit of \$251,000 that was recognized during the three months ended December 31, 2017. The Company's revaluation of its deferred tax assets and liabilities is subject to further clarification of the Tax Act and refinements of its estimates. As a result, the actual impact on the deferred tax assets and liabilities and income tax expense due to the Tax Act may vary from the amounts estimated.

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, 2019 and 2018, 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. At June 30, 2019, 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. As of June 30, 2019, tax years ended June 30, 2016 through June 30, 2018, remain open and are subject to Federal and New York State taxing authority examination.

**Note 14. 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 and unused lines of credit are as follows at June 30, 2019 and 2018:

<i>(In thousands)</i>	2019	2018
Unfunded loan commitments	\$ 55,874	\$ 36,624
Unused lines of credit	69,190	58,863
Total commitments	\$ 125,064	\$ 95,487

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.

**Risk Participation Agreements**

Risk participation agreements (“RPAs”) are guarantees issued by the Company to other parties for a fee, whereby the Company agrees to participate in the credit risk of a derivative customer of the other party. Under the terms of these agreements, the “participating bank” receives a fee from the “lead bank” in exchange for the guarantee of reimbursement if the customer defaults on an interest rate swap. The interest rate swap is transacted such that any and all exchanges of interest payments (favorable and unfavorable) are made between the lead bank and the customer. In the event that an early termination of the swap occurs and the customer is unable to make a required close out payment, the participating bank assumes that obligation and is required to make this payment.

RPAs where the Company acts as the lead bank are referred to as “participations-out,” in reference to the credit risk associated with the customer derivatives being transferred out of the Company. Participations-out generally occur concurrently with the sale of new customer derivatives. The Company had no participations-out at June 30, 2019 or 2018. RPAs where the Company acts as the participating bank are referred to as “participations-in,” in reference to the credit risk associated with the counterparty’s derivatives being assumed by the Company. The Company’s maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap plus outstanding accrued interest receivables from the customer. The Company’s estimate of the credit exposure associated with its risk participations-in was \$1.2 million at June 30, 2019, and had no credit exposures associated with risk participations-in at June 30, 2018. The current amount of credit exposure is spread out over three counterparties, and terms range between five to ten years.

**Note 15. Operating Leases**

The Bank of Greene County has non-cancelable lease commitments for six branch locations. These leases include obligations for real estate taxes, insurance and maintenance expenses. Total lease expense was \$295,000 and \$178,000 for the years ended June 30, 2019 and 2018, respectively. Minimum non-cancelable lease commitments for future years ending June 30 are as follows:

*(In thousands)*

The year ended June 30,	<u>Annual Lease Payments</u>
2020	\$ 296
2021	282
2022	261
2023	208
2024	216
Thereafter	776

**Note 16. 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, Columbia and Ulster counties. 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 17. 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, 2019 and 2018 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:

<i>(In thousands)</i>	June 30, 2019	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government sponsored enterprises	\$ 5,553	\$ -	\$ 5,553	\$ -
State and political subdivisions	96,570	-	96,570	-
Mortgage-backed securities-residential	2,645	-	2,645	-
Mortgage-backed securities-multi-family	16,410	-	16,410	-
Corporate debt securities	1,550	1,550	-	-
Securities available-for-sale	122,728	1,550	121,178	-
Equity securities	253	253	-	-
Total securities measured at fair value	\$ 122,981	\$ 1,803	\$ 121,178	\$ -

<i>(In thousands)</i>	June 30, 2018	Fair Value Measurements Using		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government sponsored enterprises	\$ 5,531	\$ -	\$ 5,531	\$ -
State and political subdivisions	92,255	-	92,255	-
Mortgage-backed securities-residential	3,247	-	3,247	-
Mortgage-backed securities-multi-family	18,069	-	18,069	-
Corporate debt securities	1,704	1,704	-	-
Securities available-for-sale	120,806	1,704	119,102	-
Equity securities	217	217	-	-
Total securities measured at fair value	\$ 121,023	\$ 1,921	\$ 119,102	\$ -

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.

<i>(In thousands)</i>	Recorded Investment	Related Allowance	Fair Value	Fair Value Measurements Using		
				(Level 1)	(Level 2)	(Level 3)
June 30, 2019						
Impaired loans	\$ 2,335	\$ 262	\$ 2,073	\$ -	\$ -	\$ 2,073
Foreclosed real estate	53	-	53	-	-	53
June 30, 2018						
Impaired loans	\$ 2,799	\$ 482	\$ 2,317	\$ -	\$ -	\$ 2,317
Foreclosed real estate	119	-	119	-	-	119

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:

<i>(Dollars in thousands)</i>	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
June 30, 2019					
Impaired Loans	\$ 1,403	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0.00%-33.73%	24.48%
			Liquidation expenses <sup>(3)</sup>	3.98%-6.00%	4.53%
Foreclosed real estate	670	Discounted cash flow	Discount rate	4.19%-8.66%	6.07%
			53	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>
			Liquidation expenses <sup>(3)</sup>	10.41%	10.41%
June 30, 2018					
Impaired loans	\$ 1,687	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	26.58%-31.00%	28.17%
			Liquidation expenses <sup>(3)</sup>	4.14%-7.26%	5.07%
Foreclosed real estate	630	Discounted cash flow	Discount rate	4.19%-6.63%	5.36%
			119	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>
			Liquidation expenses <sup>(3)</sup>	8.99%-11.78%	9.92%

<sup>(1)</sup> 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.

<sup>(2)</sup> Appraisals may be adjusted downwards by management for qualitative factors such as economic conditions. Higher 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.

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

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, 2019 and 2018, the estimated fair values of these off-balance sheet financial instruments were immaterial, and are therefore excluded from the table below.

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

<i>(In thousands)</i>	June 30, 2019		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$ 29,538	\$ 29,538	\$ 29,538	\$ -	-
Long term certificate of deposit	2,875	2,875	2,875	-	-
Securities available-for-sale	122,728	122,728	1,550	121,178	-
Securities held-to-maturity	304,208	313,613	-	313,613	-
Equity Securities	253	253	253	-	-
Federal Home Loan Bank stock	1,759	1,759	-	1,759	-
Net loans receivable	785,738	781,614	-	-	781,614
Accrued interest receivable	5,853	5,853	-	5,853	-
Deposits	1,120,569	1,120,632	-	1,120,632	-
Borrowings from Federal Home Loan Bank	21,600	21,534	-	21,534	-
Accrued interest payable	110	110	-	110	-

<i>(In thousands)</i>	June 30, 2018		Fair Value Measurements Using		
	Carrying Amount	Fair Value	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$ 26,504	\$ 26,504	\$ 26,504	\$ -	-
Long term certificate of deposit	2,385	2,385	2,385	-	-
Securities available-for-sale	120,806	120,806	1,704	119,102	-
Securities held-to-maturity	274,550	274,177	-	274,177	-
Equity securities	217	217	217	-	-
Federal Home Loan Bank stock	1,545	1,545	-	1,545	-
Net loans receivable	704,431	698,879	-	-	698,879
Accrued interest receivable	5,057	5,057	-	5,057	-
Deposits	1,025,234	1,025,302	-	1,025,302	-
Borrowings from Federal Home Loan Bank	18,150	17,755	-	17,755	-
Accrued interest payable	88	88	-	88	-

#### **Note 18. 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, 2019, 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 was phased in, increasing incrementally by 0.625% each year, beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement became effective. Management believes that, as of June 30, 2019, The Bank of Greene County and Greene County Commercial Bank met all capital adequacy requirements to which they are subject.

<i>(Dollars in thousands)</i>	Actual		For Capital Adequacy		To Be Well Capitalized Prompt Action		Capital Conservation Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Actual	Required
	<b><u>The Bank of Greene County</u></b>							
As of June 30, 2019:								
Total risk-based capital	\$ 118,113	15.8%	\$ 59,842	8.0%	\$ 74,802	10.0%	7.790%	2.50%
Tier 1 risk-based capital	108,716	14.5	44,881	6.0	59,842	8.0	8.534	2.50
Common equity tier 1 capital	108,716	14.5	33,661	4.5	48,621	6.5	10.034	2.50
Tier 1 leverage ratio	108,716	8.7	50,049	4.0	62,561	5.0	4.689	2.50
As of June 30, 2018:								
Total risk-based capital	\$ 102,549	15.5%	\$ 53,024	8.0%	\$ 66,280	10.0%	7.472%	1.875%
Tier 1 risk-based capital	94,148	14.2	39,768	6.0	53,024	8.0	8.205	1.875
Common equity tier 1 capital	94,148	14.2	29,826	4.5	43,082	6.5	9.705	1.875
Tier 1 leverage ratio	94,148	8.2	45,789	4.0	57,236	5.0	4.225	1.875
<b><u>Greene County Commercial Bank</u></b>								
As of June 30, 2019:								
Total risk-based capital	\$ 47,366	47.4%	\$ 7,996	8.0%	\$ 9,996	10.0%	39.387%	2.50%
Tier 1 risk-based capital	47,366	47.4	5,997	6.0	7,996	8.0	41.387	2.50
Common equity tier 1 capital	47,366	47.4	4,498	4.5	6,497	6.5	42.887	2.50
Tier 1 leverage ratio	47,366	9.6	19,678	4.0	24,597	5.0	5.628	2.50
As of June 30, 2018:								
Total risk-based capital	\$ 40,286	47.1%	\$ 6,837	8.0%	\$ 8,546	10.0%	39.139%	1.875%
Tier 1 risk-based capital	40,286	47.1	5,128	6.0	6,837	8.0	41.139	1.875
Common equity tier 1 capital	40,286	47.1	3,846	4.5	5,555	6.5	42.639	1.875
Tier 1 leverage ratio	40,286	9.1	17,747	4.0	22,184	5.0	5.080	1.875

**Note 19. 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. for the periods indicated.

**Greene County Bancorp, Inc.**  
**Condensed Statements of Financial Condition**  
**At June 30, 2019 and 2018**  
*(In thousands)*

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,176	\$ 1,476
Investment in subsidiaries	110,182	94,681
Prepaid expenses and other assets	99	116
Total assets	\$ 112,457	\$ 96,273
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Total liabilities	\$ 88	\$ 82
Total shareholders' equity	112,369	96,191
Total liabilities and shareholders' equity	\$ 112,457	\$ 96,273

**Greene County Bancorp, Inc.**  
**Condensed Statements of Income**  
**For the Years Ended June 30, 2019 and 2018**  
*(In thousands)*

	2019	2018
<b>INCOME:</b>		
Equity in undistributed net income of subsidiaries	\$ 14,770	\$ 12,812
Dividend distributed by subsidiary	3,084	1,914
Interest-earning deposits	3	2
Total Income	17,857	14,728
<b>OPERATING EXPENSES:</b>		
Legal fees	48	56
Other	325	264
Total operating expenses	373	320
Net income	\$ 17,484	\$ 14,408

**Greene County Bancorp, Inc.**  
**Condensed Statements of Comprehensive Income**  
**For the Years Ended June 30, 2019 and 2018**  
*(In thousands)*

	2019	2018
Net income	\$ 17,484	\$ 14,408
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale securities, net of income tax expense (benefit) of \$331 and (\$319), respectively	936	(659)
Pension actuarial (loss) gain, net of income tax (benefit) expense of (\$108) and \$58, respectively	(344)	163
Amortization of pension actuarial losses recognized in salaries and benefits, net of income taxes of \$36 and \$44, respectively	139	124
Total other comprehensive income (loss) net of taxes	<u>731</u>	<u>(372)</u>
Comprehensive income	<u>\$ 18,215</u>	<u>\$ 14,036</u>

**Greene County Bancorp, Inc.**  
**Condensed Statements of Cash Flows**  
**For the Years Ended June 30, 2019 and 2018**  
*(In thousands)*

	2019	2018
Cash flow from operating activities:		
Net Income	\$ 17,484	\$ 14,408
Adjustments to reconcile net income to cash provided by operating activities:		
Undistributed earnings of subsidiaries	(14,770)	(12,812)
Net decrease in prepaid expenses and other assets	17	(63)
Net decrease (increase) in total liabilities	6	(6)
Net cash provided by operating activities	<u>2,737</u>	<u>1,527</u>
Cash flows from Investing Activities:		
Investment in subsidiary	-	(700)
Net cash used by investing activities	<u>-</u>	<u>(700)</u>
Cash flows from financing activities:		
Payment of cash dividends	(2,037)	(1,526)
Proceeds from exercise of stock options	-	160
Net cash used in financing activities	<u>(2,037)</u>	<u>(1,366)</u>
Net decrease in cash and cash equivalents	700	(539)
Cash and cash equivalents at beginning of year	1,476	2,015
Cash and cash equivalents at end of year	<u>\$ 2,176</u>	<u>\$ 1,476</u>

## **Note 20. Subsequent events**

On July 17, 2019, Greene County Bancorp, Inc. announced that its Board of Directors had approved a quarterly cash dividend of \$0.11 per share on the Company's common stock. The dividend reflects an annual cash dividend rate of \$0.44 per share which represents a 10.0% increase from the previous annual cash dividend rate of \$0.40 per share. The dividend was payable to stockholders of record as of August 15, 2019, and was paid on August 30, 2019. Greene County Bancorp, MHC waived its right to receive this dividend.

On July 22, 2019, Greene County Bancorp Inc. opened a new full service branch located at 2927 Route 9, Valatie, NY. The Bank of Greene County now operates 16 full service branches.

### **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 2019 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, 2019 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. The registered public accounting firm that audited the Company's financial statements included in this report has issued a report on the Company's internal controls over financial reporting, which is included in Part II, Item 8 of this 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 2019 Annual Meeting of Shareholders (the “2019 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 2019 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 2019 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 2019 Proxy Statement is incorporated herein by reference.

#### **ITEM 14. Principal Accountant Fees and Services**

The “Proposal II - Ratification of Appointment of Auditors” section of Greene County Bancorp, Inc.’s 2019 Proxy Statement is incorporated herein by reference.

### **PART IV**

#### **ITEM 15. Exhibits and Financial Statement Schedules**

- (a)(1) The following financial statements and Reports of Bonadio & Co., LLP are included in this Annual Report on Form 10-K:  
Reports of Bonadio & Co., LLP, Independent Registered Public Accounting Firm  
Consolidated Statements of Condition as of June 30, 2019 and 2018  
Consolidated Statements of Income for the years ended June 30, 2019, and 2018  
Consolidated Statements of Comprehensive Income for the years ended June 30, 2019 and 2018  
Consolidated Statements of Cash Flows for the years ended June 30, 2019 and 2018  
Consolidated Statements of Changes in Shareholders’ Equity for the years ended June 30, 2019 and 2018  
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)
- 10.1 Employee Stock Ownership Plan (incorporated herein by reference to Greene County Bancorp, Inc.’s SB-2)

- 10.2 Employment agreement between the Registrant and Donald E. Gibson, and Michelle M. Plummer effective July 1, 2007, as amended and incorporated by reference from the Registrant's Form 8-K (Exhibit 10.2 and 10.3) filed on December 2, 2008.
- 10.3 Employment agreement between the Registrant and Stephen E. Nelson, effective July 1, 2008, incorporated by reference from the Registrant's Form 8-K (Exhibit 10.1) filed on December 2, 2008.
- 10.4 Supplemental Executive Retirement Plan, effective July 1, 2010, incorporated by reference from the Registrant's 2010 Proxy Statement filed on September 27, 2010.
- 10.5 Greene County Bancorp, Inc. 2011 Phantom Stock Option and Long Term Incentive Plan, effective July 1, 2011, as amended and incorporated by reference from the Registrant's Form 8-K (Exhibit 10.1), filed on June 20, 2018.
- 21.0 Subsidiaries of Greene County Bancorp, Inc.
- 23.0 Consent of Independent Registered Public Accounting Firm
- 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
- 101 The following materials from Greene County Bancorp, Inc. Form 10-K for the year ended June 30, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) 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.

**ITEM 16.**      **Form 10-K Summary**

None.

## 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 12, 2019

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 M. Plummer  
Michelle M. Plummer, CPA, CGMA  
Executive Vice President,  
Chief Operating Officer and Chief Financial Officer  
Date: September 12, 2019

By: /s/ Jay P. Cahalan  
Jay P. Cahalan  
Director  
Date: September 12, 2019

By: /s/ David H. Jenkins  
David H. Jenkins, DVM  
Director  
Date: September 12, 2019

By: /s/ Peter W. Hogan, CPA  
Peter W. Hogan, CPA  
Director  
Date: September 12, 2019

By: /s/ Charles H. Schaefer  
Charles H. Schaefer  
Director  
Date: September 12, 2019

By: /s/ Paul Slutzky  
Paul Slutzky  
Director  
Date: September 12, 2019

By: /s/ Martin C. Smith  
Martin C. Smith  
Chairman of the Board  
Date: September 12, 2019

**EXHIBIT 21.0**

**SUBSIDIARIES OF GREENE COUNTY BANCORP, INC.**

<u>Company</u>	<u>State of Incorporation</u>	<u>Percent Owned</u>
The Bank of Greene County	Federal	100% owned by Greene County Bancorp, Inc.
Greene County Commercial Bank	New York	100% owned by The Bank of Greene County
Greene Property Holdings, Ltd.	New York	100% owned by The Bank of Greene County
Greene Risk Management, Inc.	Nevada	100% owned by Greene County Bancorp, Inc.

**EXHIBIT 23.0**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement No. 333-51538 on Form S-8 of our report dated September 12, 2019, appearing in this Annual Report on Form 10-K of Greene County Bancorp, Inc., relating to the consolidated financial statements for the two years ended June 30, 2019.

/s/ Bonadio & Co., LLP  
Syracuse, NY  
September 12, 2019

## EXHIBIT 31.1

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

I, Donald E. Gibson, certify that:

1. I have reviewed this annual report on Form 10-K of Greene County Bancorp, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this annual report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2019

/s/ Donald E. Gibson  
Donald E. Gibson,  
President and Chief Executive Officer

**EXHIBIT 31.2**

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

I, Michelle M. Plummer, certify that:

1. I have reviewed this annual report on Form 10-K of Greene County Bancorp, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2019

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

**EXHIBIT 32.1**

**Statement of Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Donald E. Gibson, President and Chief Executive Officer of Greene County Bancorp, Inc. (the “Company”), certifies in his capacity as an officer of the Company that he has reviewed the Annual Report of the Company on Form 10-K for the year ended June 30, 2019 and that to the best of his knowledge:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the report.

This statement is authorized to be attached as an exhibit to the report so that this statement will accompany the report at such time as the report is filed with the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 USC 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

Date: September 12, 2019

/s/ Donald E. Gibson  
Donald E. Gibson  
President and Chief Executive Officer

**EXHIBIT 32.2**

**Statement of Chief Financial Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Michelle M. Plummer, Chief Financial Officer of Greene County Bancorp, Inc. (the “Company”), certifies in her capacity as an officer of the Company that she has reviewed the Annual Report of the Company on Form 10-K for the year ended June 30, 2019 and that to the best of her knowledge:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the report.

This statement is authorized to be attached as an exhibit to the report so that this statement will accompany the report at such time as the report is filed with the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 USC 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

Date: September 12, 2019

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

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