

GREENE COUNTY BANCORP INC  
Form 10QSB  
November 14, 2005

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-QSB**

QUARTERLY REPORT UNDER SECTION 13 OF 15(d) OF THE SECURITIES AND EXCHANGE ACT OF  
1934

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005**

OR

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

**GREENE COUNTY BANCORP, INC.**

(Exact name of small business issuer as specified in its charter)

**Commission file number 0-25165**

United States      14-1809721

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

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

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

Check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes:  No:

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

Yes:  No:

As of November 14, 2005, the registrant had 4,132,206 shares of common stock outstanding at \$ .10 par value.

Transitional Small Business Disclosure

Format: Yes:  No:

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**GREENE COUNTY BANCORP, INC.**

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**Greene County Bancorp, Inc.**  
**Consolidated Statements of Financial Condition**  
**As of September 30, 2005 (unaudited) and June 30, 2005**

| <i>ASSETS</i>  | September<br>30, 2005 | June 30,<br>2005 |
|--|-----------------------|------------------|
| Cash and due from banks  | 8,375,473             | \$ 10,871,829    |
| Federal funds sold   | 10,742,665            | 9,059,377        |
| Total cash and cash equivalents  | 19,118,138            | 19,931,206       |
| Investment securities, at fair value   | 91,565,662            | 98,851,363       |
| Federal Home Loan Bank stock, at cost  | 1,784,800             | 1,784,800        |
| Loans  | 169,873,221           | 165,690,699      |
| Less: Allowance for loan losses  | (1,249,199)           | (1,235,999)      |
| Unearned origination fees and costs, net   | (139,312)             | (163,203)        |
| Net loans receivable   | 168,484,710           | 164,291,497      |
| Premises and equipment   | 8,177,091             | 7,795,631        |
| Accrued interest receivable  | 1,524,016             | 1,572,830        |
| Prepaid expenses and other assets  | 369,218               | 452,242          |
| Total assets   | \$ 291,023,635        | \$ 294,679,569   |
| <i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>  |                       |                  |
| Noninterest bearing deposits   | \$ 38,866,579         | \$ 37,590,756    |
| Interest bearing deposits  | 210,829,088           | 215,646,532      |
| Total deposits   | 249,695,667           | 253,237,288      |
| Borrowings from FHLB   | 7,500,000             | 7,500,000        |
| Accrued expenses and other liabilities   | 889,071               | 1,189,782        |
| Total liabilities  | 258,084,738           | 261,927,070      |
| Shareholders' equity   |                       |                  |
| Preferred stock,<br>Authorized 1,000,000 shares; none issued   |                       |                  |
| Common stock, par value \$.10 per share;<br>Authorized:12,000,000 shares<br>Issued: 4,305,670 shares |                       |                  |
| Outstanding: 4,132,206 shares at September 30, 2005<br>and 4,129,906 shares at June 30, 2005;        | 430,567               | 430,567          |
| Additional paid-in capital   | 10,177,495            | 10,128,980       |
| Retained earnings  | 23,421,773            | 23,168,205       |
| Accumulated other comprehensive income   | 17,884                | 162,424          |
| Treasury stock (shares at cost) 173,464 shares at September 30, 2005                                 |                       |                  |

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|  |             |                |
|--|-------------|----------------|
| and 175,764 shares at June 30, 2005        | (929,378)   | (941,694)      |
| Unearned ESOP shares (at cost)             | (179,444)   | (195,983)      |
| Total shareholders' equity                 | 32,938,897  | 32,752,499     |
| Total liabilities and shareholders' equity | 291,023,635 | \$ 294,679,569 |

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**Greene County Bancorp, Inc.**  
**Consolidated Statements of Income**  
**For the Three Months Ended September 30, 2005 and 2004**  
**(Unaudited)**

|   | 2005         | 2004         |
|---|--------------|--------------|
| <b>Interest income:</b>                             |              |              |
| Loans   | \$ 2,681,931 | \$ 2,461,108 |
| Investment securities                               | 143,718      | 267,720      |
| Mortgage-backed securities                          | 458,300      | 518,264      |
| Tax free securities                                 | 232,337      | 213,650      |
| Interest bearing deposits and federal funds sold    | 119,551      | 46,675       |
| Total interest income                               | 3,635,837    | 3,507,417    |
| <b>Interest expense:</b>                            |              |              |
| Interest on deposits                                | 816,718      | 693,029      |
| Interest on borrowings                              | 89,360       | 118,592      |
| Total interest expense                              | 906,078      | 811,621      |
| Net interest income                                 | 2,729,759    | 2,695,796    |
| Provision for loan losses                           | 30,000       | 43,829       |
| Net interest income after provision for loan losses | 2,699,759    | 2,651,967    |
| <b>Noninterest income:</b>                          |              |              |
| Service charges on deposit accounts                 | 462,805      | 436,811      |
| Other operating income                              | 339,390      | 247,241      |
| Total noninterest income                            | 802,195      | 684,052      |
| <b>Noninterest expense:</b>                         |              |              |
| Salaries and employee benefits                      | 1,460,682    | 1,204,225    |
| Occupancy expense                                   | 136,417      | 115,694      |
| Equipment and furniture expense                     | 184,047      | 156,372      |
| Service and data processing fees                    | 282,461      | 279,252      |
| Office supplies                                     | 28,889       | 29,461       |
| Other   | 472,878      | 424,495      |
| Total noninterest expense                           | 2,565,374    | 2,209,499    |
| Income before provision for income taxes            | 936,580      | 1,126,520    |
| Provision for income taxes                          | 281,100      | 322,000      |
| Net income  | \$ 655,480   | \$ 804,520   |
| Basic EPS   | \$ 0.16      | \$ 0.20      |
| Basic shares outstanding                            | 4,089,291    | 4,109,854    |
| Diluted EPS   | \$ 0.16      | \$ 0.19      |

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Diluted average shares outstanding | 4,176,192 | 4,209,180 |
|------------------------------------|-----------|-----------|

*All share and per share information have been restated to give effect to the 2-for-1 stock split which was effective on May 31, 2005*

*See notes to consolidated financial statements*

**Greene County Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**For the Three Months Ended September 30, 2005 and 2004**  
**(Unaudited)**

|  | 2005       | 2004         |
|--|------------|--------------|
| Net income   | \$ 655,480 | \$ 804,520   |
| Other comprehensive (loss)income:  |            |              |
| Unrealized holding (losses) gains arising during the three months ended September 30, 2005 and 2004, net of tax benefit/(expense) of \$92,216 and \$(393,586), respectively. | (144,540)  | 616,907      |
| Total other comprehensive (loss)income   | (144,540)  | 616,907      |
| Comprehensive income   | \$ 510,940 | \$ 1,421,427 |

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**Greene County Bancorp, Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Three Months Ended September 30, 2005 and 2004**  
**(Unaudited)**

|                                       | Capital<br>Stock | Additional<br>Paid - In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Unearned<br>Stock-based<br>Compensation | Treasury<br>Stock | Unearned<br>ESOP<br>Shares | Total<br>Shareholders'<br>Equity |
|---------------------------------------|------------------|------------------------------------|----------------------|---|---|-------------------|----------------------------|----------------------------------|
| Balance at                            |                  |                                    |                      |   |   |                   |                            |                                  |
| June 30, 2004                         | \$215,284        | \$10,151,621                       | \$21,002,589         | \$(183,422)                                     | (\$39,319)                              | (\$1,056,906)     | (\$264,035)                | \$29,825,812                     |
| ESOP shares<br>earned                 |                  | 42,518                             |                      |   |   |                   | 17,503                     | 60,021                           |
| Options<br>exercised                  |                  | 11,535                             |                      |   |   | 16,065            |                            | 27,600                           |
| Stock-based<br>compensation<br>earned |                  |                                    |                      |   | 13,107                                  |                   |                            | 13,107                           |
| Dividends<br>declared                 |                  |                                    | (381,648)            |   |   |                   |                            | (381,648)                        |
| Net income                            |                  |                                    | 804,520              |   |   |                   |                            | 804,520                          |
| Change in<br>unrealized<br>gain, net  |                  |                                    |                      | 616,907   |   |                   |                            | 616,907                          |
| Balance at                            |                  |                                    |                      |   |   |                   |                            |                                  |
| September 30,<br>2004                 | \$215,284        | \$10,205,674                       | \$21,425,461         | \$433,485                                       | (\$26,212)                              | (\$1,040,841)     | (\$246,532)                | \$30,966,319                     |
| Balance at                            |                  |                                    |                      |   |   |                   |                            |                                  |
| June 30, 2005                         | \$430,567        | \$10,128,980                       | \$23,168,205         | \$162,424                                       | \$--                                    | (\$941,694)       | (\$195,983)                | \$32,752,499                     |
| ESOP shares<br>earned                 |                  | 51,775                             |                      |   |   |                   | 16,539                     | 68,314                           |
| Options<br>exercised                  |                  | (3,260)                            |                      |   |   | 12,316            |                            | 9,056                            |
| Dividends<br>declared                 |                  |                                    | (401,912)            |   |   |                   |                            | (401,912)                        |
| Net income                            |                  |                                    | 655,480              |   |   |                   |                            | 655,480                          |



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|                                      |           |              |              |           |       |             |             |              |
|--------------------------------------|-----------|--------------|--------------|-----------|-------|-------------|-------------|--------------|
| Change in<br>unrealized gain,<br>net |           |              |              | (144,540) |       |             |             | (144,540)    |
| Balance at<br>September 30,<br>2005  | \$430,567 | \$10,177,495 | \$23,421,773 | \$17,884  | \$--- | \$(929,378) | \$(179,444) | \$32,938,897 |

*See notes to consolidated financial statements.*

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**Greene County Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Three Months Ended September 30, 2005 and 2004**  
**(Unaudited)**

|   | 2005          | 2004          |
|---|---------------|---------------|
| Cash flows from operating activities:   |               |               |
| Net Income  | \$ 655,480    | \$ 804,520    |
| Adjustments to reconcile net income to cash provided by operating activities: |               |               |
| Depreciation  | 189,813       | 151,000       |
| Net amortization of premium   | 431,184       | 315,673       |
| Provision for loan losses   | 30,000        | 43,829        |
| ESOP and other stock-based compensation earned                                | 68,314        | 73,128        |
| Net increase in accrued income taxes  | 281,100       | 110,066       |
| Net decrease (increase) in accrued interest receivable                        | 48,814        | (38,385)      |
| Net decrease in prepaid and other assets                                      | 175,240       | 79,351        |
| Net (decrease) increase in other liabilities                                  | (581,811)     | 159,627       |
| Net cash provided by operating activities                                     | 1,298,134     | 1,698,809     |
| Cash flows from investing activities:   |               |               |
| Proceeds from maturities and calls of securities                              | 4,494,262     | 4,622,341     |
| Purchases of securities and other investments                                 | (2,236,329)   | (4,441,762)   |
| Principal payments on securities  | 535,173       | 410,868       |
| Principal payments on mortgage-backed securities                              | 3,824,655     | 2,324,343     |
| Purchases of mortgage-backed securities                                       | ---           | (1,043,626)   |
| Net increase in loans receivable  | (4,223,213)   | (4,678,783)   |
| Proceeds from sale of premises and equipment                                  | 1,627         | ---           |
| Purchases of premises and equipment   | (572,900)     | (421,518)     |
| Net cash provided by (used in) investing activities                           | 1,823,275     | (3,228,137)   |
| Cash flows from financing activities:   |               |               |
| Net payments to FHLB  | ---           | (2,500,000)   |
| Dividends paid  | (401,912)     | (381,648)     |
| Proceeds from exercise of stock options                                       | 9,056         | 27,600        |
| Net (decrease) increase in deposits   | (3,541,621)   | 1,068,132     |
| Net cash used in financing activities   | (3,934,477)   | (1,785,916)   |
| Net (decrease) in cash and cash equivalents                                   | (813,068)     | (3,315,244)   |
| Cash and cash equivalents at beginning of period                              | 19,931,206    | 21,417,738    |
| Cash and cash equivalents at end of period                                    | \$ 19,118,138 | \$ 18,102,494 |

*See notes to consolidated financial statements.*

**Greene County Bancorp, Inc.**

**Notes to Consolidated Financial Statements**

**As of and for the Three Months Ended September 30, 2005 and 2004**

**(1) Basis of Presentation**

The accompanying consolidated balance sheet information as of June 30, 2005 was derived from the audited consolidated financial statements of Greene County Bancorp, Inc. (the "Company") and its wholly owned subsidiary, The Bank of Greene County (the "Bank") and its subsidiary, Greene County Commercial Bank. The consolidated financial statements at and for the three months ended September 30, 2005 and 2004 are unaudited.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. To the extent that information and footnotes required by GAAP for complete financial statements are contained in or are consistent with the audited financial statements incorporated by reference to Greene County Bancorp, Inc.'s Annual Report on Form 10-KSB for the year ended June 30, 2005, such information and footnotes have not been duplicated herein. In the opinion of management, all adjustments (consisting of only normal recurring items) necessary for a fair presentation of the financial position and results of operations and cash flows at and for the periods presented have been included. Amounts in the prior year's consolidated financial statements have been reclassified whenever necessary to conform to the current year's presentation. These reclassifications had no effect on net income or retained earnings as previously reported. All material inter-company accounts and transactions have been eliminated in the consolidation. The results of operations and other data for the three months ended September 30, 2005 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2006.

**CRITICAL ACCOUNTING POLICY**

Greene County Bancorp, Inc.'s critical accounting policy relates to the allowance for loan losses (the "Allowance"). It is based on management's opinion of an amount that is intended to absorb losses in the existing portfolio. The allowance for loan losses is established through a provision for 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 collectibility 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 for 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.

While management uses available information to recognize losses on loans and OREO, future additions to the allowance, or OREO write-downs, 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 Bank of Greene County's allowance and the carrying value of OREO and other assets. Such authorities may require The Bank of Greene County to recognize additions to the allowance and/or write down the carrying value of OREO or other assets based on their judgments of information available to them at the time of their examination.

**(2) (2) Nature Of Operations**

The Bank of Greene County has six full-service offices and an operations center located in its market area consisting of Greene County and southern Albany County, 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.

**(3) (3) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could 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.

**(4) Earnings Per Share**

Basic earnings per share ("EPS") on common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period. Shares of restricted stock are not considered outstanding for the calculation of basic earnings per share until they become fully vested. Diluted earnings per share are 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 instruments (such as stock options and unvested restricted stock) became vested and (in the case of stock options) exercised 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. All share and per share information has been restated to give effect to the 2-for-1 stock split which was effective on May 31, 2005.

|                           | Net Income | Weighted<br>Average<br>Number of<br>Shares<br>Outstanding | Earnings<br>Per Share |
|---------------------------|------------|---|-----------------------|
| <b>Three Months Ended</b> |            |   |                       |
| September 30, 2005:       | \$ 655,480 |   |                       |
| Basic EPS                 |            | 4,089,291   | \$ 0.16               |
| Diluted EPS               |            | 4,176,192   | \$ 0.16               |
| September 30, 2004:       | \$ 804,520 |   |                       |
| Basic EPS                 |            | 4,109,854   | \$ 0.20               |
| Diluted EPS               |            | 4,209,180   | \$ 0.19               |

**(5) Dividends**

The Board of Directors declared a semi-annual cash dividend of \$0.22 per share of Greene County Bancorp, Inc.'s common stock. The dividend reflects an annual cash dividend rate of \$0.44 per share, which represents an increase

from the previous annual cash dividend rate of \$0.43 per share. The dividend was payable to stockholders of record as of August 15, 2005, and paid on September 1, 2005. It should be noted that Greene County Bancorp, Inc.'s mutual holding company continued to waive receipt of dividends for the current period.

#### **(6) 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.

#### **(7) Impact of Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment" SFAS 123(R) amends SFAS No. 123, "Accounting for Stock-Based Compensation", and APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS No.123(R) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS No. 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the entity's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of an entity's shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the first interim period or fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning after June 15, 2005, or (3) for all nonpublic entities, as of the first fiscal year beginning after December 15, 2005. The effect of SFAS 123(R) on the Company's financial statements will not be material.

In January 2003, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investors" ("EITF 03-1"), and in March 2004, the EITF issued an update. EITF 03-1 addresses the meaning of other-than-temporary impairment and its application to certain debt and equity securities. EITF 03-1 aids in the determination of impairment of an investment and gives guidance as to the measurement of impairment loss and the recognition and disclosures of other-than-temporary investments. EITF 03-1 also provides a model to determine other-than-temporary impairment using evidence-based judgment about the recovery of the fair value up to the cost of the investment by considering the severity and duration of the impairment in relation to the forecasted recovery of the fair value. In July 2005, FASB adopted the recommendation of its staff to nullify key parts of EITF 03-1. The staff's recommendations were to nullify the guidance on the determination of whether an investment is impaired as set forth in paragraphs 10-18 of Issue 03-1 and not to provide additional guidance on the meaning of other-than-temporary impairment. Instead, the staff recommends entities recognize other-than-temporary impairments by applying existing accounting literature such as paragraph 16 of SFAS 115.

#### **(8) Stock-Based Compensation**

At September 30, 2005, Greene County Bancorp, Inc. had two stock-based compensation plans, which are described more fully in Note 9 of the financial statements and notes thereto for the year ended June 30, 2005. SFAS No. 123, *Accounting for Stock-Based Compensation*, requires the measurement of the fair value of stock options or warrants granted to employees to be included in the statement of operations or, alternatively, disclosed in the notes to

consolidated financial statements. The Company accounts for stock-based compensation of employees under the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations and has elected the disclosure-only alternative under SFAS No. 123. No stock-based compensation cost is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

|  | Three Months Ended |            |
|--|--------------------|------------|
|  | September 30,      |            |
|  | 2005               | 2004       |
| Net income, as reported  | \$ 655,480         | \$ 804,520 |
| Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects | 486                | 6,919      |
| Pro forma net income   | \$ 654,994         | \$ 797,601 |
| Earnings per share:  |                    |            |
| Basic - as reported  | \$ 0.16            | \$ 0.20    |
| Basic - pro forma  | \$ 0.16            | \$ 0.20    |
| Diluted - as reported  | \$ 0.16            | \$ 0.19    |
| Diluted - pro forma  | \$ 0.16            | \$ 0.19    |

The fair value of each option grant has been estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in all periods presented: dividend yield of 3.0%, expected volatility of 29.54%, risk free interest rate of 4.78%, and expected term of 5 years.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

### Overview of the Company's Activities and Risks

Greene County Bancorp, Inc.'s results of operations depend primarily on its net interest income, which is the difference between the income earned on Greene County Bancorp, Inc.'s loan and securities portfolios and its cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by Greene County Bancorp, Inc.'s provision for loan losses, income and expense pertaining to foreclosed real estate, gains and losses from sales of securities, noninterest income and noninterest expense. Noninterest income consists primarily of fees and service charges. Greene County Bancorp, Inc.'s noninterest expense consists principally of compensation and employee benefits, occupancy, equipment and data processing, and other operating expenses. Results of operations are also significantly affected by general economic and competitive conditions, changes in interest rates, as well as government policies and actions of regulatory authorities. Additionally, future changes in applicable law, regulations or government policies may materially affect Greene County Bancorp, Inc.

To operate successfully, the Company must manage various types of risk, including but not limited to, market or interest rate risk, credit risk, transaction risk, liquidity risk, security risk, strategic risk, reputation risk and compliance

risk. While all of these risks are important, the risks of greatest significance to the Company relate to market or interest rate risk and credit risk.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates. Since net interest income (the difference between interest earned on loans and investments and interest paid on deposits and borrowings) is the Company's primary source of revenue, interest rate risk is the most significant non-credit related market risk to which the Company is exposed. Net interest income is affected by changes in interest rates as well as fluctuations in the level and duration of the Company's assets and liabilities.

Interest rate risk is the exposure of the Company's net interest income to adverse movements in interest rates. In addition to directly impacting net interest income, changes in interest rates can also affect the amount of new loan originations, the ability of borrowers and debt issuers to repay loans and debt securities, the volume of loan repayments and refinancings, and the flow and mix of deposits.

Credit risk is the risk to the Company's earnings and shareholders' equity that results from customers, to whom loans have been made and to the issuers of debt securities in which the Company has invested, failing to repay their obligations. The magnitude of risk depends on the capacity and willingness of borrowers and debt issuers to repay and the sufficiency of the value of collateral obtained to secure the loans made or investments purchased.

### **Special Note Regarding Forward Looking Statements**

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

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

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

**Comparison of Financial Condition as of September 30, 2005 and June 30, 2005****ASSETS**

Total assets of the Company were \$291.0 million at September 30, 2005 as compared to \$294.7 million at June 30, 2005, a decrease of \$3.7 million, or 1.3%. Investment securities amounted to \$91.6 million, or 31.6% of assets, at September 30, 2005 as compared to \$98.9 million, or 33.5% of assets, at June 30, 2005, a decrease of \$7.3 million or 7.4%. Principal pay-downs and maturities associated with investment securities amounted to \$8.9 million between June 30, 2005 and September 30, 2005. These activities were partially offset by investment purchases of \$2.2 million over the same time frame. Loans grew by \$4.2 million between September 30, 2005 and June 30, 2005. As a result, net loans represented 57.9% of assets at September 30, 2005 as compared to 55.8% of assets at June 30, 2005.

**CASH AND CASH EQUIVALENTS**

Total cash and cash equivalents decreased to \$19.1 million at September 30, 2005 as compared to \$19.9 million at June 30, 2005, a decrease of \$0.8 million or 4.0%. Cash, such as vault cash and balances with correspondent banks, decreased approximately \$2.5 million between September 30, 2005 and June 30, 2005. Federal funds sold increased to \$10.7 million at September 30, 2005 as compared to \$9.1 million at June 30, 2005, an increase of \$1.6 million or 17.6%. The level of cash and cash equivalents is a function of the daily account clearing needs and deposit levels as well as activities associated with investment transactions and loan funding. All of these items can cause cash levels to fluctuate significantly on a daily basis.

**INVESTMENT SECURITIES**

Investment securities decreased \$7.3 million, or 7.4% to \$91.6 million at September 30, 2005 as compared to \$98.9 million at June 30, 2005. The decrease in the investment portfolio was the result of principal pay-downs that amounted to \$4.4 million, of which \$3.8 million were mortgage-backed securities, and maturities that amounted to \$4.5 million, of which \$3.5 million were corporate securities. Purchases of \$2.2 million, primarily tax-free investments, offset the principal pay-downs and maturities between September 30, 2005 and June 30, 2005. The decline in the investment portfolio was used to help fund loan growth. The investment portfolio shifted away from corporate debt securities, which represented 1.7% of the portfolio at September 30, 2005 as compared to 5.1% at June 30, 2005, due to maturities, and toward state and political subdivision investments which represented 29.2% of the portfolio composition at September 30, 2005 as compared to 26.4% at June 30, 2005. The shift toward state and political subdivision securities was to take advantage of tax savings and to promote Greene County Bancorp, Inc.'s participation in the communities in which it operates.

| <i>(Dollars rounded to nearest thousand)</i> | Fair value at<br>Sept. 30,<br>2005 | Percentage<br>of portfolio | Fair value at<br>June 30,<br>2005 | Percentage<br>of portfolio |
|--|------------------------------------|----------------------------|-----------------------------------|----------------------------|
| U.S. government agencies                     | \$ 3,764                           | 4.1%                       | \$ 3,889                          | 3.9%                       |
| State and political subdivisions             | 26,771                             | 29.2                       | 26,086                            | 26.4                       |
| Mortgage-backed securities                   | 57,884                             | 63.2                       | 62,158                            | 62.9                       |
| Asset-backed securities                      | 125                                | 0.2                        | 144                               | 0.2                        |
| Corporate debt securities                    | 1,526                              | 1.7                        | 5,056                             | 5.1                        |
| Total debt securities                        | 90,070                             | 98.4                       | 97,333                            | 98.5                       |
| Equity securities and other                  | 1,496                              | 1.6                        | 1,518                             | 1.5                        |



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|                                     |    |        |        |    |        |        |
|-------------------------------------|----|--------|--------|----|--------|--------|
| Total available-for-sale securities | \$ | 91,566 | 100.0% | \$ | 98,851 | 100.0% |
|-------------------------------------|----|--------|--------|----|--------|--------|

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## LOANS

Net loans receivable increased to \$168.5 million at September 30, 2005 from \$164.3 million at June 30, 2005, an increase of \$4.2 million, or 2.6%. The loan growth experienced during the quarter primarily consisted of \$2.4 million in residential mortgages, \$1.1 million in home equity loans and \$0.5 million in commercial loans. The continued low interest rate environment and strong customer satisfaction from personal service continued to enhance loan growth. Recent interest rate hikes by the Federal Open Market Committee have yet to significantly affect long term interest rates. If long term rates begin to rise, the Company anticipates some slow down in new loan demand as well as refinancing activities. It appears consumers continue to use the equity in their homes to fund financing needs for some activities, where in the past an installment loan may have been the choice. The low financing options from auto makers continued to cut into the Bank's automobile loan generation.

| <i>(Dollars rounded to nearest thousand)</i> | At<br>Sept. 30,<br>2005 | Percentage<br>of portfolio | At<br>June 30,<br>2005 | Percentage<br>of portfolio |
|--|-------------------------|----------------------------|------------------------|----------------------------|
| <b>Real estate mortgages</b>                 |                         |                            |                        |                            |
| Residential                                  | \$ 126,364              | 74.4%                      | \$ 123,939             | 74.8%                      |
| Commercial                                   | 18,322                  | 10.8                       | 18,077                 | 10.9                       |
| Home equity loans                            | 13,699                  | 8.1                        | 12,607                 | 7.6                        |
| Commercial loans                             | 7,402                   | 4.3                        | 6,860                  | 4.1                        |
| Installment loans                            | 3,333                   | 2.0                        | 3,466                  | 2.1                        |
| Passbook loans                               | 753                     | 0.4                        | 742                    | 0.5                        |
| Total loans                                  | \$ 169,873              | 100.0%                     | \$ 165,691             | 100.0%                     |
| Less: Allowance for loan losses              | (1,249)                 |                            | (1,236)                |                            |
| Unearned origination fees and costs, net     | (139)                   |                            | (163)                  |                            |
| Net loans receivable                         | \$ 168,485              |                            | \$ 164,292             |                            |

## 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 all loans on which full collectibility 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 and other factors that warrant recognition in providing for an allowance for loan losses. 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 and valuation of OREO. 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. Various regulatory agencies issued guidance recommending banks include the charged off account balances associated with overdraft protection programs in the evaluation of the allowance for loan losses. The charged off amount associated with overdraft protection does not include associated fees which would have been collected. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to expense) and is reduced by net charge-offs. The level of the provision for the quarter ended September 30, 2005, was driven by the continued good asset quality. Any future increase in the allowance for loan losses or loan charge-offs could have a material adverse effect on Greene County Bancorp, Inc.'s results of operations and financial condition.

| Allowance for loan losses                             | Quarter      | Quarter      |
|---|--------------|--------------|
|   | ended        | ended        |
|   | September    | September    |
|   | 30, 2005     | 30, 2004     |
| Balance at the beginning of the period                | \$ 1,235,999 | \$ 1,241,091 |
| Charge-offs:  |              |              |
| Installment loans to individuals                      | 16,239       | 5,582        |
| Overdraft protection                                  | 14,598       | 22,263       |
| Total loans charged off                               | 30,837       | 27,845       |
| Recoveries:   |              |              |
| Installment loans to individuals                      | 3,986        | 3,785        |
| Overdraft protection                                  | 10,051       | 8,434        |
| Total recoveries                                      | 14,037       | 12,219       |
| Net charge-offs                                       | 16,800       | 15,626       |
| Provisions charged to operations                      | 30,000       | 43,829       |
| Balance at the end of the period                      | 1,249,199    | \$ 1,269,294 |
| Ratio of net charge-offs to average loans outstanding | 0.01%        | 0.01%        |
| Ratio of net charge-offs to nonperforming assets      | 5.20%        | 3.88%        |
| Allowance for loan loss to nonperforming loans        | 387.01%      | 416.61%      |
| Allowance for loan loss to net loans receivable       | 0.74%        | 0.82%        |

Nonaccrual Loans and Nonperforming Assets

Loans are reviewed on a regular basis. Management determines that a loan is impaired or nonperforming when it is probable at least a portion of the loan will not be collected in accordance with its contractual terms due to an irreversible deterioration in the financial condition of the borrower or the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on the 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. Management places loans on nonaccrual status once the loans have become over 90 days delinquent. Nonaccrual is defined as a loan in which collectibility is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan does not have to be 90 days delinquent in order to be classified as nonperforming. Foreclosed real estate is considered a nonperforming asset. The Bank of Greene County had no accruing loans delinquent more than 90 days at September 30, 2005 or June 30, 2005.

Analysis of Nonaccrual Loans and Nonperforming Assets

|   | At<br>September<br>30, 2005 | At June 30,<br>2005 |
|---|-----------------------------|---------------------|
| Nonaccruing loans   |                             |                     |
| Real estate mortgage loans                                    |                             |                     |
| Residential mortgages loans (one- to four-family)             | \$ 235,908                  | \$ 125,841          |
| Commercial mortgage loans                                     | ---                         | 50,318              |
| Home equity   | 80,698                      | 96,381              |
| Commercial loans  | ---                         | 24,416              |
| Installment loans to individuals                              | 6,176                       | 51,387              |
| Total nonaccruing loans                                       | 322,782                     | 348,343             |
| Foreclosed real estate  | ---                         | --                  |
| Total nonperforming assets                                    | \$ 322,782                  | \$ 348,343          |
| Total nonperforming assets<br>as a percentage of total assets | 0.11%                       | 0.12%               |
| Total nonperforming loans to total loans                      | 0.19%                       | 0.21%               |

At September 30, 2005, gross interest income of \$10,500 would have been recorded on nonaccrual loans under their original terms if the loans had been current throughout the period. No interest income was recorded on nonaccrual loans or on accruing loans more than 90 days delinquent at September 30, 2005.

## DEPOSITS

Total deposits decreased to \$249.7 million at September 30, 2005 from \$253.2 million at June 30, 2005, a decrease of \$3.5 million, or 1.4%. The primary reason for the decline in deposit balances was due to the payment of various escrow taxes for customers in the last few days of September 2005. Deposit escrow accounts are included in the savings deposit category, which declined \$4.4 million in total. As noted earlier, the Federal Open Market Committee has raised interest rates recently; as a result, customers have begun to invest again in certificates of deposit indicated by a balance increase of \$1.9 million between June 30, 2005 and September 30, 2005. The Company continues to try to encourage customers to open noninterest bearing deposit accounts through various marketing strategies, including free gifts.

| <i>(Dollars rounded to nearest thousand)</i> | At<br>Sep. 30,<br>2005 | Percentage<br>Of portfolio | At<br>June 30,<br>2005 | Percentage<br>of portfolio |
|--|------------------------|----------------------------|------------------------|----------------------------|
| Noninterest bearing deposits                 | \$ 38,867              | 15.5%                      | \$ 37,591              | 14.9%                      |
| Certificates of deposit                      | 55,849                 | 22.4                       | 53,991                 | 21.3                       |
| Savings deposits                             | 93,360                 | 37.4                       | 97,759                 | 38.6                       |
| Money market deposits                        | 39,644                 | 15.9                       | 40,766                 | 16.1                       |
| NOW deposits                                 | 21,976                 | 8.8                        | 23,130                 | 9.1                        |
| Total deposits                               | \$ 249,696             | 100.0%                     | \$ 253,237             | 100.0%                     |

## BORROWINGS

At September 30, 2005, The Bank of Greene County had the following borrowings:

| Amount      | Rate   | Maturity Date |
|-------------|--|---------------|
| \$5,000,000 | 3.64% -Fixed two<br>years, convertible<br>thereafter | 10/24/2013    |
| 2,500,000   | 6.80% -Fixed   | 10/04/2005    |
| \$7,500,000 |  |               |

The \$5.0 million borrowing is convertible given certain criteria including three-month LIBOR of at least 7.5%.

## EQUITY

Shareholders' equity increased to \$32.9 million at September 30, 2005 from \$32.8 million at June 30, 2005, as net income of \$655,500 was partially offset by dividends paid of \$402,000. Accumulated other comprehensive income decreased to \$145,000 as a result of a decline in the fair value of the available-for-sale investment portfolio, net of tax. Other changes in equity were the result of activities associated with the various stock-based compensation plans of the Company including the 2000 Stock Option Plan and ESOP Plan. 2,300 options were exercised, during the quarter ended September 30, 2005 reducing the number of shares held as treasury stock to 173,464.

**Comparison of Operating Results for the Three Months Ended September 30, 2005 and 2004****Average Balance Sheet**

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the quarters ended September 30, 2005 and 2004. 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. For the quarter ended September 30, 2005 and 2004, average balances were based on daily averages, except for deposit accounts which were based on weekly averages. Interest and balances of nonaccrual loans and certain deferred origination fees and costs have been excluded from the average loan balances and yield calculations in these tables.

| <i>(Dollars in thousands)</i>   | 2005        | 2005     | 2005    | 2004        | 2004     | 2004    |
|---|-------------|----------|---------|-------------|----------|---------|
|   | Average     | Interest | Average | Average     | Interest | Average |
|   | Outstanding | Earned/  | Yield/  | Outstanding | Earned/  | Yield/  |
|   | Balance     | Paid     | Rate    | Balance     | Paid     | Rate    |
| <b>Interest earning assets:</b>   |             |          |         |             |          |         |
| Loans receivable, net <sup>1</sup>                                      | \$ 166,598  | \$ 2,682 | 6.44%   | \$ 151,189  | \$ 2,461 | 6.51%   |
| Investment securities <sup>2</sup>                                      | 95,232      | 810      | 3.40    | 104,759     | 989      | 3.78    |
| Federal funds   | 11,473      | 99       | 3.45    | 10,559      | 39       | 1.48    |
| Interest bearing bank balances  | 2,798       | 21       | 3.00    | 2,387       | 7        | 1.17    |
| FHLB stock  | 1,785       | 24       | 5.38    | 1,729       | 11       | 2.54    |
| Total interest earning assets   | 277,886     | 3,636    | 5.23    | 270,623     | 3,507    | 5.18    |
| <b>Interest bearing liabilities:</b>                                    |             |          |         |             |          |         |
| Savings and money market deposits                                       | 138,735     | 445      | 1.28    | 126,634     | 372      | 1.18    |
| Demand and NOW deposits   | 60,367      | 24       | 0.16    | 52,492      | 25       | 0.19    |
| Certificates of deposit   | 54,183      | 348      | 2.57    | 57,685      | 295      | 2.05    |
| Borrowings  | 7,500       | 89       | 4.75    | 10,286      | 119      | 4.63    |
| Total interest bearing liabilities                                      | \$ 260,785  | 906      | 1.39%   | \$ 247,097  | 811      | 1.31%   |
| Net interest income   |             | \$ 2,730 |         |             | \$ 2,696 |         |
| Net interest rate spread  |             |          | 3.84%   |             |          | 3.87%   |
| Net interest margin   |             |          | 3.93%   |             |          | 3.98%   |
| Average interest earning assets to average interest bearing liabilities |             |          | 106.56% |             |          | 109.52% |

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

<sup>2</sup>Includes tax-free securities, mortgage-backed securities and asset-backed securities.

**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>(Dollars in thousands)</i>             | Three Months<br>Ended September 30,<br>2005 versus 2004 |                 |                         |       |
|---|---|-----------------|-------------------------|-------|
|   | Increase/(Decrease)<br>Due to                           |                 |                         | Total |
|   | Volume  | Rate            | Increase/<br>(Decrease) |       |
| <b>Interest-earning assets:</b>           |   |                 |                         |       |
| Loans receivable, net <sup>1</sup>        | \$ 247  | \$ (26)         | \$ 221                  |       |
| Investment securities <sup>2</sup>        | (85)  | (94)            | (179)                   |       |
| Federal funds                             | 4   | 56              | 60                      |       |
| Interest-bearing bank balances            | 1   | 13              | 14                      |       |
| FHLB stock                                | 0   | 13              | 13                      |       |
| <b>Total interest-earning assets</b>      | <b>167</b>  | <b>(38)</b>     | <b>129</b>              |       |
| <b>Interest-bearing liabilities:</b>      |   |                 |                         |       |
| Savings deposits                          | 39  | 34              | 73                      |       |
| Demand and NOW deposits                   | 19  | (20)            | (1)                     |       |
| Certificates of deposit                   | (17)  | 70              | 53                      |       |
| Borrowings                                | (33)  | 3               | (30)                    |       |
| <b>Total interest-bearing liabilities</b> | <b>8</b>  | <b>87</b>       | <b>95</b>               |       |
| <b>Net interest income</b>                | <b>\$ 159</b>   | <b>\$ (125)</b> | <b>\$ 34</b>            |       |

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

<sup>2</sup> Includes tax-free securities, mortgage-backed securities and asset-backed securities.

**GENERAL**

Return on average assets and return on average equity are common methods of measuring operating results. Return on average assets decreased to 0.89% for the quarter ended September 30, 2005 as compared to 1.12% for the quarter ended September 30, 2004. Return on average equity decreased to 8.01% for the quarter ended September 30, 2005 as compared to 10.58% for the quarter ended September 30, 2004. The decline in return on average assets and return on average equity was primarily the result of higher noninterest expenses and partially due to lower net interest spread and margin. Net income amounted to \$655,500 for the quarter ended September 30, 2005 as compared to \$804,500 for the prior year period, a decrease of \$149,000 or 18.5%. Average assets increased \$7.9 million, or 2.8% to \$294.8 million for the quarter ended September 30, 2005 as compared to \$286.9 million for the quarter ended September 30, 2004. Average equity increased \$2.3 million, or 7.6%, to \$32.7 million for the quarter ended September 30, 2005 as compared to \$30.4 million for the quarter ended September 30, 2004.

## INTEREST INCOME

Interest income amounted to \$3.6 million for the quarter ended September 30, 2005 as compared to \$3.5 million for the quarter ended September 30, 2004, an increase of \$0.1 million or 2.9%. The increase in loan volume offset by a decline in the yield on such interest earning assets had the greatest impact on interest income when comparing the quarters ended September 30, 2005 and 2004. Average loan balances increased \$15.4 million and were offset by a 7 basis point drop in yield when comparing the quarters ended September 30, 2005 and 2004. Although the overall impact on interest income from loans was positive, it was offset by lower volume and yield on investment securities for which average balances declined \$9.5 million and the yield on such investments declined 38 basis points when comparing the quarters ended September 30, 2005 and 2004. The short term investments such as interest bearing bank balances and federal funds sold also contributed to improvement in interest income when comparing quarters ended September 30, 2005 and 2004, primarily as a result of the interest rate hikes implemented by the Federal Open Market Committee during the last several quarters. Although the Federal Open Market Committee has increased short-term rates several times during the last several quarters and indicates it intends to continue to raise short-term rates, the long-term rates continue to remain relatively unchanged and low.

## INTEREST EXPENSE

Interest expense amounted to \$906,000 for the quarter ended September 30, 2005 as compared to \$812,000 for the quarter ended September 30, 2004, an increase of \$94,000 or 11.6%. Interest expense on deposits increased to \$817,000 for the quarter ended September 30, 2005 as compared to \$693,000 for the quarter ended September 30, 2004. Interest expense on borrowings declined \$30,000 to \$89,000 for the quarter ended September 30, 2005 as compared to \$119,000 for the quarter ended September 30, 2004. Changes in rate on interest-bearing liabilities had the greatest impact on overall interest expense. The average rate paid on savings and money market deposits increased 10 basis points when comparing the quarters ended September 30, 2005 and 2004, and the average balance of such accounts grew by \$12.1 million, contributing to the overall increase in interest expense. The average balance of certificates of deposit fell by \$3.5 million but was offset by an increase of 52 basis points in the average rate paid on remaining balances when comparing the quarters ended September 30, 2005 and 2004. The level of interest paid on borrowings when comparing the quarters ended September 30, 2005 and 2004 was primarily affected by the repayment of \$2.5 million with a rate of 6.82% on September 2, 2004.

Due to the large portion of fixed rate residential mortgages in the Company's asset portfolio, interest rate risk is a concern and the Company will continue to monitor the situation and attempt to adjust the asset and liability mix as much as possible to take advantage of the benefits and reduce the risks or potential negative effects of a rising rate environment. Management attempts to mitigate the interest rate risk through balance sheet composition. Several strategies are used to help manage interest rate risk such as maintaining a high level of liquid assets such as short-term federal funds sold and various investment securities; and maintaining a high concentration of less interest-rate sensitive and lower-costing core deposits.

## NET INTEREST INCOME

Net interest income remained relatively flat at \$2.7 million for the quarters ended September 30, 2005 and 2004. Net interest spread decreased to 3.84% as compared to 3.87%, when comparing the quarters ended September 30, 2005 and 2004. Net interest margin decreased five basis points to 3.93% for the quarter ended September 30, 2005 as compared to 3.98% for the quarter ended September 30, 2004. The tightening of the net interest spread and margin hindered net interest income growth when comparing the quarters ended September 30, 2005 and 2004.

Due to the large level of long term fixed rate loans, The Bank of Greene County may continue to experience compression of net interest margin and spread in a rising rate environment.



## PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to \$30,000 for the quarter ended September 30, 2005 and \$44,000 for the quarter ended September 30, 2004. The level of provision for loan losses was largely impacted by the asset quality of the overall loan portfolio, which continued to remain good. Nonperforming assets to total assets amounted to 0.11% and nonperforming loans to total loans amounted to 0.19% at September 30, 2005. The collateral associated with the residential mortgages and home equities classified as nonaccrual was deemed sufficient and the amount of individual loans classified as nonaccrual was insignificant.

## NONINTEREST INCOME

Noninterest income amounted to \$802,000 for the quarter ended September 30, 2005 as compared to \$684,000 for the quarter ended September 30, 2004, an increase of \$118,000 or 17.3%. Service charges on deposit accounts increased \$26,000 due to higher levels of insufficient funds charges. The Company continues to grow income from higher volumes of activity in debit cards, E-commerce and services performed through Essex Corp's "Investors MarketPlace", an alternative investment resource.

## NONINTEREST EXPENSE

Noninterest expense amounted to \$2.6 million for the quarter ended September 30, 2005 as compared to \$2.2 million for the quarter ended September 30, 2004, an increase of \$0.4 million or 18.2%. Salaries and employee benefits increased \$256,000 when comparing quarters ended September 30, 2005 and 2004. Several new positions as well as annual compensation increases, and higher retirement and medical insurance costs caused the higher compensation and employee benefits. The new positions included expansion of the business development and marketing staff, as well as a finance manager and several branch personnel. Approximately \$23,000 of the increase in salaries was due to more over-time as a result of the training and preparation for the data processing system conversion, which occurred over the weekend of October 15, 2005. Retirement expense increased approximately \$26,000 primarily as a result of more staff eligible to participate in the retirement plans. Occupancy expense increased approximately \$21,000 when comparing the quarters ended September 30, 2005 and 2004 due to higher utility costs and increased depreciation expense associated with the relocated Cairo branch. Equipment and furniture expense increased \$28,000 when comparing the quarters ended September 30, 2005 and 2004 due to new furniture in the Cairo branch and some equipment purchases associated with the data processing system conversion. Other expenses associated with the data processing system conversion caused the increase in miscellaneous other expenses such as training costs, computer supplies and licensing fees, and professional fees.

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## INCOME TAXES

The provision for income taxes directly reflects the expected tax associated with the revenue generated for the given year and certain regulatory requirements. The effective tax rate was 30.0% for the quarter ended September 30, 2005, compared to 28.6% for the quarter ended September 30, 2004. The effective rate is derived from the expected rate to be paid on income for the entire fiscal year and can be affected by the level of municipal investment holdings and various compensation plans.

## LIQUIDITY AND CAPITAL RESOURCES

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates or prices such as interest rates, foreign currency exchange rates, commodity prices, and equity prices. Greene County Bancorp, Inc.'s most significant form of market risk is interest rate risk since the majority of Greene County Bancorp, Inc.'s assets and liabilities are sensitive to changes in interest rates. Greene County Bancorp, Inc.'s primary sources of funds are deposits and proceeds from principal and interest payments on loans, mortgage-backed securities and debt securities, with lines of credit available through the Federal Home Loan Bank as needed. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows, mortgage prepayments, and lending activities are greatly influenced by general interest rates, economic conditions and competition.

The low market interest rate environment had helped to improve the net interest spread and margin in recent quarters; however, an increasing or flat market interest rate environment is expected to have the reverse effect, especially in the case of a rapidly increasing interest rate environment.

Mortgage loan commitments totaled \$5.0 million at September 30, 2005. The unused portion of overdraft lines of credit amounted to \$0.6 million, the unused portion of home equity lines of credit amounted to \$4.4 million, and the unused portion of commercial lines of credit amounted to \$3.2 million at September 30, 2005. Greene County Bancorp, Inc. anticipates that it will have sufficient funds available to meet current loan commitments based on the level of cash and cash equivalents as well as the available for sale investment portfolio and borrowing capacity from FHLB NY.

During the current fiscal year, The Bank of Greene County is relocating the Coxsackie branch in order to better service our customers. Due to the tremendous retail and commercial deposit growth experienced by the Company in the last several years, which is expected to continue, the branch facility had been outgrown. It is expected that the Company will have sufficient cash or other means of liquidity to fund this project.

The Bank of Greene County met all regulatory capital requirements at September 30, 2005 and June 30, 2005. Consolidated shareholders' equity represented 11.32% of total assets at September 30, 2005 and 11.11% of total assets of June 30, 2005.

### **Item 3. Controls and Procedures**

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and in timely altering them to material information relating to the Company (or its consolidated subsidiaries) required to be filed in its periodic SEC filings.

There has been no change in the Company's internal control over financial reporting in connection with the quarterly evaluation that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II. Other Information**

Item 1. Legal Proceedings

Greene County Bancorp, Inc. is not engaged in any material legal proceedings at the present time.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended September 30, 2005, no purchases of registrant's equity securities were completed by the registrant or any affiliate.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer, adopted pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of Chief Financial Officer, adopted pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Statement of Chief Executive Officer, furnished pursuant to U.S.C. section 1350

32.2 Statement of Chief Financial Officer, furnished pursuant to U.S.C. section 1350

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed by the undersigned thereunto duly authorized.

Greene County Bancorp, Inc.

Date: November 14, 2005

By: /s/ J. Bruce Whittaker

J. Bruce Whittaker  
President and Chief Executive Officer

Date: November 14, 2005

By: /s/ Michelle Plummer

Michelle Plummer  
Chief Financial Officer and Treasurer

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**EXHIBIT 31.1**

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

I, J. Bruce Whittaker, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Greene County Bancorp, Inc.;
2. Based on my knowledge, this quarterly 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 financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) evaluated the effectiveness of the small business issuer'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
  - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 14, 2005

President and Chief Executive Officer

/s/ J. Bruce Whittaker  
J. Bruce Whittaker,



**EXHIBIT 31.2**

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

I, Michelle M. Plummer, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Greene County Bancorp, Inc.;
2. Based on my knowledge, this quarterly 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 financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer'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)) for the small business issuer 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 small business issuer, 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) evaluated the effectiveness of the small business issuer'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
  - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 14, 2005

/s/ Michelle Plummer



Michelle M. Plummer,

Chief Financial Officer

**EXHIBIT 32.1**

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

J. Bruce Whittaker, 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 Quarterly Report of the Company on Form 10-QSB for the quarter ended September 30, 2005 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 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: November 14, 2005

J. Bruce Whittaker,

President and Chief Executive Officer

/s/ J. Bruce Whittaker

**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 he or she has reviewed the Quarterly Report of the Company on Form 10-QSB for the quarter ended September 30, 2005 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 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: November 14, 2005  
Michelle M. Plummer,

/s/ Michelle Plummer

Chief Financial Officer