GREENE COUNTY BANCORP INC
Form 10QSB
February 14, 2005

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2004

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: X No:

As of February 10, 2005, the registrant had 2,152,835 shares of common stock issued at $ .10 par value, and 2,057,403 shares were outstanding.

Transitional Small Business Disclosure
Format: Yes: No: X

GREENE COUNTY BANCORP, INC.

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Greene County Bancorp, Inc.
Consolidated Statements of Financial Condition
As of December 31, 2004 (unaudited) and June 30, 2004

ASSETS	December 31, 2004	June 30, 2004
Cash and due from banks	$ 11,905,959	$ 12,928,596
Federal funds sold	8,551,130	8,489,142
Total cash and cash equivalents	20,457,089	21,417,738
Investment securities, at fair value	102,387,229	104,833,862
Federal Home Loan Bank stock, at cost	1,729,300	1,729,300
Loans	156,236,778	150,463,812
Less: Allowance for loan losses	(1,281,732)	(1,241,091)
Unearned origination fees and costs, net	(219,646)	(285,295)
Net loans receivable	154,735,400	148,937,426
Premises and equipment	5,984,135	5,335,287
Accrued interest receivable	1,623,017	1,553,272
Prepaid expenses and other assets	476,459	674,600
Other real estate owned	---	97,689
Total assets	$ 287,392,629	$ 284,579,174
LIABILITIES AND SHAREHOLDERS EQUITY		
Noninterest bearing deposits	$ 36,626,726	$ 35,644,563
Interest bearing deposits	210,694,484	208,073,613
Total deposits	247,321,210	243,718,176
Borrowings from FHLB	7,500,000	10,000,000
Accrued expenses and other liabilities	860,050	942,927
Accrued income taxes	34,426	92,259
Total liabilities	255,715,686	254,753,362
Shareholders equity		
Preferred stock,		
Authorized 1,000,000 shares at December 31, 2004 and June 30, 2004;	---	---
Common stock, par value $.10 per share;		
Authorized:12,000,000 shares at December 31, 2004 and June 30, 2004;		
Issued: 2,152,835 shares at December 31, 2004 and June 30, 2004;		
Outstanding: 2,057,043 shares at December 31, 2004		
and 2,054,203 shares at June 30, 2004;	215,284	215,284
Additional paid-in capital	10,242,913	10,151,621
Retained earnings	22,229,605	21,002,589
Accumulated other comprehensive income	258,457	(183,422)
Less: Treasury stock (shares at cost) 95,792 shares at December 31, 2004,		
and 98,632 shares at June 30, 2004	(1,026,482)	(1,056,906)

Unearned stock-based compensation	(13,106)	(39,319)
Unearned ESOP shares (at cost) 25,601 at December 31, 2004,		
and 33,038 at June 30, 2004	(229,728)	(264,035)
Total shareholders equity	31,676,943	29,825,812
Total liabilities and shareholders equity	$ 287,392,629	$ 284,579,174

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Six Months Ended December 31, 2004 and 2003
(Unaudited)

	2004	2003
Interest income:		
Loans	$ 4,968,080	$ 4,692,424
Investment securities	481,308	635,024
Mortgage-backed securities	1,028,221	902,122
Tax free securities	431,925	309,014
Interest bearing deposits and federal funds sold	112,881	62,845
Total interest income	7,022,415	6,601,429
Interest expense:		
Interest on deposits	1,397,500	1,495,879
Interest on borrowings	207,835	229,974
Total interest expense	1,605,335	1,725,853
Net interest income	5,417,080	4,875,576
Less: Provision for loan losses	70,503	45,000
Net interest income after provision for loan losses	5,346,577	4,830,576
Noninterest income:		
Service charges on deposit accounts	883,200	848,795
Other operating income	507,185	476,966
Total noninterest income	1,390,385	1,325,761
Noninterest expense:		
Salaries and employee benefits	2,459,168	2,121,981
Occupancy expense	230,861	210,632
Equipment and furniture expense	324,403	280,845
Service and data processing fees	555,068	489,584
Office supplies	58,295	49,535
Other	854,703	920,012
Total noninterest expense	4,482,498	4,072,589
Income before provision for income taxes	2,254,464	2,083,748
Provision for income taxes	645,800	642,100
Net income	$ 1,608,664	$ 1,441,648
Basic EPS	$ 0.78	$ 0.72
Basic shares outstanding	2,056,804	2,001,796

Diluted EPS	$	0.76	$	0.70
Diluted average shares outstanding		2,105,722		2,058,327

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Three Months Ended December 31, 2004 and 2003
(Unaudited)

		2004		2003
Interest income:				
Loans	$	2,506,972	$	2,342,217
Investment securities		213,588		300,005
Mortgage-backed securities		509,957		518,391
Tax free securities		218,275		170,562
Interest bearing deposits and federal funds sold		66,206		31,925
Total interest income		3,514,998		3,363,100
Interest expense:				
Interest on deposits		704,471		724,672
Interest on borrowings		89,243		132,429
Total interest expense		793,714		857,101
Net interest income		2,721,284		2,505,999
Less: Provision for loan losses		26,674		---
Net interest income after provision for loan losses		2,694,610		2,505,999
Noninterest income:				
Service charges on deposit accounts		446,389		443,632
Other operating income		259,944		205,705
Total noninterest income		706,333		649,337
Noninterest expense:				
Salaries and employee benefits		1,254,943		1,079,038
Occupancy expense		115,167		103,349
Equipment and furniture expense		168,031		140,727
Service and data processing fees		275,816		258,947
Office supplies		28,834		28,996
Other		430,208		478,843
Total noninterest expense		2,272,999		2,089,900
Income before provision for income taxes		1,127,944		1,065,436
Provision for income taxes		323,800		311,100
Net income	$	804,144	$	754,336
Basic EPS	$	0.39	$	0.38
Basic shares outstanding		2,058,693		2,003,134
Diluted EPS	$	0.38	$	0.37

Diluted average shares outstanding	2,107,304	2,061,378

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Six Months Ended December 31, 2004 and 2003
(Unaudited)

	2004	2003
Net income	$ 1,608,664	$ 1,441,648
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the six months ended December 31, 2004 and 2003, net of tax expense/(benefit) of $281,919 and $(634,115), respectively.	441,879	(951,172)
Total other comprehensive income (loss)	441,879	(951,172)
Comprehensive income	$ 2,050,543	$ 490,476

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Three Months Ended December 31, 2004 and 2003
(Unaudited)

	2004	2003
Net income	$ 804,144	$ 754,336
Other comprehensive loss:		
Unrealized holding losses arising during the three months ended December 31, 2004 and 2003, net of tax benefit of $111,667 and $150,177, respectively.	(175,028)	(285,266)
Total other comprehensive loss	(175,028)	(285,266)
Comprehensive income	$ 629,116	$ 469,070

Greene County Bancorp, Inc.
Consolidated Statements of Changes in Shareholders Equity
For the Six Months Ended December 31, 2004 and 2003
(Unaudited)

	Capital Stock	Additional Paid - In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock-based Compensation	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
Balance at June 30, 2003	$215,284	$10,092,353	$18,777,623	$1,664,585	($96,941)	($1,192,535)	($335,504)	$29,124,865
ESOP shares earned		78,975					36,464	115,439
Options exercised		(757)				12,798		12,041
Stock-based compensation earned					28,507			28,507
Dividends paid			(325,248)					(325,248)
Net income			1,441,648					1,441,648
Change in unrealized gain, net				(951,172)				(951,172)
Balance at December 31, 2003	$215,284	$10,170,571	$19,894,023	$713,413	($68,434)	($1,179,737)	($299,040)	$29,446,080
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 earned		83,564					34,307	117,871
Options exercised		7,728				30,424		38,152
Stock-based compensation earned					26,213			26,213
Dividends paid			(381,648)					(381,648)

Net income			1,608,664					1,608,664
Change in unrealized gain, net				441,879				441,879
Balance at December 31, 2004	$215,284	$10,242,913	$22,229,605	$258,457	($13,106)	($1,026,482)	($229,728)	$31,676,943

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended December 31, 2004 and 2003
(Unaudited)

	2004	2003
Cash flows from operating activities:		
Net Income	$ 1,608,664	$ 1,441,648
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	290,000	259,600
Net amortization of premium	732,355	677,230
Provision for loan losses	70,503	45,000
ESOP and other stock-based compensation earned	144,084	143,946
Gain on sale of other real estate	(19,484)	(1,535)
Net (decrease) increase in accrued income taxes	(57,833)	147,219
Net decrease in accrued interest receivable	(69,745)	(49,235)
Net decrease in prepaid and other assets	(83,778)	(552,887)
Net (decrease)increase in other liabilities	(82,877)	488,364
Net cash provided by operating activities	2,531,889	2,599,350
Cash flows from investing activities:		
Proceeds from maturities and calls of securities	8,622,341	6,340,528
Purchases of securities and other investments	(5,135,762)	(7,770,628)
Principal payments on securities	535,461	691,467
Principal payments on mortgage-backed securities	5,997,722	8,066,435
Purchases of mortgage-backed securities	(7,581,686)	(15,197,872)
Net increase in loans receivable	(5,868,477)	(8,461,865)
Proceeds from the sale of other real estate	117,173	56,660
Purchases of premises and equipment	(938,848)	(589,327)
Net cash used in investing activities	(4,252,076)	(16,864,602)
Cash flows from financing activities:		
Net borrowings from / (payments to) FHLB	(2,500,000)	5,000,000
Dividends paid	(381,648)	(325,248)
Proceeds from issuance of stock options	38,152	12,041
Net increase in deposits	3,603,034	9,538,992
Net cash provided by financing activities	759,538	14,225,785
Net decrease in cash and cash equivalents	(960,649)	(39,467)
Cash and cash equivalents at beginning of period	21,417,738	16,918,266
Cash and cash equivalents at end of period	$ 20,457,089	$ 16,878,799

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Notes to Consolidated Financial Statements
As of and for the Three Months Ended December 31, 2004 and 2003

(1) Basis of Presentation

The accompanying consolidated balance sheet information as of June 30, 2004 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 at June 30, 2004. The consolidated financial statements at and for the three and six months ended December 31, 2004 and 2003 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, 2004, 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 six months ended December 31, 2004 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2005.

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 (other real estate owned) 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) 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. During the quarter ended June 30, 2004, The Bank of Greene County opened a limited purpose commercial bank subsidiary the purpose of which is to serve local municipalities.

(3) Use of Estimates

(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 and valuation of other real estate owned (OREO).

(4) Earnings Per Share

(4) Earnings Per Share

Basic earnings per share (EPS) on common stock are 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.

	Net Income	Weighted Average Number of Shares Outstanding	Earnings Per Share
Six Months Ended			
December 31, 2004:	$ 1,608,664		
Basic EPS		2,056,804	$ 0.78
Diluted EPS		2,105,722	$ 0.76
December 31, 2003:	$ 1,441,648		
Basic EPS		2,001,796	$ 0.72
Diluted EPS		2,058,837	$ 0.70
Three Months Ended			
December 31, 2004:	$ 804,144		

Basic EPS		2,058,693	$	0.39
Diluted EPS		2,107,304	$	0.38
December 31, 2003:	$ 754,336			
Basic EPS		2,003,134	$	0.38
Diluted EPS		2,061,378	$	0.37

(5) Dividends

(5) Dividends

The Board of Directors declared a semi-annual $0.42 per share cash dividend on July 21, 2004, for shareholders of record August 15, 2004, payable September 1, 2004. The dividend reflected an annual cash dividend rate of $0.84 per share, which represented an increase from the previous annual cash dividend rate of $0.80 per share. The increase in the dividend paid out was a result of improved earnings as well as the waiver of such dividends by Greene County Bancorp, MHC, the Company s mutual holding company.

(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. Management is currently assessing the effect of SFAS 123(R) on the Company's financial statements.

(8) Stock-Based Compensation

At December 31, 2004, 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, 2004. 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.

	Six Months Ended December 31,		Three Months Ended December 31,	
	2004	2003	2004	2003
Net income, as reported	$ 1,608,664	$ 1,441,648	$ 804,144	$ 754,336
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	13,815	17,077	6,908	8,736
Pro forma net income	$ 1,594,849	$ 1,424,571	$ 797,236	$ 745,600
Earnings per share:				
Basic - as reported	$ 0.78	$ 0.72	$ 0.39	$ 0.38
Basic - pro forma	$ 0.78	$ 0.71	$ 0.39	$ 0.37
Diluted - as reported	$ 0.76	$ 0.70	$ 0.38	$ 0.37
Diluted - pro forma	$ 0.76	$ 0.69	$ 0.38	$ 0.36

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.

(9) Subsequent Event

On January 19, 2005, the Board of Directors declared a semi-annual cash dividend of $0.44 per share of the Company s common stock. The dividend reflects an annual cash dividend rate of $0.88 cents per share, which represented an increase from the current annual cash dividend rate of $0.84 per share. The dividend will be payable to stockholders of record as of February 15, 2005, and will be paid on March 1, 2005. The Company s mutual holding company has waived receipt of the cash dividend.

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 other real estate owned, 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 rate. 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 stockholder s 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 iden 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 Greene County Commercial Bank, 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 December 31, 2004 and June 30, 2004

ASSETS

Total assets of the Company increased to $287.4 million at December 31, 2004 up from $284.6 million at June 30, 2004. The asset composition shifted toward loans which amounted to $156.2 million, or 54.4% of total assets at December 31, 2004, as compared to $150.5 million, or 52.9% of total assets at June 30, 2004. The asset composition shifted away from investments which represented $102.4 million or 35.6% of total assets at December 31, 2004 as compared to $104.8 million or 36.8% of total assets at June 30, 2004.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents decreased to $20.5 million at December 31, 2004 as compared to $21.4 million at June 30, 2004, a decrease of $0.9 million or 4.2%. Cash, such as vault cash and balances with correspondent banks, decreased to $11.9 million at December 31, 2004 as compared to $12.9 million at June 30, 2004. The change was a function of normal daily activities. Federal funds sold remained relatively consistent at $8.5 million at December 31, 2004 and June 30, 2004.

INVESTMENT SECURITIES

Investment securities decreased to $102.4 million at December 31, 2004 as compared to $104.8 million at June 30, 2004, a decrease of $2.4 million, or 2.3%. The decrease was the result of $8.6 million in matured or called securities for the six-month period ended December 31, 2004. Principal payments on investment securities amounted to $6.5 million during the six-month period ended December 31, 2004, including $6.0 million in principal payments on mortgage-backed securities. Maturities and principal pay-downs were offset by purchases of $12.7 million in investment securities, including $7.6 million in mortgage-backed securities. The market value of the portfolio shifted to a net unrealized gain position of $0.4 million at December 31, 2004 from an unrealized loss position of $0.3 million at June 30, 2004. The new purchases along with the primarily level long-term interest rate environment have helped enhance the market value of the portfolio. The majority of the maturities during the quarter were U.S. government agencies and corporate securities shifting the portfolio composition away from these sectors and more significantly toward mortgage-backed securities and state and political subdivision securities. The Company continued to invest in locally generated municipal securities contributing to the increase of $3.0 million in state and political subdivision securities during the six-month period ended December 31, 2004. The opening of Greene County Commercial Bank has helped promote the Company as a potential investor for various local state and political subdivision securities.

(Dollars rounded to nearest thousand)	Market value at Dec. 31, 2004	Percentage of portfolio	Market value at June 30, 2004	Percentage of portfolio
U.S. government agencies	$ 4,055	4.0%	$ 9,108	8.7%
State and political subdivisions	25,579	25.0	22,584	21.5
Mortgage-backed securities	63,530	62.0	61,175	58.4
Asset-backed securities	159	0.2	195	0.2
Corporate debt securities	7,682	7.5	10,379	9.9
Total debt securities	101,005	98.7	103,441	98.7
Equity securities and other	1,382	1.3	1,393	1.3

Total available-for-sale securities	$	102,387	100.0%	$	104,834	100.0%

LOANS

Net loans receivable increased to $154.7 million at December 31, 2004 from $148.9 million at June 30, 2004, an increase of $5.8 million, or 3.9%. The continued low interest rate environment and strong customer satisfaction from personal service continued to enhance loan growth. Mergers by local banking competitors also appear to have helped with loan growth and demand. Loan modifications and refinancing have slowed significantly during the six months ended December 31, 2004. As a result of these changes, the residential mortgage portfolio increased by $5.4 million and the home equity portfolio increased by $1.1 million during the six-month period. It appears consumers continue to use the equity in their homes and credit cards 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.

(Dollars rounded to nearest thousand)	At Dec. 31, 2004	Percentage of portfolio	At June 30, 2004	Percentage of portfolio
Real estate mortgages				
Residential	$ 118,344	75.7%	$ 112,949	75.1%
Commercial	14,939	9.6	14,815	9.8
Home equity loans	11,440	7.3	10,333	6.9
Commercial loans	7,391	4.7	7,822	5.2
Installment loans	3,553	2.3	3,988	2.6
Passbook loans	570	0.4	557	0.4
Total loans	$ 156,237	100.0%	$ 150,464	100.0%
Less: Allowance for loan losses	(1,282)		(1,241)	
Unearned origination fees and costs, net	(220)		(285)	
Net loans receivable	$ 154,735		$ 148,938	

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. 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 six months and quarter ended December 31, 2004, was driven by the continued strong asset quality and the level of net charge-offs associated with the overdraft protection program. Various regulatory agencies issued guidance recommending banks include the charged off account balances associated with such program in the evaluation of the allowance for loan loss. The Company has implemented this guidance as net charge-offs were included with other operating expenses as other losses associated with customer accounts. The charged off amount does not include associated fees which would have been collected. Any future increase in the allowance for loan losses or loan charge-offs could have a material adverse effect on the Company's results of operations and financial condition.

Allowance for loan losses	Six months ended December 31, 2004	Six months ended December 31, 2003
Balance at the beginning of the period	$ 1,241,091	$ 1,163,825
Charge-offs:		
Installment loans to individuals	13,289	36,863
Overdraft protection	45,918	---
Total loans charged off	59,207	36,863
Recoveries:		
Home equity	---	2,791
Installment loans to individuals	13,930	25,423
Overdraft protection	15,415	
Total recoveries	29,345	28,214
Net charge-offs	29,862	8,649
Provisions charged to operations	70,503	45,000
Balance at the end of the period	$ 1,281,732	$ 1,200,176
Ratio of net charge-offs to average loans outstanding	0.02%	0.01%
Ratio of net charge-offs to nonperforming assets	9.15%	1.94%
Allowance for loan loss to nonperforming loans	392.65%	268.56%
Allowance for loan loss to net loans receivable	0.83%	0.85%

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. Other real estate owned is considered a nonperforming asset. The Bank of Greene County had no accruing loans delinquent more than 90 days at December 31, 2004 or June 30, 2004.

Analysis of Nonaccrual Loans and Nonperforming Assets

	At December 31, 2004	At June 30, 2004
Nonaccruing loans:		
Real estate mortgage loans:		
Residential mortgages loans (one- to four-family)	$ 107,322	$ 268,138
Commercial mortgage loans	53,285	---
Home equity	131,763	67,795
Commercial loans	19,615	---
Installment loans to individuals	14,442	4,782
Total nonaccruing loans	326,427	340,715
Real Estate Owned:		
Residential mortgages loans (one- to four-family)	---	97,689
Total real estate owned	---	97,689
Total nonperforming assets	$ 326,427	$ 438,404
Total nonperforming assets as a percentage of total assets	0.11%	0.15%
Total nonperforming loans to total loans	0.21%	0.23%

At December 31, 2004, gross interest income of $14,870 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 December 31, 2004.

DEPOSITS

Total deposits increased to $247.3 million at December 31, 2004 from $243.7 million at June 30, 2004, an increase of $3.6 million, or 1.5%. The composition of the deposit portfolio shifted toward noninterest bearing deposits and money market accounts which continued to contribute to the improvement in net interest spread and margin. Noninterest bearing accounts increased $982,000 and money market accounts increased $4.8 million offsetting decreases in certificates of deposit and savings accounts which declined $465,000 and $2.3 million, respectively, between December 31, 2004 and June 30, 2004. Marketing efforts to attract noninterest bearing deposits including free gift offers and emphasis on attracting commercial checking accounts continued to be successful. Greene County Commercial Bank s deposits grew by approximately $4.8 million consisting of $1.4 in certificates of deposit and $3.4 million in money market accounts between June 30, 2004 and December 31, 2004.

(Dollars rounded to nearest thousand)		At Dec. 31, 2004	Percentage Of portfolio		At June 30, 2004	Percentage of portfolio
Noninterest bearing deposits	$	36,627	14.8%	$	35,645	14.6%
Certificates of deposit		56,557	22.9		57,022	23.4
Savings deposits		94,624	38.3		96,950	39.8
Money market deposits		38,666	15.6		33,867	13.9
NOW deposits		20,847	8.4		20,234	8.3
Total deposits	$	247,321	100.0%	$	243,718	100.0%

BORROWINGS

At December 31, 2004, The Bank of Greene County had the following borrowings:

Amount	Rate	Maturity Date
$5,000,000	3.64% -Fixed two years, convertible 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%.

STOCKHOLDERS' EQUITY

The primary changes in stockholders' equity included changes in retained earnings and accumulated comprehensive income. Retained earnings was increased by net income of $1.6 million and partially offset by dividends paid of $382,000. Accumulated comprehensive income was affected by a shift in the available-for-sale portfolio from a net unrealized loss position of $183,000 to an unrealized gain position of $258,000, net of tax. Treasury stock decreased by $30,000 due to the exercise of 2,800 options under the 2000 Stock Option Plan reducing the number of shares held in treasury to 95,792 shares.

Comparison of Operating Results for the six months and quarter ended December 31, 2004 and 2003

Average Balance Sheet

The following Average Balance Sheet tables set forth certain information relating to Greene County Bancorp, Inc. for the six months and quarters ended December 31, 2004 and 2003. 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 six months and quarters ended December 31, 2004 and 2003, 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.

Six Months Ended December 31, 2004 and 2003

(Dollars in thousands)	2004 Average Outstanding Balance	2004 Interest Earned/ Paid	2004 Average Yield/ Rate	2003 Average Outstanding Balance	2003 Interest Earned/ Paid	2003 Average Yield/ Rate
Interest earning assets:						
Loans receivable, net[1]	$ 152,484	$ 4,968	6.52%	$ 135,163	$ 4,692	6.94%
Investment securities[2]	99,314	1,921	3.87	102,795	1,846	3.59
Federal funds	10,810	89	1.65	10,690	52	0.97
Interest bearing bank balances	2,428	23	1.89	1,564	11	1.41
FHLB stock	1,451	21	2.89	1,361	---	0.00
Total interest earning assets	266,487	7,022	5.27	251,573	6,601	5.25
Interest bearing liabilities:						
Savings and money market deposits	132,450	751	1.13	117,512	674	