GREENE COUNTY BANCORP INC
Form 10QSB
November 14, 2003

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 SEPTEMBER 30, 2003

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 October 23, 2003, the registrant had 2,152,835 shares of common stock issued at $ .10 par value, and 2,042,488 were outstanding.

Transitional Small Business Disclosure
Format: Yes: No: X

GREENE COUNTY BANCORP, INC.

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PART I. FINANCIAL INFORMATION

Greene County Bancorp, Inc.
Consolidated Statements of Financial Condition
As of September 30, 2003 and June 30, 2003
(Unaudited)

ASSETS	September 30, 2003	June 30, 2003
Cash and due from banks	$ 7,505,811	$ 10,078,827
Federal funds sold	12,283,250	6,839,439
Total cash and cash equivalents	19,789,061	16,918,266
Investment securities, at fair value	97,729,392	99,831,070
Federal Home Loan Bank stock, at cost	1,360,600	1,360,600
Loans	135,749,757	133,711,021
Less: Allowance for loan losses	(1,221,359)	(1,163,825)
Unearned origination fees and costs, net	(342,918)	(337,122)
Net loans receivable	134,185,480	132,210,074
Premises and equipment	4,596,002	4,697,653
Accrued interest receivable	1,517,684	1,573,825
Prepaid expenses and other assets	243,507	318,495
Other real estate owned	---	55,125
Total assets	$ 259,421,726	$ 256,965,108
LIABILITIES AND SHAREHOLDERS EQUITY		
Non-interest bearing deposits	$ 27,073,143	$ 25,443,349
Interest bearing deposits	194,037,118	192,601,576
Total deposits	221,110,261	218,044,925
Borrowings from FHLB	8,000,000	8,000,000
Accrued expenses and other liabilities	1,280,302	1,722,294
Accrued income taxes	150,635	73,024
Total liabilities	230,541,198	227,840,243
Shareholders equity		
Preferred stock,		
Authorized 1,000,000 at September 30, 2003 and June 30, 2003;	---	---
Common stock, par value $.10 per share;		
Authorized: 12,000,000 at September 30, 2003 and June 30, 2003;		
Issued: 2,152,835 at September 30, 2003 and June 30, 2003;		

Outstanding: 2,041,543 at September 30, 2003 and June 30, 2003;	215,284	215,284
Additional paid-in capital	10,119,695	10,092,353
Retained earnings	19,139,457	18,777,623
Accumulated other comprehensive income	998,679	1,664,585
Less: Treasury stock (shares at cost) 111,292 at September 30, 2003, and June 30, 2003	(1,192,535)	(1,192,535)
Unearned stock-based compensation	(82,687)	(96,941)
Unearned ESOP shares (at cost) 40,853 at September 30, 2003, and June 30, 2003	(317,365)	(335,504)
Total shareholders equity	28,880,528	29,124,865
Total liabilities and shareholders equity	$ 259,421,726	$ 256,965,108

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Three Months Ended September 30, 2003 and 2002
(Unaudited)

	2003	2002
Interest income:		
Loans	$ 2,300,693	$ 2,399,907
Investment securities	335,019	484,893
Mortgage-backed securities	383,731	244,250
Tax free securities	138,452	101,771
Interest bearing deposits and federal funds sold	30,920	65,011
Total interest income	3,188,815	3,295,832
Interest expense:		
Interest on deposits	771,207	1,060,039
Interest on borrowings	97,545	107,905
Total interest expense	868,752	1,167,944
Net interest income	2,320,063	2,127,888
Less: Provision for loan losses	45,000	---
Net interest income after provision for loan losses	2,275,063	2,127,888

Noninterest income:				
Service charges on deposit accounts		405,163		382,799
Other operating income		320,775		252,538
Total noninterest income		725,938		635,337
Noninterest expense:				
Salaries and employee benefits		1,042,943		881,631
Occupancy expense		107,283		98,778
Equipment and furniture expense		140,118		140,979
Service and data processing fees		230,637		247,943
Office supplies		20,539		33,967
Other		441,169		450,320
Total noninterest expense		1,982,689		1,853,618
Income before provision for income taxes		1,018,312		909,607
Provision for income taxes		331,000		268,500
Net income	$	687,312	$	641,107
Basic EPS	$	0.34	$	0.32
Basic shares outstanding		2,000,450		1,976,296
Diluted EPS	$	0.33	$	0.32
Diluted average shares outstanding		2,058,837		2,028,691

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Three Months Ended September 30, 2003 and 2002
(Unaudited)

		2003		2002
Net income	$	687,312	$	641,107
Other comprehensive income:				
Unrealized holding gain arising during the three months				

ended September 30, 2003 and 2002, net of tax benefit/(expense) of $483,938 and ($289,781), respectively.	(665,906)	434,670
Total other comprehensive income	(665,906)	434,670
Comprehensive income	$ 21,406	$ 1,075,777

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Changes in Shareholders Equity
For the Three Months Ended September 30, 2003 and 2002
(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, 2002	$215,284	$10,084,621	$17,164,403	$880,401	($156,791)	($1,371,527)	($415,685)	$26,400,706
ESOP shares earned		13,206					18,237	31,443
Options exercised		(1,992)				7,504		5,512
Stock-based compensation earned					14,254			14,254
Dividends paid			(286,378)					(286,378)
Net income			641,107					641,107
Change in unrealized gain, net				434,670				434,670
Balance at September 30, 2002	$215,284	$10,095,835	$17,519,312	$1,315,071	($142,537)	($1,364,023)	($397,448)	$27,241,314

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		27,342					18,139	45,481
Stock-based compensation earned					14,254			14,254
Dividends paid			(325,478)					(325,478)
Net income			687,312					687,312
Change in unrealized gain, net				(665,906)				(665,906)
Balance at September 30, 2003	$215,284	$10,119,695	$19,139,457	$998,679	($82,687)	($1,192,535)	($317,365)	$28,880,528

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Three Months Ended September 30, 2003 and 2002
(Unaudited)

	2003	2002
Cash flows from operating activities:		
Net Income	$ 687,312	$ 641,107
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	127,800	134,800
Net amortization (accretion) of premiums (discount)	381,727	(65,716)
Provision for loan losses	45,000	---
ESOP and other stock-based compensation earned	59,735	45,697
Gain on sale of other real estate	(1,535)	(59,770)
Net increase in accrued income taxes	77,718	66,939
Net decrease (increase) in accrued interest receivable	56,141	(73,938)
Net decrease in prepaid and other assets	74,988	76,021
Net increase in other liabilities	110,345	268,597

Net cash provided by operating activities	1,619,231	1,033,737
Cash flows from investing activities:		
Proceeds from maturities and calls of securities	3,214,528	5,009,854
Purchases of securities and other investments	(1,541,199)	(1,605,169)
Principal payments on securities	1,600,117	370,542
Principal payments on mortgage-backed securities	4,267,395	1,735,597
Purchases of mortgage-backed securities	(7,039,240)	(11,234,018)
Net increase in loans receivable	(2,020,406)	(2,112,528)
Proceeds from the sale of other real estate	56,660	90,000
Purchases of premises and equipment	(26,149)	(90,639)
Net cash used in investing activities	(1,488,294)	(7,836,361)
Cash flows from financing activities:		
Dividends paid	(325,478)	(286,378)
Proceeds from issuance of stock options	---	5,512
Net increase in deposits	3,065,336	8,410,483
Net cash provided by financing activities	2,739,858	8,129,617
Net increase in cash and cash equivalents	2,870,795	1,326,993
Cash and cash equivalents at beginning of period	16,918,266	17,832,021
Cash and cash equivalents at end of period	$ 19,789,061	$ 19,159,014

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Notes to Financial Statements
As of and for the Three Ended September 30, 2003 and 2002

1. Basis (1) Basis of Presentation

The accompanying consolidated balance sheet information as of June 30, 2003 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") at June 30, 2003. The consolidated financial statements at and for the three months ended September 30, 2003 and 2002 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, 2003, 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, 2003 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2004.

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.

(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) 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").

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.

(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.

Three Months Ended	Net Income	Weighted Average Number of Shares Outstanding	Earnings Per Share
September 30, 2003:	$ 687,312		
Basic EPS		2,000,450	$ 0.34
Diluted EPS		2,058,837	$ 0.33
September 30, 2002:	$ 641,107		
Basic EPS		1,976,296	$ 0.32
Diluted EPS		2,028,691	$ 0.32

1. Divi (5) Dividends

The Board of Directors declared a semi-annual $0.36 per share cash dividend on July 16, 2003, for shareholders of record August 15, 2003, payable September 1, 2003. The dividend reflected an annual cash dividend rate of $0.72 per share, which represented an increase from the previous annual cash dividend rate of $0.68 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, Greene County Bancorp, Inc. 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 January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"). FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period ending after December 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of the Standard, effective October 1, 2003, had no impact on the Company s consolidated financial statements and related disclosures.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity , to establish standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. An issuer is required to classify a financial instrument that is within such standard s scope as a liability (or an asset in some circumstances). The requirements of this Statement apply to freestanding financial instruments, including those that comprise more than one option or forward contract. This Statement does not apply to features that are embedded in a financial instrument that is not a derivative in its entirety. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this Statement, effective July 1, 2003, had no impact on the Company s consolidated financial statements.

(8) Stock-Based Compensation

At September 30, 2003, 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, 2003. 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,			
		2003		2002
Net income, as reported	$	687,312	$	641,107
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects		8,452		9,090

Pro forma net income	$	678,860	$	632,017
Earnings per share:				
Basic as reported	$	0.34	$	0.32
Basic pro forma	$	0.34	$	0.32
Diluted as reported	$	0.33	$	0.32
Diluted pro forma	$	0.33	$	0.31

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

General

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.

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, 2003 and June 30, 2003

ASSETS

Total assets increased to $259.4 million at September 30, 2003 from $257.0 million at June 30, 2003, an increase of $2.4 million, or 0.9%. The composition of the assets shifted slightly toward cash and loans and away from investments. The overall growth in assets was funded by an increase in deposits, both noninterest and interest bearing.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents increased to $19.8 million at September 30, 2003 from $16.9 million at June 30, 2003, an increase of $2.9 million, or 17.2%. The increase was a result of continued deposit inflows and investment maturities and principle pay-downs.

INVESTMENT SECURITIES

Investment securities decreased to $97.7 million at September 30, 2003 as compared to $99.8 million at June 30, 2003, a decrease of $2.1 million, or 2.1%. The decrease in investments was a result of $3.2 million in maturities of securities and principal payments on mortgage-backed and other securities of $4.3 million and $1.6 million, respectively. This activity was offset by purchases of $7.0 million of mortgage-backed securities and $1.5 million of other securities. Net unrealized gains on the investment portfolio amounted to $1.6 million at September 30, 2003 as compared to $2.7 million at June 30, 2003, a decrease of $1.1 million further contributing to the decline in the market value of the investment portfolio. The decrease in the market value of the portfolio was primarily the result of interest rate increases, which adversely affects fixed rate securities such as bonds. Management continued to invest in the nonstandard mortgage-backed securities which offer yield maintenance provisions and tend to have final maturities significantly shorter than standard mortgage-backed securities, which tend to extend as interest rates rise. These nonstandard mortgage-backed securities were discussed further in the June 30, 2003 Annual Report in the investment section. Management has also attempted to take advantage of tax savings offered by purchasing state and political subdivision securities or tax-securities during the quarter ended September 30, 2003.

(Dollars rounded to nearest thousand)		Market value at Sept. 30, 2003	Percentage of portfolio		Market value at June 30, 2003	Percentage of portfolio
U.S. government agencies	$	8,551	8.8%	$	9,659	9.7%
State and political subdivisions		16,091	16.5		14,655	14.6
Mortgage-backed securities		57,601	58.9		57,581	57.7
Asset-backed securities		248	0.3		288	0.3
Corporate debt securities		13,921	14.2		16,283	16.3
Total debt securities		96,412	98.7		98,466	98.6

Equity securities and other		1,317	1.3		1,365	1.4
Total available-for-sale securities	$	97,729	100.0%	$	99,831	100.0%

LOANS

Net loans receivable increased to $134.2 million at September 30, 2003 from $132.2 million at June 30, 2003, an increase of $2.0 million, or 1.5%. The continued low interest rate environment and strong customer satisfaction from personal service continued to enhance loan growth. Loan modifications and refinancing are still significant, but demand for such may have peaked. The Company has been able to retain a significant amount of refinanced mortgages and other loans however, the historically low interest rate environment and competitors who continue to aggressively price residential mortgages and commercial real estate loans continue to affect the market.

(Dollars rounded to nearest thousand)		At Sept. 30, 2003	Percentage of portfolio		At June 30, 2003	Percentage of portfolio
Real estate mortgages						
Residential	$	103,349	76.1%	$	102,726	76.8%
Commercial		11,902	8.8		11,481	8.6
Home equity loans		8,680	6.4		7,821	5.8
Commercial loans		6,807	5.0		6,576	4.9
Installment loans		4,330	3.2		4,360	3.3
Passbook loans		681	0.5		747	0.6
Total loans	$	135,749	100.0%	$	133,711	100.0%
Less: Allowance for loan losses		(1,221)			(1,164)	
Unearned origination fees and costs, net		(343)			(337)	
Net loans receivable	$	134,185		$	132,210	

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. During the quarters ended September 30, 2003 and 2002, the level of the allowance for loan losses was affected most significantly by the level of recoveries, as in both quarters a relatively large recovery was made. Any 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	Three months ended September 30, 2003	Three months ended September 30, 2002
Balance at the beginning of the period	$ 1,163,825	$ 1,068,734
Charge-offs:		
Installment loans to individuals	11,263	12,396
Total loans charged off	11,263	12,396
Recoveries:		
Home equity	2,791	
Commercial loans	---	24,093
Installment loans to individuals	21,006	5,270
Total recoveries	23,797	29,363
Net charge-offs	(12,534)	(16,967)
Provisions charged to operations	45,000	---
Balance at the end of the period	$ 1,221,359	$ 1,085,701
Ratio of net charge-offs to average loans outstanding	(0.01)%	(0.01)%
Ratio of net charge-offs to nonperforming assets	(5.61)%	(4.38)%
Allowance for loan loss to nonperforming loans	546.20%	280.16%
Allowance for loan loss to net loans receivable	0.91%	0.83%

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 nonperforming. The Bank of Greene County had no accruing loans delinquent more than 90 days at September 30, 2003 and 2002.

Analysis of Nonaccrual Loans and Nonperforming Assets

	At Sept. 30, 2003	At June 30, 2003
Nonaccruing loans:		
Real estate mortgage loans:		
Residential mortgages loans (one- to four-family)	$ 207,562	$ 211,074
Commercial mortgage loans	---	---
Home equity	---	2,104
Commercial loans	---	---
Installment loans to individuals	16,050	7,183
Total nonaccruing loans	223,612	220,361
Real Estate Owned:		
Residential mortgages loans (one- to four-family)	---	55,125
Total real estate owned	---	55,125
Total nonperforming assets	$ 223,612	$ 275,486
Total nonperforming assets as a percentage of total assets	0.09%	0.11%
Total nonperforming loans to total loans	0.17%	0.16%

At September 30, 2003, gross interest income of $10,400 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, 2003.

DEPOSITS

Total deposits increased to $221.1 million at September 30, 2003 from $218.0 million at June 30, 2003, an increase of $3.1 million, or 1.4%. Increases are generally the result of the Company s continued focus on expanded commercial services, including commercial deposits, and core deposit attraction. General economic conditions resulted in more customers moving funds from time deposits to demand accounts and other savings products over the last several quarters.

(Dollars rounded to nearest thousand)	At Sept. 30, 2003	Percentage of portfolio	At June 30, 2003	Percentage of portfolio
Noninterest bearing deposits	$ 27,073	12.2%	$ 25,443	11.7%
Certificates of deposit	61,410	27.8	62,074	28.5

Savings deposits	87,072	39.4	87,699	40.2
Money market deposits	27,663	12.5	26,364	12.1
NOW deposits	17,892	8.1	16,465	