GREENE COUNTY BANCORP INC
Form 10QSB
February 14, 2006

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, 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: X No:___

As of February 10, 2006, the registrant had 4,305,670 shares of common stock issued at $ 0.10 par value, and 4,135,446 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, 2005 (unaudited) and June 30, 2005

ASSETS	December 31, 2005	June 30, 2005
Cash and due from banks	$ 13,568,712	$ 10,871,829
Federal funds sold	7,272,262	9,059,377
Total cash and cash equivalents	20,840,974	19,931,206
Investment securities, at fair value	86,675,713	98,851,363
Federal Home Loan Bank stock, at cost	632,200	1,784,800
Loans	177,215,719	165,690,699
Less: Allowance for loan losses	(1,258,352)	(1,235,999)
Unearned origination fees and costs, net	(92,249)	(163,203)
Net loans receivable	175,865,118	164,291,497
Premises and equipment	8,792,963	7,795,631
Accrued interest receivable	1,602,178	1,572,830
Prepaid expenses and other assets	841,300	452,242
Total assets	$ 295,250,446	$ 294,679,569
LIABILITIES AND SHAREHOLDERS' EQUITY		
Noninterest bearing deposits	$ 38,691,887	$ 37,590,756
Interest bearing deposits	217,338,710	215,646,532
Total deposits	256,030,597	253,237,288
Borrowings from FHLB	5,000,000	7,500,000
Accrued expenses and other liabilities	736,653	1,189,782
Total liabilities	261,767,250	261,927,070
Shareholders' equity		
Preferred stock,		
Authorized 1,000,000 shares; none issued		
Common stock, par value $.10 per share;		
Authorized:12,000,000 shares		
Issued: 4,305,670 shares		
Outstanding: 4,132,206 shares at December 31, 2005		
and 4,129,906 shares at June 30, 2005;	430,567	430,567
Additional paid-in capital	10,227,582	10,128,980
Retained earnings	23,948,963	23,168,205
Accumulated other comprehensive (loss) income	(31,374)	162,424
Less: Treasury stock (shares at cost) 173,464 shares at December 31,		
2005, and 175,764 shares at June 30, 2005	(929,378)	(941,694)
Unearned ESOP shares (at cost)	(163,164)	(195,983)
Total shareholders' equity	33,483,196	32,752,499
Total liabilities and shareholders' equity	$ 295,250,446	$ 294,679,569

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Six Months Ended December 31, 2005 and 2004
(Unaudited)

	2005	2004
Interest income:		
Loans	$ 5,466,108	$ 4,968,080
Investment securities	250,421	481,308
Mortgage-backed securities	779,098	1,028,221
Tax free securities	481,561	431,925
Interest bearing deposits and federal funds sold	211,794	112,881
Total interest income	7,188,982	7,022,415
Interest expense:		
Interest on deposits	1,708,963	1,397,500
Interest on borrowings	137,268	207,835
Total interest expense	1,846,231	1,605,335
Net interest income	5,342,751	5,417,080
Provision for loan losses	60,000	70,503
Net interest income after provision for loan losses	5,282,751	5,346,577
Noninterest income:		
Service charges on deposit accounts	912,626	883,200
Debit card fees	233,625	176,629
Other operating income	416,358	330,556
Total noninterest income	1,562,609	1,390,385
Noninterest expense:		
Salaries and employee benefits	2,854,395	2,459,168
Occupancy expense	289,042	230,861
Equipment and furniture expense	395,385	324,403
Service and data processing fees	521,312	555,068
Office supplies	56,824	58,295
Other	1,066,932	854,703
Total noninterest expense	5,183,890	4,482,498
Income before provision for income taxes	1,661,470	2,254,464
Provision for income taxes	478,800	645,800
Net income	$ 1,182,670	$ 1,608,664
Basic EPS	$ 0.29	$ 0.39
Basic shares outstanding	4,091,442	4,113,608
Diluted EPS	$ 0.28	$ 0.38
Diluted average shares outstanding	4,177,775	4,211,444

See notes to consolidated financial statements.
All share and per share information for the period ended December 31, 2004, have been restated to give effect to the 2-for-1 stock split which was effective on May 31, 2005

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Three Months Ended December 31, 2005 and 2004
(Unaudited)

		2005		2004
Interest income:				
Loans	$	2,784,177	$	2,506,972
Investment securities		106,703		213,588
Mortgage-backed securities		320,798		509,957
Tax free securities		249,224		218,275
Interest bearing deposits and federal funds sold		92,243		66,206
Total interest income		3,553,145		3,514,998
Interest expense:				
Interest on deposits		892,245		704,471
Interest on borrowings		47,908		89,243
Total interest expense		940,153		793,714
Net interest income		2,612,992		2,721,284
Provision for loan losses		30,000		26,674
Net interest income after provision for loan losses		2,582,992		2,694,610
Noninterest income:				
Service charges on deposit accounts		449,821		446,389
Debit card fees		120,040		93,122
Other operating income		190,553		166,822
Total noninterest income		760,414		706,333
Noninterest expense:				
Salaries and employee benefits		1,393,713		1,254,943
Occupancy expense		152,625		115,167
Equipment and furniture expense		211,338		168,031
Service and data processing fees		238,851		275,816
Office supplies		27,935		28,834
Other		594,054		430,208
Total noninterest expense		2,618,516		2,272,999
Income before provision for income taxes		724,890		1,127,944
Provision for income taxes		197,700		323,800
Net income	$	527,190	$	804,144
Basic EPS	$	0.13	$	0.20
Basic shares outstanding		4,093,593		4,117,386
Diluted EPS	$	0.13	$	0.19

Diluted average shares outstanding	4,179,338	4,214,608

See notes to consolidated financial statements.

All share and per share information for the period ended December 31, 2004, have been restated to give effect to the 2-for-1 stock split which was effective on May 31, 2005

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Six Months Ended December 31, 2005 and 2004
(Unaudited)

		2005		2004
Net income	$	1,182,670	$	1,608,664
Other comprehensive (loss) income:				
Unrealized holding (losses) gains arising during the six months ended December 31, 2005 and 2004, net of tax ($123,643) and $281,919, respectively.		(193,798)		441,879
Total other comprehensive (loss) income		(193,798)		441,879
Comprehensive income	$	988,872	$	2,050,543

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Three Months Ended December 31, 2005 and 2004
(Unaudited)

		2005		2004
Net income	$	527,190	$	804,144
Other comprehensive loss:				
Unrealized holding losses arising during the three months ended December 31, 2005 and 2004, net of tax of $31,427 and $111,667, respectively.		(49,258)		(175,028)
Total other comprehensive (loss)		(49,258)		(175,028)
Comprehensive income	$	477,932	$	629,116

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended December 31, 2005 and 2004
(Unaudited)

	Capital Stock	Additional Paid - In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned Stock-based Compensation	Treasury Stock	Unearned ESOP Shares	Total Shareholders' 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 earned		83,564					34,307	117,871
Options exercised		7,728				30,424		38,152
Stock-based compensation earned					26,213			26,213
Dividends declared of $0.21 per common share			(381,648)					(381,648)
Net income			1,608,664					1,608,664
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
Balance at June 30, 2005	$430,567	$10,128,980	$23,168,205	$162,424	$---	($941,694)	($195,983)	$32,752,499
ESOP shares earned		101,862					32,819	134,681
Options exercised		(3,260)				12,316		9,056
Dividends declared of $0.22 per			(401,912)					(401,912)

common share								
Net income			1,182,670					1,182,670
Unrealized (loss), net				(193,798)				(193,798)
Balance at December 31, 2005	$430,567	$10,227,582	$23,948,963	($31,374)	$---	($929,378)	($163,164)	$33,483,196

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended December 31, 2005 and 2004
(Unaudited)

	2005	2004
Cash flows from operating activities:		
Net Income	$ 1,182,670	$ 1,608,664
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	398,703	290,000
Net amortization of premium	1,001,389	732,355
Provision for loan losses	60,000	70,503
ESOP and other stock-based compensation earned	134,681	144,084
Gain on sale of foreclosed real estate	---	(19,484)
Net decrease in accrued income taxes	(72,847)	(57,833)
Net (increase) in accrued interest receivable	(29,348)	(69,745)
Net (increase) in prepaid and other assets	(265,415)	(83,778)
Net (decrease) in other liabilities	(380,282)	(82,877)
Net cash provided by operating activities	2,029,551	2,531,889
Cash flows from investing activities:		
Proceeds from maturities and calls of securities	4,812,262	8,622,341
Purchases of securities and other investments	(5,353,520)	(5,135,762)
Principal payments on securities	1,737,451	535,461
Principal payments on mortgage-backed securities	10,813,227	5,997,722
Purchases of mortgage-backed securities	---	(7,581,686)
Net increase in loans receivable	(11,633,621)	(5,868,477)
Proceeds from the sale of foreclosed real estate	---	117,173
Proceeds from sale of premises and equipment	1,627	---
Purchases of premises and equipment	(1,397,662)	(938,848)
Net cash used in investing activities	(1,020,236)	(4,252,076)
Cash flows from financing activities:		
Repayments of FHLB borrowings	(2,500,000)	(2,500,000)
Dividends paid	(401,912)	(381,648)
Proceeds from exercise of stock options	9,056	38,152
Net increase in deposits	2,793,309	3,603,034
Net cash (used in) provided by financing activities	(99,547)	759,538
Net increase (decrease) in cash and cash equivalents	909,768	(960,649)
Cash and cash equivalents at beginning of period	19,931,206	21,417,738
Cash and cash equivalents at end of period	$ 20,840,974	$ 20,457,089

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Notes to Consolidated Financial Statements
As of and for the Six Months and Three Months Ended December 31, 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 and six months ended December 31, 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 six months ended December 31, 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 (“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 seven full-service offices and an operations center located in its market area consisting of Greene County, Columbia 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.

(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. All share and per share information has been restated, for periods ended December 31, 2004, to give effect to the 2-for-1 stock split which was effective on May 31, 2005.

	Net Income	Weighted Average Number of Shares Outstanding	Earnings Per Share
Six Months Ended			
December 31, 2005:	$ 1,182,670		
Basic EPS		4,091,442	$ 0.29
Diluted EPS		4,177,775	$ 0.28
December 31, 2004:	$ 1,608,664		
Basic EPS		4,113,608	$ 0.39
Diluted EPS		4,211,444	$ 0.38
Three Months Ended			
December 31, 2005:	$ 527,190		
Basic EPS		4,093,593	$ 0.13
Diluted EPS		4,179,338	$ 0.13

December 31, 2004:	$	804,144		
Basic EPS			4,117,386	$ 0.20
Diluted EPS			4,214,608	$ 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 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 Financial Accounting Standard Board (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 compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that the employees provide service in exchange for the award. Public companies are required to adopted the new standard using a modified prospective method and may elect to restate prior periods using the modified retrospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. Under the modified retrospective method, companies record compensation costs for prior periods retroactively through restatement of such periods using the exact pro forma amounts disclosed in the companies' footnotes. Also, in the period of adoption and after, companies record compensation cost based on the modified prospective method.

The Company is required to adopt SFAS No. 123R at the beginning of its first annual period beginning after December 15, 2005. Early application of Statement No. 123R is encourage, but not required.

The Company expects to adopt Statement No. 123R on July 1, 2006, using the modified prospective method and believes the effect of such adoption will not be material to our consolidated financial position or results of operations.

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 December 31, 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.

	Six Months Ended December 31,		Three Months Ended December 31,	
	2005	2004	2005	2004
Net income, as reported	$1,182,670	$1,608,664	$527,190	$804,144
Add: Total stock-based compensation recognized in financial statements	---	26,212	---	13,106
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(988)	(40,027)	(505)	(20,014)
Pro forma net income	$1,181,682	$1,594,849	$526,685	$797,236
Earnings per share:				
Basic - as reported	$0.29	$0.39	$0.13	$0.20
Basic - pro forma	$0.29	$0.39	$0.13	$0.20
Diluted - as reported	$0.28	$0.38	$0.13	$0.19
Diluted - pro forma	$0.29	$0.38	$0.13	$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.

(9) Subsequent Event

On January 17, 2006, the Board of Directors declared a semi-annual cash dividend of $0.23 per share of the Company’s common stock. The dividend reflects an annual cash dividend rate of $0.46 cents per share, which represented an increase from the current annual cash dividend rate of $0.44 per share. The dividend will be payable to stockholders of record as of February 15, 2006, and will be paid on March 1, 2006. 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 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 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 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 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, 2005 and June 30, 2005

ASSETS

Total assets of the Company increased to $295.3 million at December 31, 2005 from $294.7 million at June 30, 2005. The asset composition shifted toward loans, which amounted to $175.9 million, or 59.6% of total assets at December 31, 2005, as compared to $164.3 million, or 55.8% of total assets at June 30, 2005. The asset composition shifted away from securities, which represented $86.7 million or 29.4% of total assets at December 31, 2005 as compared to $98.9 million or 33.6% of total assets at June 30, 2005.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents increased to $20.8 million at December 31, 2005 as compared to $19.9 million at June 30, 2005, an increase of $910,000 or 4.6%. Cash, such as vault cash and balances with correspondent banks, increased to $13.6 million at December 31, 2005 as compared to $10.9 million at June 30, 2005. The change was a function of normal daily activities. Federal funds sold decreased to $7.3 million at December 31, 2005 as compared to $9.1 million at June 30, 2005.

INVESTMENT SECURITIES

Investment securities decreased to $86.7 million at December 31, 2005 as compared to $98.9 million at June 30, 2005, a decrease of $12.2 million, or 12.3%. The decrease was the result of principal payments on securities of $12.6 million during the six-month period ended December 31, 2005, including $10.8 million on mortgage-backed securities. Maturities and calls of securities totaling $4.8 million were offset by purchases of $5.4 million in investment securities, primarily state and political subdivision securities. The decline in the investment portfolio was used to help fund loan growth. The investment portfolio shifted away from corporate debt securities, which represented 1.8% of the portfolio at December 31, 2005 as compared to 5.1% at June 30, 2005, due to maturities, and toward state and political subdivision investments which represented 34.0% of the portfolio composition at December 31, 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.

(Dollars rounded to nearest thousand)	Fair value at Dec. 31, 2005	Percentage of portfolio	Fair value at June 30, 2005	Percentage of portfolio
U.S. government agencies	$ 3,718	4.3%	$ 3,889	3.9%
State and political subdivisions	29,477	34.0	26,086	26.4
Mortgage-backed securities	50,361	58.1	62.158	62.9
Asset-backed securities	116	0.1	144	0.2
Corporate debt securities	1,515	1.8	5,056	5.1
Total debt securities	85,187	98.3	97,333	98.5
Equity securities and other	1,489	1.7	1,518	1.5
Total available-for-sale securities	$ 86,676	100.0%	$ 98,851	100.0%

LOANS

Net loans receivable increased to $175.9 million at December 31, 2005 from $164.3 million at June 30, 2005, an increase of $11.6 million, or 7.1%. The loan growth experienced during the six months primarily consisted of $8.3 million in residential mortgages, $1.8 million in home equity loans, and $910,000 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 and credit cards to fund financing needs for some activities where in the past an installment loan may have been the choice. The low costs options from auto makers continued to cut into the Bank’s automobile loan generation.

(Dollars rounded to nearest thousand)	At Dec. 31, 2005	Percentage of portfolio	At June 30, 2005	Percentage of portfolio
Real estate mortgages				
Residential	$ 132,245	74.6%	$ 123,939	74.8%
Commercial	18,741	10.6	18,077	10.9
Home equity loans	14,368	8.1	12,607	7.6
Commercial loans	7,770	4.4	6,860	4.1
Installment loans	3,269	1.8	3,466	2.1
Passbook loans	823	0.5	742	0.5
Total loans	$ 177,216	100.0%	$ 165,691	100.0%
Less: Allowance for loan losses	(1,258)		(1,236)	
Unearned origination fees and costs, net	(93)		(163)	
Net loans receivable	$ 175,865		$ 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. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to expense) and recoveries of previously charged off loans and is reduced by loan charge-offs. The level of the provision for the six months and quarter ended December 31, 2005, was driven by the continued strong asset quality and the low 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 losses. The Company has implemented this guidance as net charge-offs were previously 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, 2005	Six months ended December 31, 2004
Balance at the beginning of the period	$ 1,235,999	$ 1,241,091
Charge-offs:		
Installment loans to individuals	22,037	13,289
Overdraft protection	34,804	45,918
Total loans charged off	56,841	59,207
Recoveries:		
Installment loans to individuals	4,690	13,930
Overdraft protection	14,504	15,415
Total recoveries	19,194	29,345
Net charge-offs	37,647	29,862
Provisions charged to operations	60,000	70,503
Balance at the end of the period	$ 1,258,352	$ 1,281,732
Ratio of net charge-offs to average loans outstanding	0.02%	0.02%
Ratio of net charge-offs to nonperforming assets	3.44%	9.15%
Allowance for loan loss to nonperforming loans	114.89%	392.65%
Allowance for loan loss to net loans receivable	0.72%	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. Foreclosed real estate is considered a nonperforming asset. The Bank of Greene County had no accruing loans delinquent more than 90 days at December 31, 2005 or June 30, 2005. Although the level of nonperforming loans has increased the level was deemed relatively minor and the collateral supporting these loans was deemed sufficient. Therefore additional provision for loan losses were not allocated at this time. Management expected several of these loans to return to performing status in the near future. However, management will continue to monitor the level of nonaccrual loans and make adjustments to the level of provision for loan losses as needed.

Analysis of Nonaccrual Loans and Nonperforming Assets

	At December 31, 2005	At June 30, 2005
Nonaccruing loans:		
Real estate mortgage loans:		
Residential mortgages loans (one- to four-family)	$ 428,075	$ 125,841
Commercial mortgage loans	412,078	50,318
Home equity	35,033	96,381
Commercial loans	128,347	24,416
Installment loans to individuals	91,767	51,387
Total nonaccruing loans	1,095,300	348,343
Real Estate Foreclosed:	---	---
Total nonperforming assets	$ 1,095,300	$ 348,343
Total nonperforming assets as a percentage of total assets	0.37%	0.12%
Total nonperforming loans to total loans	0.62%	0.21%

During the six months ended, December 31, 2005, gross interest income of approximately $29,000 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, 2005.

DEPOSITS

Total deposits increased to $256.0 million at December 31, 2005 from $253.2 million at June 30, 2005, an increase of $2.8 million, or 1.1%. 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 $2.5 million between June 30, 2005 and December 31, 2005. The Company continues to try to encourage customers to open noninterest bearing deposit accounts through various marketing strategies, including gifts. The Bank of Greene County has had some deposit pressure in the rising rate environment. The opening of Greene County Commercial Bank in June 2004 has provided another market helping to offset deposit pressure for the overall Company. If rates continue to rise, the Company can expect continued deposit pressure as individuals may seek alternative investment opportunities.

(Dollars rounded to nearest thousand)	At Dec. 31, 2005	Percentage of portfolio	At June 30, 2005	Percentage of portfolio
Noninterest bearing deposits	$ 38,692	15.1%	$ 37,591	14.9%
Certificates of deposit	56,481	22.1	53,991	21.3
Savings deposits	93,103	36.4	97,759	38.6
Money market deposits	39,332	15.3	40,766	16.1
NOW deposits	28,423	11.1	23,130	9.1
Total deposits	$ 256,031	100.0%	$ 253,237	100.0%

BORROWINGS

At December 31, 2005, 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

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

SHAREHOLDERS' EQUITY

Shareholders' equity increased to $33.5 million at December 31, 2005 from $32.8 million at June 30, 2005, as net income of $1.2 million was partially offset by dividends declared of $402,000. Accumulated other comprehensive (loss) increased $194,000 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 compensations plans of the Company including the 2000 Stock Option Plan and ESOP Plan. 2,300 options were exercised during the six months ended December 31, 2005, reducing the number of shares held as treasury stock to 173,464.

Comparison of Operating Results for the Six Months and Quarter Ended December 31, 2005 and 2004

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, 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 six months and quarters ended December 31, 2005 and 2004, average balances were based on daily 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, 2005 and 2004

(Dollars in thousands)	2005 Average Outstanding Balance	2005 Interest Earned/ Paid	2005 Average Yield/ Rate	2004 Average Outstanding Balance	2004 Interest Earned/ Paid	2004 Average Yield/ Rate
Interest earning assets:						
Loans receivable, net[1]	$ 169,220	$ 5,466	6.46%	$ 152,484	$ 4,968	6.52%
Investment securities[2]	92,471	1,468	3.18	99,314	1,921	3.87
Federal funds	9,297	169	3.64	10,810	89	1.65
Interest bearing bank balances	2,718	43	3.16	2,428	23	1.89
FHLB stock	1,591	43	5.41	1,451	21	2.89
Total interest earning assets	$ 275,297	$ 7,189	5.22	$ 266,487	$ 7,022	5.27
Interest bearing liabilities:						
Savings and money market deposits	$ 135,633	$ 908	1.34	$ 132,450	$ 751	1.13
Demand and NOW deposits	61,170	61	0.20	56,900	50	0.18
Certificates of deposit	55,202	740	2.68	56,677	596	2.10
Borrowings	6,291	137	4.36	8,356	208	4.98
Total interest bearing liabilities	$ 258,296	$ 1,846	1.43%	$ 254,383	$ 1,605	1.26%
Net interest income		$ 5,343			$ 5,417	
Net interest rate spread			3.79%			4.01%
Net interest margin			3.88%			4.07%
Average interest earning assets to average interest bearing liabilities	106.58%			104.76%		104.76%

[1]Calculated net of deferred loan fees and costs, loan discounts, loans in process and loan loss reserves.
[2]Includes tax-free securities, mortgage-backed securities and asset-backed securities.

Rate / Volume Analysis

The following Rate / Volume tables present 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.

(Dollars in thousands)	Six Months Ended December 31, 2005 versus 2004		
	Increase/(Decrease) Due to		Total Increase/ (Decrease)
Interest-earning assets:	Volume	Rate	
Loans receivable, net[1]	$ 544	$ (46)	$ 498
Investment securities[2]	(126)	(327)	(453)
Federal funds	(11)	91	80
Interest-bearing bank balances	3	17	20
FHLB stock	2	20	22
Total interest-earning assets	412	(245)	167
Interest-bearing liabilities:			
Savings deposits	18	139	157
Demand and NOW deposits	4	7	11
Certificates of deposit	(15)	159	144
Borrowings	(47)	(24)	(71)
Total interest-bearing liabilities	(40)	281	241
Net interest income	$ 452	$ (526)	$ (74)

[1] Calculated net of deferred loan fees, loan discounts, loans in process and loan loss reserves.
[2] Includes tax-free securities, mortgage-backed securities and asset-backed securities.

Quarter Ended December 31, 2005 and 2004

(Dollars in thousands)		2005 Average Outstanding Balance		2005 Interest Earned/ Paid	2005 Average Yield/ Rate		2004 Average Outstanding Balance		2004 Interest Earned/ Paid	2004 Average Yield/ Rate
Interest earning assets:										
Loans receivable, net[1]	$	171,842	$	2,784	6.48%	$	154,272	$	2,507	6.50%
Investment securities[2]		89,710		657	2.93		101,265		932	3.68
Federal funds		7,121		70	3.93		10,392		50	1.92
Interest bearing bank balances		2,639		22	3.33		2,470		16	2.59
FHLB stock		1,396		20	5.73		1,729		10	2.31
Total interest earning assets	$	272,708	$	3,553	5.21	$	270,128	$	3,515	5.20
Interest bearing liabilities:										
Savings and money market deposits	$	132,531	$	464	1.40	$	132,968	$	378	1.14
Demand and NOW deposits		61,972		36	0.23		57,031		26	0.18
Certificates of deposit		56,220		392	2.79		56,774		301	2.12
Borrowings		5,082		48	3.78		7,500		89	4.75
Total interest bearing liabilities	$	255,805	$	940	1.47%	$	254,273	$	794	1.25%
Net interest income			$	2,613				$	2,721	
Net interest rate spread					3.74%					3.95%
Net interest margin					3.83%					4.03%
Average interest earning assets to average interest bearing liabilities		106.61%					106.24%			

[1]Calculated net of deferred loan fees and costs, loan discounts, loans in process and loan loss reserves.
[2]Includes tax-free securities, mortgage-backed securities and asset-backed securities.

(Dollars in thousands)	Three Months Ended December 31, 2005 versus 2004					
	Increase/(Decrease) Due to				Total Increase/	
Interest-earning assets:		Volume		Rate		(Decrease)
Loans receivable, net[1]	$	285	$	(8)	$	277
Investment securities[2]		(99)		(176)		(275)
Federal funds		(9)		29		20
Interest-bearing bank balances		1		5		6
FHLB stock		(1)		11		10
Total interest-earning assets		177		(139)		38
Interest-bearing liabilities:						
Savings deposits		(1)		87		86
Demand and NOW deposits		2		8		10

Certificates of deposit	(3)	94	91
Borrowings	(25)	(16)	(41)
Total interest-bearing liabilities	(27)	173	146
Net interest income	$ 204	$ (312)	$ (108)

[1] Calculated net of deferred loan fees, loan discounts, loans in process and loan loss reserves.

[2] Includes tax-free securities, mortgage-backed securities and asset-backed securities.

OVERVIEW

Return on average assets and return on average equity are common methods of measuring operating results. Return on average assets decreased to 0.81% for the six months and 0.73% for the quarter ended December 31, 2005 as compared to 1.12% for the six months and the quarter ended December 31, 2004. Return on average equity decreased to 7.18% for the six months and 6.36% for the quarter ended December 31, 2005 as compared to 10.43% for the six months and 10.27% for the quarter ended December 31, 2004. The decline in return on average assets and return on average equity was primarily the result of higher noninterest expenses. Net income amounted to $1.2 million for the six months and $527,000 for the quarter ended December 31, 2005 as compared to $1.6 million for the six months and $804,000 for the quarter ended December 31, 2004, a decrease of $426,000 or 26.5% when comparing the six-month periods and $277,000 or 34.4% when comparing the quarterly periods. Several factors have contributed to the decline in net income, including narrowing net interest spread and margin, expenses associated with the implementation of a new deposit and loan processing system, and higher compensation expense. Average assets amounted to $293.0 million for the six month period ended December 31, 2005 as compared to $287.2 million for the same period ended December 31, 2004, an increase of $5.8 million or 2.0%. Average assets amounted to $290.8 million for the quarter ended December 31, 2005 as compared to $286.7 million for the quarter ended December 31, 2004, an increase of $4.1 million or 1.4%. Average equity amounted to $32.9 million for the six month period ended December 31, 2005 as compared to $30.9 million for the same period ended December 31, 2004, an increase of $2.0 million or 6.5%. Average equity amounted to $33.1 million for the quarter ended December 31, 2005 as compared to $31.3 million for the quarter ended December 31, 2004, an increase of $1.8 million or 5.8%.

INTEREST INCOME

Interest income amounted to $7.2 million for the six months ended December 31, 2005 as compared to $7.0 million for the six months ended December 31, 2004, an increase of $167,000 or 2.4%. Interest income amounted to $3.6 million for the quarter ended December 31, 2005 as compared to $3.5 million for the quarter ended December 31, 2004, an increase of $38,000 or 1.1%. The increase in loan volume offset by a decline in the yield on interest earning assets had the greatest impact on interest income when comparing the six months and quarters ended December 31, 2005 and 2004. Average loan balances increased $16.7 million for the six months ended December 31, 2005 as compared to December 31, 2004 and were offset by a six basis point drop in yield when comparing the same periods. Average loan balances increased $17.6 million for the quarter ended December 31, 2005 as compared to December 31, 2004 and were offset by a two basis point drop in yield when comparing the same periods. Although the overall impact on interest income from loans was positive, it was offset by lower investment security income resulting from decreases in both volume and yield. The average balance of investment securities decreased $6.8 million and the yield decreased 69 basis points for the six months ended December 31, 2005 compared to December 31, 2004. The average balance of investment securities decreased $11.6 million and yield decreased 75 basis points for the quarter ended December 31, 2005 compared to December 31, 2004. Short term investments such as interest bearing bank balances and federal funds sold also contributed to improvement in interest income when comparing the quarter and six months ended December 31, 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, long-term rates continue to remain relatively unchanged and low.

INTEREST EXPENSE

Interest expense amounted to $1.8 million for the six months ended December 31, 2008 as compared to $1.6 million for the six months ended December 31, 2004, an increase of $241,000. Interest expense amounted to $940,000 for the quarter ended December 31, 2005 as compared to $794,000 for the quarter ended December 31, 2004, an increase of $146,000. The average balance of interest bearing liabilities amounted to $258.3 million and the average rate increased to 1.43% for the six months ended December 31, 2005 as compared to an average balance of $254.4 million with an average rate of 1.26% for the six months ended December 31, 2004, an increase in average interest bearing liabilities of $3.9 million and an increase in average rate of 17 basis points. The average balance of interest bearing liabilities amounted to $255.8 million and the average rate increased to 1.47% for the quarter ended December 31, 2005 as compared to an average balance of $254.3 million with an average rate of 1.25% for the quarter ended December 31, 2004, an increase in average interest bearing liabilities of $1.5 million and an increase in average rate of 22 basis points. The average rate paid on savings and money market deposits and on certificates of deposits had the most significant impact on the overall rate of interest bearing liabilities. The average rate on savings and money market deposits increased 21 basis points to 1.34% for the six months ended December 31, 2005 as compared to 1.13% for the six months ended December 31, 2004 resulting in a $157,000 increase in interest expense. The average rate paid on savings and money market deposits increased 26 basis points to 1.40% for the quarter ended December 31, 2005 as compared to 1.14% for the quarter ended December 31, 2004. The average rate on certificates of deposits increased 58 basis points to 2.68% for the six months ended December 31, 2005 as compared to 2.10% for the six months ended December 31, 2004 resulting in a $144,000 increase in interest expense. The average rate on certificates of deposits increased 67 basis points to 2.79% for the quarter ended December 31, 2005 as compared to 2.12% for the quarter ended December 31, 2004. The level of interest paid on borrowings when comparing the six months and quarters ended December 31, 2005 and 2004 was primarily affected by the repayment of $2.5 million with a rate of 6.80% 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 decreased to $5.3 million for the six months ended December 31, 2005 as compared to $5.4 million for the six months ended December 31, 2004, a decrease of $74,000 or 1.4%. Net interest income decreased to $2.6 million for the quarter ended December 31, 2005 as compared to $2.7 million for the quarter ended December 31, 2004, a decrease of $108,000 or 4.0%. Net interest spread decreased 22 basis points to 3.79% for the six months ended December 31, 2005 from 4.01% for the six months ended December 31, 2004, and 21 basis points to 3.74% for the quarter ended December 31, 2005 as compared to 3.95% for the quarter ended December 31, 2004. Net interest margin decreased 19 basis points to 3.88% for the six months ended December 31, 2005 from 4.07% for the six months ended December 31, 2004, and 20 basis points to 3.83% for the quarter ended December 31, 2005 as compared to 4.03% for the quarter ended December 31, 2004. The tightening of the net interest spread and margin hindered net interest income growth when comparing the six months and quarters ended December 31, 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. A large increase in long term rates could cause lending demand to decrease and expected interest rates offered on deposits to increase, which will put pressure on net interest margin and spread which could potentially have a negative impact on overall earnings.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the six months ended December 31, 2005 and 2004 amounted to $60,000 and $71,000, respectively. The provision for loan losses for the quarters ended December 31, 2005 and 2004 amounted to $30,000 and $27,000, respectively. The levels of provisions for loan loss were affected by loan growth and strong asset quality. Nonperforming assets to total assets amounted to 0.37% and nonperforming loans to total loans amounted to 0.62% at December 31, 2005 as compared to nonperforming assets to total assets of 0.12% and nonperforming loans to total loans of 0.21% at December 31, 2004. The collateral associated with the residential mortgage, home equity and commercial loans classified as nonaccrual was deemed sufficient and the amount of installment and other loans classified as nonaccrual were insignificant.

NONINTEREST INCOME

Noninterest income increased to $1.6 million for the six months ended December 31, 2005 as compared to $1.4 million for the six months ended December 31, 2004, an increase of $172,000 or 12.4%. Noninterest income increased to $760,000 for the quarter ended December 31, 2005 as compared to $706,000 for the quarter ended December 31, 2004, an increase of $54,000 or 7.6%. Service charges on deposit accounts increased $29,000 and $3,000 for the six months and quarter ended December 31, 2005 as compared to the six months and quarter ended December 31, 2004 due to higher levels of insufficient funds charges. The Company continues to grow other operating 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 $5.2 million, and $4.5 million for the six months ended December 31, 2005 and 2004, respectively, an increase of $701,000, or 15.6%. Noninterest expense amounted to $2.6 million and $2.3 million for the quarters ended December 31, 2005 and 2004, respectively, an increase of $346,000 or 15.2%.

The most significant items contributing to the overall increases in noninterest expense were higher salary and employee benefits. Salary and employee benefits amounted to $2.9 million and $2.5 million for the six months ended December 31, 2005 and 2004, respectively. Salary and employee benefits amounted to $1.4 million and $1.3 million for the quarters ended December 31, 2005 and 2004, respectively. Salaries and employee benefits costs increased $395,000 and $139,000 when comparing the six months and quarters ended December 31, 2005 and 2004, respectively. Additional staffing, including business development and marketing personnel, a Controller and several branch personnel contributed to the higher expense. Retirement expense increased approximately $65,000 for the six months ended December 31, 2005 as compared to 2004 as a result of more staff eligible to participate in the retirement plans.

Occupancy expense amounted to $289,000 and $231,000, for the six months ended December 31, 2005 and 2004, respectively, an increase of $58,000 or 25.1% and $153,000 and $115,000 for the quarters ended December 31, 2005 and 2004, respectively, an increase of $38,000 or 33.0%. The increases were the result of higher utility and insurance costs as well as increased depreciation expense associated with the relocated Cairo branch.

Equipment and furniture expense amounted to $395,000 and $324,000 for the six months ended December 31, 2005 and 2004, respectively, an increase of $71,000 or 21.9%. Equipment and furniture expense amounted to $211,000 and $168,000 for the quarters ended December 31, 2005 and 2004, respectively, an increase of $43,000 or 25.6%. The increased expenses were primarily due to higher depreciation expense associated with computer equipment upgrades and due to the implementation of the data processing system conversion that was completed in October 2005.

Service and data processing fees amounted to $521,000 and $555,000 for the six months ended December 31, 2005 and 2004, respectively, a decrease of $34,000 or 6.1%. Service and data processing fees amounted to $239,000 and $276,000 for the quarters ended December 31, 2005 and 2004, respectively, a decrease of $37,000 or 13.4%. This decrease is the result of the implementation of the new data processing system completed in October 2005. The Company no longer outsources the processing of the loan and deposit accounts.

Other noninterest expenses increased $212,000 or 24.8% to $1.1 million for the six months ended December 31, 2005 as compared to 2004. Other noninterest expenses increased $164,000 or 38.1% for the three months ended December 31, 2005 as compared to 2004. Expenses associated with the data processing system conversion such as training costs, computer supplies and licensing fees, and professional fees was the primary cause for this increase.

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 28.8% for the six months and decreased to 27.3% for the quarter ended December 31, 2005, compared to 28.6% for the six months and 28.7% for the quarter ended December 31, 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. Tax benefits associated with the Management Recognition Plan of 2000 helped reduce the effective rate for periods ended December 31, 2004. This stock-based compensation was fully vested as of March 28, 2005, and as a result the tax benefit associated with the plan did not exist for the periods ended December 31, 2005 offsetting the affect of the higher level of tax-free income in 2005.

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 $5.6 million at December 31, 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 $5.0 million, and the unused portion of commercial lines of credit amounted to $2.8 million at December 31, 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 Federal Home Loan Bank of New York.

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, these branch facilities have 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 December 31, 2005 and June 30, 2005. Consolidated shareholders' equity represented 11.34% of total assets at December 31, 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. It should be noted that the Company made a change in its core deposit and loan processing from an out-sourced solution to an internal process. The primary controls over financial reporting, however, have not changed.

Part II. Other Information

Item 1. Legal Proceedings

Greene County Bancorp, Inc. and its subsidiaries are 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 December 31, 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

On October 26, 2005, the Company held an annual meeting of shareholders. At the meeting, proposals to (1) elect Dennis R. O'Grady and Martin C. Smith, to serve as directors of the Company for terms of three years and until their respective successors have been elected, and (2) ratify the engagement of Beard Miller Company LLP, to be the Company's auditors for the June 30, 2006 fiscal year were approved. There were no broker non-votes. The votes cast for and against there proposals were as follows:

Election to the Board of Directors	For	Withheld
Dennis R. O'Grady	3,917,732	22,081
Martin C. Smith	3,919,743	20,070

Ratification of Appointment of Beard Miller Company LLP

	For	Against	Abstain
Number of votes	3,918,460	15,436	5,917

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) 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

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: February 14, 2006

By: /s/ J. Bruce Whittaker

J. Bruce Whittaker
President and Chief Executive Officer

Date: February 14, 2006

By: /s/ Michelle Plummer

Michelle Plummer
Chief Financial Officer and Treasurer

EXHIBIT 31.1

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

I, J. Bruce Whittaker 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: February 14, 2006 /s/ J. Bruce Whittaker
J. Bruce Whittaker

President and Chief Executive Officer

EXHIBIT 31.2

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

I, Michelle M. Plummer certify that:

1. I have reviewed this 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 affecte d, 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: February 14, 2006 <u>/s/ Michelle Plummer</u>

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 December 31, 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: February 14, 2006 /s/ J. Bruce Whittaker
J. Bruce Whittaker

President and Chief Executive Officer

EXHIBIT 32.2

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

Michelle M. Plummer, Chief Financial Officer, of Greene County Bancorp, Inc. (the “Company”) certifies in her capacity as an officer of the Company that he or she has reviewed the Quarterly Report of the Company on Form 10-QSB for the quarter ended December 31, 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: February 14, 2006 /s/ Michelle Plummer
Michelle M. Plummer
Chief Financial Officer