

GREENE COUNTY BANCORP INC
Form 10-Q
February 14, 2013

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2012

OR

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

GREENE COUNTY BANCORP, INC.

(Exact name of registrant 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)

York

302 Main Street, Catskill, New
12414

office)

(Address of principal executive
(Zip code)

Registrant's telephone number, including area code:

(518) 943-2600

Check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes: ☒ No: ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: ☒ No: ☐

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

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

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: ☐ No: ☒

As of February 12, 2013, the registrant had 4,185,671 shares of common stock outstanding at \$ 0.10 par value per share.

GREENE COUNTY BANCORP, INC.

INDEX

PART I. FINANCIAL INFORMATION

| | Page |
|---|--------------|
| Item 1. Financial Statements (unaudited) | |
| * Consolidated Statements of Financial Condition | <u>3</u> |
| * Consolidated Statements of Income | <u>4-5</u> |
| * Consolidated Statements of Comprehensive Income | <u>6</u> |
| * Consolidated Statements of Changes in Shareholders' Equity | <u>7</u> |
| * Consolidated Statements of Cash Flows | <u>8</u> |
| * Notes to Consolidated Financial Statements | <u>9-28</u> |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>29-40</u> |

| | |
|--|-----------|
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | <u>41</u> |
|--|-----------|

| | |
|---------------------------------|-----------|
| Item 4. Controls and Procedures | <u>41</u> |
|---------------------------------|-----------|

PART II. OTHER INFORMATION

| | |
|---------------------------|-----------|
| Item 1. Legal Proceedings | <u>42</u> |
|---------------------------|-----------|

| | |
|-----------------------|-----------|
| Item 1A. Risk Factors | <u>42</u> |
|-----------------------|-----------|

| | |
|---|-----------|
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | <u>42</u> |
|---|-----------|

| | |
|---|-----------|
| Item 3. Defaults Upon Senior Securities | <u>42</u> |
|---|-----------|

| | |
|---------------------------------|-----------|
| Item 4. Mine Safety Disclosures | <u>42</u> |
|---------------------------------|-----------|

| | |
|---------------------------|-----------|
| Item 5. Other Information | <u>42</u> |
|---------------------------|-----------|

| | |
|------------------|-----------|
| Item 6. Exhibits | <u>42</u> |
|------------------|-----------|

| | |
|---|-----------|
| Signatures | <u>43</u> |
| Exhibit 31.1 302 Certification of Chief Executive Officer | <u>44</u> |
| Exhibit 31.2 302 Certification of Chief Financial Officer | <u>45</u> |
| Exhibit 32.1 906 Statement of Chief Executive Officer | <u>46</u> |
| Exhibit 32.2 906 Statement of Chief Financial Officer | <u>47</u> |
| Exhibit 101 Extensible Business Reporting Language (XBRL) | |

Greene County Bancorp, Inc.
Consolidated Statements of Financial Condition
As of December 31, 2012 and June 30, 2012
(Unaudited)
(In thousands, except share and per share amounts)

| | December 31, 2012 | June 30, 2012 |
|--|-------------------------|------------------|
| ASSETS | | |
| Cash and due from banks | \$9,709 | \$7,519 |
| Federal funds sold | 721 | 223 |
| Total cash and cash equivalents | 10,430 | 7,742 |
| Long term certificate of deposit | 250 | - |
| Securities available for sale, at fair value | 77,987 | 87,528 |
| Securities held to maturity, at amortized cost | 167,449 | 146,389 |
| Federal Home Loan Bank stock, at cost | 1,713 | 1,744 |
| Loans | 353,712 | 332,450 |
| Allowance for loan losses | (6,764) | (6,177) |
| Unearned origination fees and costs, net | 599 | 478 |
| Net loans receivable | 347,547 | 326,751 |
| Premises and equipment | 14,605 | 14,899 |
| Accrued interest receivable | 2,747 | 2,688 |
| Foreclosed real estate | 140 | 260 |
| Prepaid expenses and other assets | 1,680 | 2,655 |
| Total assets | \$624,548 | \$590,656 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Noninterest bearing deposits | \$54,298 | \$52,783 |
| Interest bearing deposits | 491,392 | 459,154 |
| Total deposits | 545,690 | 511,937 |
| Borrowings from FHLB, short-term | 14,300 | 14,000 |
| Borrowings from FHLB, long-term | 6,000 | 7,000 |
| Accrued expenses and other liabilities | 3,931 | 5,055 |
| Total liabilities | 569,921 | 537,992 |

Shareholders' equity:

Preferred stock,

Authorized - 1,000,000 shares; Issued - None

-

-

Common stock, par value \$.10 per share;

Authorized - 12,000,000 shares

Issued - 4,305,670 shares

Outstanding - 4,185,671 shares at December 31, 2012

and 4,182,671 shares at June 30, 2012;

431

431

Additional paid-in capital

11,134

11,119

Retained earnings

43,833

41,869

Accumulated other comprehensive income

134

173

Treasury stock, at cost 119,999 shares at December 31, 2012

and 122,999 shares at June 30, 2012

(905

)

(928

)

Total shareholders' equity

54,627

52,664

Total liabilities and shareholders' equity

\$624,548

\$590,656

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Six Months Ended December 31, 2012 and 2011
(Unaudited)
(In thousands, except share and per share amounts)

| | 2012 | 2011 |
|---|---------|---------|
| Interest income: | | |
| Loans | \$9,168 | \$8,943 |
| Investment securities - taxable | 371 | 470 |
| Mortgage-backed securities | 1,841 | 2,310 |
| Investment securities - tax exempt | 836 | 626 |
| Interest bearing deposits and federal funds sold | 22 | 14 |
| Total interest income | 12,238 | 12,363 |
| Interest expense: | | |
| Interest on deposits | 1,337 | 1,714 |
| Interest on borrowings | 139 | 227 |
| Total interest expense | 1,476 | 1,941 |
| Net interest income | 10,762 | 10,422 |
| Provision for loan losses | 985 | 896 |
| Net interest income after provision for loan losses | 9,777 | 9,526 |
| Noninterest income: | | |
| Service charges on deposit accounts | 1,385 | 1,255 |
| Debit card fees | 671 | 688 |
| Investment services | 169 | 137 |
| E-commerce fees | 50 | 55 |
| Net gain on sale of available-for-sale securities | 10 | 11 |
| Other operating income | 290 | 276 |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | |
|---|-----------|-----------|
| Total noninterest income | 2,575 | 2,422 |
| Noninterest expense: | | |
| Salaries and employee benefits | 4,073 | 3,944 |
| Occupancy expense | 593 | 613 |
| Equipment and furniture expense | 283 | 332 |
| Service and data processing fees | 809 | 770 |
| Computer software, supplies and support | 183 | 162 |
| Advertising and promotion | 173 | 145 |
| FDIC insurance premiums | 158 | 152 |
| Legal and professional fees | 341 | 409 |
| Other | 806 | 899 |
| Total noninterest expense | 7,419 | 7,426 |
| Income before provision for income taxes | 4,933 | 4,522 |
| Provision for income taxes | 1,500 | 1,518 |
| Net income | \$3,433 | \$3,004 |
| Basic EPS | \$0.82 | \$0.72 |
| Basic average shares outstanding | 4,184,747 | 4,146,965 |
| Diluted EPS | \$0.81 | \$0.72 |
| Diluted average shares outstanding | 4,223,329 | 4,190,187 |
| Dividends per share | \$0.35 | \$0.35 |
| See notes to consolidated financial statements. | | |

Greene County Bancorp, Inc.
Consolidated Statements of Income
For the Three Months Ended December 31, 2012 and 2011
(Unaudited)
(In thousands, except share and per share amounts)

| | 2012 | 2011 |
|---|---------|---------|
| Interest income: | | |
| Loans | \$4,590 | \$4,475 |
| Investment securities - taxable | 185 | 225 |
| Mortgage-backed securities | 894 | 1,124 |
| Investment securities - tax exempt | 420 | 321 |
| Interest bearing deposits and federal funds sold | 18 | 13 |
| Total interest income | 6,107 | 6,158 |
| Interest expense: | | |
| Interest on deposits | 673 | 827 |
| Interest on borrowings | 64 | 108 |
| Total interest expense | 737 | 935 |
| Net interest income | 5,370 | 5,223 |
| Provision for loan losses | 541 | 422 |
| Net interest income after provision for loan losses | 4,829 | 4,801 |
| Noninterest income: | | |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | |
|---|-----------|-----------|
| Service charges on deposit accounts | 693 | 639 |
| Debit card fees | 344 | 350 |
| Investment services | 79 | 62 |
| E-commerce fees | 22 | 25 |
| Net gain on sale of available-for-sale securities | 10 | -- |
| Other operating income | 148 | 132 |
| Total noninterest income | 1,296 | 1,208 |
| Noninterest expense: | | |
| Salaries and employee benefits | 2,000 | 1,937 |
| Occupancy expense | 291 | 295 |
| Equipment and furniture expense | 132 | 187 |
| Service and data processing fees | 412 | 399 |
| Computer software, supplies and support | 90 | 81 |
| Advertising and promotion | 84 | 109 |
| FDIC insurance premiums | 83 | 62 |
| Legal and professional fees | 184 | 227 |
| Other | 470 | 471 |
| Total noninterest expense | 3,746 | 3,768 |
| Income before provision for income taxes | 2,379 | 2,241 |
| Provision for income taxes | 710 | 746 |
| Net income | \$1,669 | \$1,495 |
| Basic EPS | \$0.40 | \$0.36 |
| Basic average shares outstanding | 4,185,562 | 4,148,102 |
| Diluted EPS | \$0.39 | \$0.36 |
| Diluted average shares outstanding | 4,225,746 | 4,190,211 |
| Dividends per share | \$0.175 | \$0.175 |
| See notes to consolidated financial statements. | | |

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Six Months Ended December 31, 2012 and 2011
(Unaudited)
(In thousands)

| | 2012 | 2011 |
|--|---------|---------|
| Net income | \$3,433 | \$3,004 |
| Other comprehensive (loss) income: | | |
| Securities: | | |
| Unrealized holding (losses) gainson available for sale securities, arising during the six months ended December 31, 2012 and 2011, net of income taxes of (\$37) and \$55, respectively. | (60) | 87 |
| Reclassification adjustment for gain on sale of available-for-sale securities realized in net income, net of income taxes of (\$4) and (\$4), respectively | (6) | (7) |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | |
|--|---------|---------|
| Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of \$8 and \$12, respectively | 12 | 19 |
| Pension, actuarial gain, net of income tax of \$9 and \$5 | 15 | 8 |
| Other comprehensive (loss) income | (39) | 107 |
| Comprehensive income | \$3,394 | \$3,111 |

Greene County Bancorp, Inc.
Consolidated Statements of Comprehensive Income
For the Three Months Ended December 31, 2012 and 2011
(Unaudited)
(In thousands)

| | 2012 | 2011 |
|--|---------|---------|
| Net income | \$1,669 | \$1,495 |
| Other comprehensive loss: | | |
| Securities: | | |
| Unrealized holding losses on available for sale securities, arising during the three months ended December 31, 2012 and 2011, net of income taxes of (\$122) and (\$81), respectively. | (194) | (128) |
| Reclassification adjustment for gain on sale of available-for-sale securities realized in net income, net of income taxes of (\$4) and \$--, respectively | (6) | - |
| Accretion of unrealized loss on securities transferred to held-to-maturity, net of income taxes of \$4 and \$7, respectively | 6 | 9 |
| Pension, actuarial gain, net of income tax of \$5 and \$3 | 7 | 4 |
| Other comprehensive loss | (187) | (115) |
| Comprehensive income | \$1,482 | \$1,380 |

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended December 31, 2012 and 2011
(Unaudited)
(In thousands)

| | Accumulated | |
|--|-------------|-------|
| | Other | Total |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | Common Stock | Additional Paid – In Capital | Retained Earnings | Comprehensive Income | Treasury Stock | Shareholders' Equity |
|--|-----------------|---------------------------------------|----------------------|-------------------------|-------------------|-------------------------|
| Balance at | | | | | | |
| June 30, 2011 | \$431 | \$11,001 | \$37,336 | \$519 | (\$1,206) | \$48,081 |
| Options exercised | | 22 | | | 33 | 55 |
| Stock options compensation | | 19 | | | | 19 |
| Dividends declared | | | (645) | | | (645) |
| Net income | | | 3,004 | | | 3,004 |
| Total other comprehensive income, net of taxes | | | | 107 | | 107 |
| Balance at | | | | | | |
| December 31, 2011 | \$431 | \$11,042 | \$39,695 | \$626 | (\$1,173) | \$50,621 |
| Balance at | | | | | | |
| June 30, 2012 | \$431 | \$11,119 | \$41,869 | \$173 | (\$928) | \$52,664 |
| Options exercised | | 15 | | | 23 | 38 |
| Dividends declared | | | (1,469) | | | (1,469) |
| Net income | | | 3,433 | | | 3,433 |
| Total other comprehensive loss, net of taxes | | | | (39) | | (39) |
| Balance at | | | | | | |
| December 31, 2012 | \$431 | \$11,134 | \$43,833 | \$134 | (\$905) | \$54,627 |

See notes to consolidated financial statements.

Greene County Bancorp, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended December 31, 2012 and 2011
(Unaudited)

| (In thousands) | 2012 | 2011 |
|---|-----------|-----------|
| Cash flows from operating activities: | | |
| Net Income | \$3,433 | \$3,004 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 381 | 416 |
| Deferred income tax benefit | (879) | - |
| Net amortization of premiums and discounts | 668 | 520 |
| Net amortization of deferred loan costs and fees | 131 | 131 |
| Provision for loan losses | 985 | 896 |
| Stock option compensation | - | 19 |
| Net gain on sale of available-for-sale securities | (10) | (11) |
| Loss on sale of foreclosed real estate | 27 | 132 |
| Net increase (decrease) in accrued income taxes | 1,985 | (758) |
| Net (increase) decrease in accrued interest receivable | (59) | 2 |
| Net decrease in prepaid and other assets | 256 | 160 |
| Net decrease in other liabilities | (1,462) | (293) |
| Net cash provided by operating activities | 5,456 | 4,218 |
| Cash flows from investing activities: | | |
| Securities available-for-sale: | | |
| Proceeds from maturities | 4,010 | 6,440 |
| Proceeds from sale of securities | 10 | 770 |
| Purchases of securities | (6,208) | (4,097) |
| Principal payments on securities | 11,273 | 9,699 |
| Securities held-to-maturity: | | |
| Proceeds from maturities | 13,552 | 8,887 |
| Purchases of securities | (46,736) | (18,725) |
| Principal payments on securities | 11,834 | 4,990 |
| Net redemption of Federal Home Loan Bank Stock | 31 | 643 |
| Purchase of long term certificate of deposit | (250) | - |
| Net increase in loans receivable | (22,052) | (12,258) |
| Proceeds from sale of foreclosed real estate | 233 | 393 |
| Purchases of premises and equipment | (87) | (53) |
| Net cash used by investing activities | (34,390) | (3,311) |
| Cash flows from financing activities: | | |
| Net increase (decrease) in short-term FHLB advances | 300 | (14,300) |
| Paydown of long-term FHLB advances | (1,000) | - |
| Payment of cash dividends | (1,469) | (645) |
| Proceeds from stock options exercised | 38 | 55 |
| Net increase in deposits | 33,753 | 24,072 |
| Net cash provided by financing activities | 31,622 | 9,182 |
| Net increase in cash and cash equivalents | 2,688 | 10,089 |
| Cash and cash equivalents at beginning of period | 7,742 | 9,966 |
| Cash and cash equivalents at end of period | \$10,430 | \$20,055 |

| | | |
|--|----------|----------|
| Non-cash investing activities: | | |
| Foreclosed loans transferred to foreclosed real estate | \$ 140 | \$ 443 |
| Cash paid during the period: | | |
| Interest | \$ 1,469 | \$ 1,934 |
| Income taxes | \$ 394 | \$ 2,276 |

See notes to consolidated financial statements.

Greene County Bancorp, Inc.

Notes to Consolidated Financial Statements

As of and for the Three and Six Months Ended December 31, 2012 and 2011

(1) Basis of Presentation

The accompanying consolidated statement of financial condition as of June 30, 2012 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 the Bank’s wholly owned subsidiary, Greene County Commercial Bank and Greene Property Holdings, Ltd. The consolidated financial statements at and for the three and six months ended December 31, 2012 and 2011 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-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. To the extent that information and notes 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-K for the year ended June 30, 2012, such information and notes 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, if any, 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 and six months ended December 31, 2012 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2013. These consolidated financial statements consider events that occurred through the date the consolidated financial statements were issued.

CRITICAL ACCOUNTING POLICIES

Greene County Bancorp, Inc.’s critical accounting policies relate to the allowance for loan losses and the evaluation of securities for other-than-temporary impairment. The allowance for loan losses is based on management’s estimation of an amount that is intended to absorb losses in the existing loan portfolio. The allowance for loan losses is established through a provision for loan losses based on management’s evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans for which full 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 of loan losses. However, this evaluation involves a high degree of complexity and requires management to make subjective judgments that often require assumptions or estimates about highly uncertain matters. This critical accounting policy and its application are periodically reviewed with the Audit Committee and the Board of Directors.

Securities are evaluated for other-than-temporary impairment by performing periodic reviews of individual securities in the investment portfolio. Greene County Bancorp, Inc. makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. The Company considers many factors, including the severity and duration of the impairment; the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in

value; recent events specific to the issuer or industry; and for debt securities, intent to sell the security, the likelihood to be required to sell the security before it recovers the entire amortized cost, external credit ratings and recent downgrades. The Company is required to record other-than-temporary impairment charges through earnings, if it has the intent to sell, or will more likely than not be required to sell an impaired debt security before a recovery of its amortized cost basis. In addition, the Company is required to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's cash flows and its amortized cost basis. Non-credit related impairment must be recorded as decreases to accumulated other comprehensive income as long as the Company has no intent or requirement to sell an impaired security before a recovery of amortized cost basis.

(2) Nature of Operations

Greene County Bancorp, Inc.'s primary business is the ownership and operation of its two banking subsidiaries. The Bank of Greene County has twelve 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. Greene County Commercial Bank's primary business is to attract deposits from and provide banking services to local municipalities.

(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 the assessment of other-than-temporary security impairment.

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

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

(4) Securities

Securities at December 31, 2012 consisted of the following:

| | | Gross | Gross | Estimated |
|----------------|-----------|------------|------------|-----------|
| | Amortized | Unrealized | Unrealized | Fair |
| (In thousands) | Cost | Gains | Losses | Value |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

Securities available-for-sale:

| | | | | |
|---|-----------|---------|-------|-----------|
| U.S. government sponsored enterprises | \$14,771 | \$446 | \$74 | \$15,143 |
| State and political subdivisions | 3,770 | 56 | - | 3,826 |
| Mortgage-backed securities-residential | 10,070 | 360 | - | 10,430 |
| Mortgage-backed securities-multi-family | 43,268 | 671 | 1 | 43,938 |
| Asset-backed securities | 19 | - | 1 | 18 |
| Corporate debt securities | 4,042 | 452 | - | 4,494 |
| Total debt securities | 75,940 | 1,985 | 76 | 77,849 |
| Equity and other securities | 67 | 71 | - | 138 |
| Total securities available-for-sale | 76,007 | 2,056 | 76 | 77,987 |
| Securities held-to-maturity: | | | | |
| U.S. treasury securities | 7,014 | 40 | - | 7,054 |
| U.S. government sponsored enterprises | 2,999 | 25 | 5 | 3,019 |
| State and political subdivisions | 64,521 | 725 | 62 | 65,184 |
| Mortgage-backed securities-residential | 36,318 | 2,138 | -- | 38,456 |
| Mortgage-backed securities-multi-family | 55,637 | 1,493 | 129 | 57,001 |
| Other securities | 960 | 1 | 2 | 959 |
| Total securities held-to-maturity | 167,449 | 4,422 | 198 | 171,673 |
| Total securities | \$243,456 | \$6,478 | \$274 | \$249,660 |

Securities at June 30, 2012 consisted of the following:

| | | Gross | Gross | Estimated |
|---|-----------|------------|------------|-----------|
| | Amortized | Unrealized | Unrealized | Fair |
| (In thousands) | Cost | Gains | Losses | Value |
| Securities available-for-sale: | | | | |
| U.S. government sponsored enterprises | \$16,816 | \$582 | \$- | \$17,398 |
| State and political subdivisions | 4,783 | 116 | - | 4,899 |
| Mortgage-backed securities-residential | 18,625 | 482 | 1 | 19,106 |
| Mortgage-backed securities-multi-family | 40,077 | 604 | 18 | 40,663 |
| Asset-backed securities | 20 | - | 1 | 19 |
| Corporate debt securities | 5,053 | 263 | - | 5,316 |
| Total debt securities | 85,374 | 2,047 | 20 | 87,401 |
| Equity and other securities | 67 | 60 | - | 127 |
| Total securities available-for-sale | 85,441 | 2,107 | 20 | 87,528 |
| Securities held-to-maturity: | | | | |
| U.S. treasury securities | 11,029 | 61 | - | 11,090 |
| U.S. government sponsored enterprises | 998 | 31 | - | 1,029 |
| State and political subdivisions | 62,212 | 556 | 99 | 62,669 |
| Mortgage-backed securities-residential | 48,101 | 2,282 | 4 | 50,379 |
| Mortgage-backed securities-multi-family | 23,673 | 952 | 6 | 24,619 |
| Other securities | 376 | - | - | 376 |
| Total securities held-to-maturity | 146,389 | 3,882 | 109 | 150,162 |
| Total securities | \$231,830 | \$5,989 | \$129 | \$237,690 |

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2012.

| Less Than 12 | | More Than 12 | | Total | |
|--------------|------------|--------------|------------|-------|------------|
| Months | | Months | | | |
| Fair | Unrealized | Fair | Unrealized | Fair | Unrealized |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| (In thousands) | Value | Losses | Value | Losses | Value | Losses |
|--|----------|--------|-------|--------|----------|--------|
| Securities available-for-sale: | | | | | | |
| U.S. government sponsored enterprises | \$2,000 | \$74 | \$- | \$- | \$2,000 | \$74 |
| Mortgage-backed securities-multifamily | 1,071 | 1 | - | - | 1,071 | 1 |
| Asset-backed securities | - | - | 17 | 1 | 17 | 1 |
| Total securities available-for-sale | 3,071 | 75 | 17 | 1 | 3,088 | 76 |
| Securities held-to-maturity: | | | | | | |
| U.S. government sponsored enterprises | 1,995 | 5 | - | - | 1,995 | 5 |
| State and political subdivisions | 8,339 | 60 | 442 | 2 | 8,781 | 62 |
| Mortgage-backed securities-multifamily | 10,332 | 129 | - | - | 10,332 | 129 |
| Other securities | 291 | 2 | - | - | 291 | 2 |
| Total securities held-to-maturity | 20,957 | 196 | 442 | 2 | 21,399 | 198 |
| Total securities | \$24,028 | \$271 | \$459 | \$3 | \$24,487 | \$274 |

The following table shows fair value and gross unrealized losses, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2012.

| | Less Than 12 Months | | More Than 12 Months | | Total | |
|---|------------------------|----------------------|------------------------|----------------------|---------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (In thousands) | | | | | | |
| Securities available-for-sale: | | | | | | |
| Mortgage-backed securities-residential | \$340 | \$1 | \$- | \$- | \$340 | \$1 |
| Mortgage-backed securities-multi-family | 8,837 | 18 | - | - | 8,837 | 18 |
| Asset-backed securities | - | - | 19 | 1 | 19 | 1 |
| Total securities available-for-sale | 9,177 | 19 | 19 | 1 | 9,196 | 20 |
| Securities held-to-maturity: | | | | | | |
| State and political subdivisions | 10,696 | 99 | - | - | 10,696 | 99 |
| Mortgage-backed securities-residential | 527 | 4 | - | - | 527 | 4 |
| Mortgage-backed securities-multi-family | 4,189 | 6 | - | - | 4,189 | 6 |
| Total securities held-to-maturity | 15,412 | 109 | - | - | 15,412 | 109 |
| Total securities | \$24,589 | \$128 | \$19 | \$1 | \$24,608 | \$129 |

At December 31, 2012, there were 7 securities which have been in a continuous unrealized loss position for more than 12 months and 38 securities in a continuous unrealized loss position of less than 12 months. When the fair value of a held to maturity or available for sale security is less than its amortized cost basis, an assessment is made as to whether other-than-temporary impairment (“OTTI”) is present. The Company considers numerous factors when determining whether a potential OTTI exists and the period over which the debt security is expected to recover. The principal factors considered are (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of the security by a rating agency, and (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies.

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

For debt securities, credit-related OTTI is recognized in income while noncredit related OTTI on securities not expected to be sold is recognized in other comprehensive income (“OCI”). Credit-related OTTI is measured as the

difference between the present value of an impaired security's expected cash flows and its amortized cost basis. Noncredit-related OTTI is measured as the difference between the fair value of the security and its amortized cost less any credit-related losses recognized. For securities classified as held to maturity, the amount of OTTI recognized in OCI is accreted to the credit-adjusted expected cash flow amounts of the securities over future periods. For equity securities, the entire amount of OTTI is recognized in income. Management evaluated securities considering the factors as outlined above, and based on this evaluation the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2012. Management believes that the reasons for the decline in fair value are due to interest rates and widening credit spreads at the end of the quarter.

During the three and six months ended December 31, 2012, a gain on sale of \$10,000 was recognized on a security that was previously written off as an other-than-temporary impairment. During the six months ended December 31, 2011 the Company sold \$759,000 of corporate debt securities within its available-for-sale portfolio at a gain of \$11,000. There was no other-than-temporary impairment loss recognized during the three and six months ended December 31, 2012 and 2011.

The estimated fair values of debt securities at December 31, 2012, by contractual maturity are shown below. Expected maturities may differ from contractual maturities, because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)

| | Amortized Cost | Fair Value |
|---|-------------------|---------------|
| Available for sale debt securities | | |
| Within one year | \$5,245 | \$5,281 |
| After one year through five years | 12,169 | 12,772 |
| After five years through ten years | 5,169 | 5,410 |
| After ten years | - | - |
| Total available for sale debt securities | 22,583 | 23,463 |
| Mortgage-backed and asset-backed securities | 53,357 | 54,386 |
| Equity securities | 67 | 138 |
| Total available for sale securities | 76,007 | 77,987 |
| Held to maturity debt securities | | |
| Within one year | 17,627 | 17,678 |
| After one year through five years | 22,691 | 22,860 |
| After five years through ten years | 24,714 | 25,162 |
| After ten years | 10,462 | 10,516 |
| Total held to maturity debt securities | 75,494 | 76,216 |
| Mortgage-backed | 91,955 | 95,457 |
| Total held to maturity securities | 167,449 | 171,673 |
| Total securities | \$243,456 | \$249,660 |

As of December 31, 2012 and 2011, securities with an aggregate fair value of \$204.9 million and \$154.6 million were pledged as collateral for deposits in excess of FDIC insurance limits for various municipalities placing deposits with Greene County Commercial Bank. As of December 31, 2012 and 2011, securities with an aggregate fair value of \$4.5 million and \$6.3 million, respectively, were pledged as collateral for potential borrowings at the Federal Reserve Bank discount window. Greene County Bancorp, Inc. did not participate in any securities lending programs during the six months ended December 31, 2012 or 2011.

Federal Home Loan Bank Stock

Federal law requires a member institution of the Federal Home Loan Bank (“FHLB”) system to hold stock of its district FHLB according to a predetermined formula. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is carried at cost. FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. Impairment of this investment is evaluated quarterly and is a matter of judgment that reflects management’s view of the FHLB’s long-term performance, which includes factors such as the following: its operating performance; the severity and duration of declines in the fair value of its net assets related to its capital stock amount; its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance; the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of the FHLB; and its liquidity and funding position. After evaluating these considerations, Greene County

Bancorp, Inc. concluded that the par value of its investment in FHLB stock will be recovered and, therefore, no other-than-temporary impairment charge was recorded during the periods ended December 31, 2012 or 2011.

(5) Credit Quality of Loans and Allowance for Loan Losses

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

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

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

The Bank of Greene County's primary lending activity is the origination of residential mortgage loans, including home equity loans, which are collateralized by residences. Generally, residential mortgage loans are made in amounts up to 80.0% of the appraised value of the property. However, The Bank of Greene County will originate residential mortgage loans with loan-to-value ratios of up to 95.0%, with private mortgage insurance. In the event of default by the borrower, The Bank of Greene County will acquire and liquidate the underlying collateral. By originating the loan at a loan-to-value ratio of 80% or less or obtaining private mortgage insurance, The Bank of Greene County limits its risk of loss in the event of default. However, the market values of the collateral may be adversely impacted by declines in the economy. Home equity loans may have an additional inherent risk if The Bank of Greene County does not hold the first mortgage. The Bank of Greene County may stand in a secondary position in the event of collateral liquidation resulting in a greater chance of insufficiency to meet all obligations.

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

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

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

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

Loan balances by internal credit quality indicator as of December 31, 2012 are shown below.

| (in thousands) | Performing | Watch | Special Mention | Substandard | Total |
|---------------------------------|------------|-------|--------------------|-------------|-----------|
| Residential mortgage | \$200,322 | \$385 | \$543 | \$3,601 | \$204,851 |
| Nonresidential mortgage | 83,719 | - | 128 | 2,410 | 86,257 |
| Residential construction & land | 3,059 | - | - | - | 3,059 |
| Commercial construction | 2,052 | - | 370 | 1,066 | 3,488 |
| Multi-family | 4,135 | - | 767 | 731 | 5,633 |
| Home equity | 22,281 | - | - | 386 | 22,667 |
| Consumer installment | 4,284 | - | - | 22 | 4,306 |
| Commercial loans | 22,216 | 38 | 306 | 891 | 23,451 |
| Total gross loans | \$342,068 | \$423 | \$2,114 | \$9,107 | \$353,712 |

Loan balances by internal credit quality indicator as of June 30, 2012 are shown below.

| (in thousands) | Performing | Watch | Special | Substandard | Total |
|----------------|------------|-------|---------|-------------|-------|
|----------------|------------|-------|---------|-------------|-------|

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | | Mention | | |
|---------------------------------|-----------|------|---------|---------|-----------|
| Residential mortgage | \$188,446 | \$- | \$557 | \$4,375 | \$193,378 |
| Nonresidential mortgage | 77,761 | - | 588 | 2,445 | 80,794 |
| Residential construction & land | 2,156 | - | - | - | 2,156 |
| Commercial construction | 669 | - | 290 | 1,075 | 2,034 |
| Multi-family | 4,185 | - | 780 | 557 | 5,522 |
| Home equity | 22,708 | - | - | 100 | 22,808 |
| Consumer installment | 4,044 | 1 | - | 25 | 4,070 |
| Commercial loans | 20,045 | 39 | 762 | 842 | 21,688 |
| Total gross loans | \$320,014 | \$40 | \$2,977 | \$9,419 | \$332,450 |

The Company had no loans classified Doubtful or Loss at December 31, 2012 or June 30, 2012.

Nonaccrual Loans

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectability is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan is not placed back on accrual status until the borrower has demonstrated the ability and willingness to make timely payments on the loan. A loan does not have to be 90 days delinquent in order to be classified as nonaccrual. Nonaccrual loans consisted primarily of loans secured by real estate at December 31, 2012 and June 30, 2012. While the Bank makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans in process of foreclosure has grown substantially over the past several years. This growth has been the result of adverse changes within the economy and increases in local unemployment. The growth is also due in part to the extended length of time required to meet all of the legal requirements mandated by New York state law prior to a foreclosure sale, which may be in excess of two years. Loans on nonaccrual status totaled \$6.7 million at December 31, 2012 of which \$3.2 million were in the process of foreclosure. Included in nonaccrual loans, were \$2.4 million of loans which were less than 90 days past due at December 31, 2012, but have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due were \$1.1 million of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with the Bank to bring the loans current over a specified period of time (resulting in an insignificant delay in repayment). During this term of the forbearance agreement, the Bank has agreed not to continue foreclosure proceedings.

The following table sets forth information regarding delinquent and/or nonaccrual loans as of December 31, 2012:

| (in thousands) | 30-59 days past due | 60-89 days past due | 90 days or more past due | Total past due | Current | Total Loans | Loans on Non-accrual |
|---------------------------------|------------------------|------------------------|--------------------------------|-------------------|-----------|----------------|-------------------------|
| Residential mortgage | \$570 | \$2,775 | \$2,986 | \$6,331 | \$198,520 | \$204,851 | \$3,164 |
| Nonresidential mortgage | 122 | 1,371 | 1,114 | 2,607 | 83,650 | 86,257 | 2,199 |
| Residential construction & land | - | - | - | - | 3,059 | 3,059 | - |
| Commercial construction | - | - | - | - | 3,488 | 3,488 | - |
| Multi-family | - | - | 609 | 609 | 5,024 | 5,633 | 609 |
| Home equity | 472 | 115 | 60 | 647 | 22,020 | 22,667 | 386 |
| Consumer installment | 91 | 5 | 2 | 98 | 4,208 | 4,306 | 22 |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | | | | | | |
|-------------------|---------|---------|---------|----------|-----------|-----------|---------|
| Commercial loans | 222 | 500 | 158 | 880 | 22,571 | 23,451 | 342 |
| Total gross loans | \$1,477 | \$4,766 | \$4,929 | \$11,172 | \$342,540 | \$353,712 | \$6,722 |

The following table sets forth information regarding delinquent and/or nonaccrual loans as of June 30, 2012:

| (in thousands) | 30-59 days past due | 60-89 days past due | 90 days or more past due | Total past due | Current | Total Loans | Loans on Non-accrual |
|---------------------------------|------------------------|------------------------|-----------------------------------|-------------------|-----------|----------------|-------------------------|
| Residential mortgage | \$99 | \$1,674 | \$3,850 | \$5,623 | \$187,755 | \$193,378 | \$4,206 |
| Nonresidential mortgage | 424 | 1,088 | 1,041 | 2,553 | 78,241 | 80,794 | 1,868 |
| Residential construction & land | - | - | - | - | 2,156 | 2,156 | - |
| Commercial construction | - | - | - | - | 2,034 | 2,034 | - |
| Multi-family | - | - | 431 | 431 | 5,091 | 5,522 | 431 |
| Home equity | 52 | - | 100 | 152 | 22,656 | 22,808 | 60 |
| Consumer installment | 76 | 4 | 24 | 104 | 3,966 | 4,070 | 25 |
| Commercial loans | 3 | 596 | 257 | 856 | 20,832 | 21,688 | 303 |
| Total gross loans | \$654 | \$3,362 | \$5,703 | \$9,719 | \$322,731 | \$332,450 | \$6,893 |

The Bank of Greene County had three accruing loans delinquent 90 days or more as of December 31, 2012 totaling \$353,000 and had two accruing loans delinquent more than 90 days as of June 30, 2012 totaling \$124,000. The loans delinquent more than 90 days and accruing consist of loans that are well collateralized and the borrowers have demonstrated the ability and willingness to pay. The borrower has made arrangements with the Bank to bring the loan current within a specified time period and has made a series of payments as agreed.

The table below details additional information related to nonaccrual loans for the six months ended December 31:

| | For the six months ended December 31, | | For the three months ended December 31 | |
|--|---|-------|--|-------|
| (In thousands) | 2012 | 2011 | 2012 | 2011 |
| Interest income that would have been recorded if loans had been performing in accordance with original terms | \$275 | \$314 | \$125 | \$137 |
| Interest income that was recorded on nonaccrual loans | 126 | 143 | 72 | 76 |

Impaired Loan Analysis

The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "Receivables – Loan Impairment." Management may consider a loan impaired once it is classified as nonaccrual and when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. It should be noted that management does not evaluate all loans individually for impairment. Generally, The Bank of Greene County considers residential mortgages, home equity loans and installment loans as small, homogeneous loans, which are evaluated for impairment collectively based on historical loan experience and other factors. In contrast, large commercial mortgage, construction, multi-family, business loans and select larger balance residential mortgage loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled

payments of principal and interest when due, according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other factors. Loans that are either delinquent a minimum of 60 days or are on nonaccrual status, and are not individually evaluated for impairment, are either designated as Special Mention or Substandard, and the allocation of the allowance for loan loss is based upon the risk associated with such designation.

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

| (in thousands) | As of December 31, 2012 | | | For the six months ended December 31, 2012 | | For the three months ended December 31, 2012 | |
|---------------------------------------|-------------------------|---------------------|----------------------|---|----------------------------------|--|----------------------------------|
| | Recorded Investment | Unpaid Principal | Related Allowance | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | | | | |
| Residential mortgage | \$856 | \$856 | \$- | \$918 | \$18 | \$967 | \$8 |
| Nonresidential mortgage | 1,361 | 1,361 | - | 1,367 | 42 | 1,364 | 30 |
| Commercial | 117 | 117 | - | 124 | 10 | 122 | 10 |
| Total loans with no related allowance | 2,334 | 2,334 | - | 2,409 | 70 | 2,453 | 48 |
| With an allowance recorded: | | | | | | | |
| Residential mortgage | 1,960 | 2,010 | 303 | 1,538 | 15 | 2,083 | 11 |
| Nonresidential mortgage | 988 | 988 | 341 | 927 | 8 | 988 | 2 |
| Commercial construction | 1,066 | 1,066 | 303 | 1,070 | - | 1,106 | - |
| Multi-family | 888 | 888 | 142 | 885 | 4 | 889 | 2 |
| Home equity | 386 | 386 | 74 | 386 | 4 | 386 | 4 |
| Commercial loans | 571 | 571 | 3 | 573 | 3 | 572 | 2 |
| Total loans with related allowance | 5,859 | 5,909 | 1,166 | 5,379 | 34 | 6,024 | 21 |
| Total impaired loans: | | | | | | | |
| Residential mortgage | 2,816 | 2,866 | 303 | 2,456 | 33 | 3,050 | 19 |
| Nonresidential mortgage | 2,349 | 2,349 | 341 | 2,294 | 50 | 2,352 | 32 |
| Commercial construction | 1,066 | 1,066 | 303 | 1,070 | - | 1,106 | - |
| Multi-family | 888 | 888 | 142 | 885 | 4 | 889 | 2 |
| Home equity | 386 | 386 | 74 | 386 | 4 | 386 | 4 |
| Commercial loans | 688 | 688 | 3 | 697 | 13 | 694 | 12 |
| Total impaired loans | \$8,193 | \$8,243 | \$1,166 | \$7,788 | \$104 | \$8,477 | \$69 |

| (in thousands) | As of June 30, 2012 | | | For the six months ended December 31, 2011 | | For the three months ended December 31, 2011 | |
|---------------------------------------|------------------------|---------------------|----------------------|---|----------------------------------|--|----------------------------------|
| | Recorded Investment | Unpaid Principal | Related Allowance | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no related allowance recorded: | | | | | | | |
| Residential mortgage | \$213 | \$276 | \$- | \$213 | \$- | \$213 | \$- |
| Nonresidential mortgage | 1,148 | 1,148 | - | 459 | 21 | 459 | 17 |
| Multi-family | 433 | 433 | - | - | - | - | - |
| Total loans with no related allowance | 1,794 | 1,857 | - | 672 | 21 | 672 | 17 |
| With an allowance recorded: | | | | | | | |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | | | | | | |
|------------------------------------|---------|---------|-------|---------|------|---------|------|
| Residential mortgage | 200 | 200 | 10 | 46 | 2 | 46 | 1 |
| Nonresidential mortgage | 648 | 648 | 208 | 971 | 13 | 823 | 7 |
| Commercial construction | 1,075 | 1,075 | 365 | - | - | - | - |
| Multi-family | 428 | 428 | 155 | 433 | 12 | 432 | 6 |
| Commercial loans | 562 | 562 | 35 | 500 | 17 | 500 | 8 |
| Total loans with related allowance | 2,913 | 2,913 | 773 | 1,950 | 44 | 1,801 | 22 |
| Total impaired loans: | | | | | | | |
| Residential mortgage | 413 | 476 | 10 | 259 | 2 | 259 | 1 |
| Nonresidential mortgage | 1,796 | 1,796 | 208 | 1,430 | 34 | 1,282 | 24 |
| Commercial construction | 1,075 | 1,075 | 365 | - | - | - | - |
| Multi-family | 861 | 861 | 155 | 433 | 12 | 432 | 6 |
| Commercial loans | 562 | 562 | 35 | 500 | 17 | 500 | 8 |
| Total impaired loans | \$4,707 | \$4,770 | \$773 | \$2,622 | \$65 | \$2,473 | \$39 |

The table below details loans that have been modified as a troubled debt restructuring during the three and six months ended December 31, 2012:

| As of December 31, 2012 | | | | |
|-------------------------|---------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| (dollars in thousands) | Number of Contracts | Pre-Modification | Post-Modification | Current |
| | | Outstanding Recorded Investment | Outstanding Recorded Investment | Outstanding Recorded Investment |
| Residential mortgage | 1 | \$246 | \$261 | \$261 |

This loan has been classified as troubled debt restructurings due to concessions granted to the debtor that The Bank of Greene County would not otherwise consider as a result of financial difficulties of the borrower. For this loan, additional funds were advanced, the interest rate was reduced and the term extended. At December 31, 2012, this loan was not in default but is currently included in non-accrual loans. If the borrower performs under the terms of the modification, and the ultimate collectability of all amounts contractually due under the modified terms is not in doubt, this loan will be returned to accrual status. This loan identified as a troubled debt restructuring has been evaluated for impairment and the impact to the allowance for loan loss was immaterial.

There were no troubled debt restructurings modified within the last twelve months that subsequently defaulted.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risk inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of certain identified loans on which full collectability may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, payment status of the loan, historical loan loss experience and other factors that warrant recognition in providing for the loan loss allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review The Bank of Greene County's allowance for loan losses. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The Bank of Greene County charges loans off against the allowance for credit losses when it becomes evident that a loan cannot be collected within a reasonable amount of time or that it will cost the Bank more than it will receive, and all possible avenues of

repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers. Generally, consumer loans and smaller business loans (not secured by real estate) in excess of 90 days are charged-off against the allowance for loan losses, unless equitable arrangements are made. For loans secured by real estate, a charge-off is recorded when it is determined that the collection of all or a portion of a loan may not be collected and the amount of that loss can be reasonably estimated.

The following tables set forth the activity and allocation of the allowance for loan losses by loan category during and at the periods indicated. The allowance is allocated to each loan category based on historical loss experience, current economic conditions, and other considerations.

Activity for the three months ended December 31, 2012

| | Balance September 30, 2012 | Charge-offs | Recoveries | Provision | Balance December 31, 2012 |
|---------------------------------|-------------------------------------|-------------|------------|-----------|------------------------------------|
| (In thousands) | | | | | |
| Residential mortgage | \$2,350 | \$234 | \$- | \$313 | \$2,429 |
| Nonresidential mortgage | 2,104 | 20 | - | 162 | 2,246 |
| Residential construction & land | 43 | - | - | - | 43 |
| Commercial construction | 364 | - | - | 27 | 391 |
| Multi-family | 293 | - | - | (7) | 286 |
| Home equity | 369 | - | - | (8) | 361 |
| Consumer installment | 257 | 62 | 18 | 68 | 281 |
| Commercial loans | 684 | 15 | - | 58 | 727 |
| Unallocated | 72 | - | - | (72) | - |
| Total | \$6,536 | \$331 | \$18 | \$541 | \$6,764 |

Activity for the six months ended December 31, 2012

| | Balance June 30, 2012 | Charge-offs | Recoveries | Provision | Balance December 31, 2012 |
|---------------------------------|-----------------------------|-------------|------------|-----------|------------------------------------|
| (In thousands) | | | | | |
| Residential mortgage | \$2,163 | \$273 | \$- | \$539 | \$2,429 |
| Nonresidential mortgage | 2,076 | 20 | - | 190 | 2,246 |
| Residential construction & land | 19 | - | - | 24 | 43 |
| Commercial construction | 407 | - | - | (16) | 391 |
| Multi-family | 337 | - | - | (51) | 286 |
| Home equity | 187 | - | - | 174 | 361 |
| Consumer installment | 207 | 132 | 42 | 164 | 281 |
| Commercial loans | 645 | 15 | - | 97 | 727 |
| Unallocated | 136 | - | - | (136) | - |
| Total | \$6,177 | \$440 | \$42 | \$985 | \$6,764 |

| Allowance for Loan Loss | | | Loans Receivable | |
|----------------------------------|---------------------------|---------------------------|----------------------------------|---------------------------|
| Ending Balance December 31, 2012 | | | Ending Balance December 31, 2012 | |
| Impairment Analysis | | | Impairment Analysis | |
| (In thousands) | Individually Evaluated | Collectively Evaluated | Individually Evaluated | Collectively Evaluated |
| Residential mortgage | \$303 | \$2,126 | \$2,816 | \$202,035 |
| Nonresidential mortgage | 341 | 1,905 | 2,349 | 83,908 |
| Residential construction & land | - | 43 | - | 3,059 |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | | | |
|-------------------------|---------|---------|---------|-----------|
| Commercial construction | 303 | 88 | 1,066 | 2,422 |
| Multi-family | 142 | 144 | 888 | 4,745 |
| Home equity | 74 | 287 | 386 | 22,281 |
| Consumer installment | - | 281 | - | 4,306 |
| Commercial loans | 3 | 724 | 688 | 22,763 |
| Unallocated | - | - | - | - |
| Total | \$1,166 | \$5,598 | \$8,193 | \$345,519 |

Activity for the three months ended December 31, 2011

| | Balance September 30, 2011 | Charge-offs | Recoveries | Provision | Balance December 31, 2011 |
|---------------------------------|-------------------------------------|-------------|------------|-----------|------------------------------------|
| (In thousands) | | | | | |
| Residential mortgage | \$2,059 | \$34 | \$4 | \$118 | \$2,147 |
| Nonresidential mortgage | 1,920 | 179 | - | 206 | 1,947 |
| Residential construction & land | 28 | - | - | 3 | 31 |
| Commercial construction | 54 | - | - | 24 | 78 |
| Multi-family | 412 | - | - | (4) | 408 |
| Home equity | 221 | - | - | (4) | 217 |
| Consumer installment | 202 | 67 | 16 | 82 | 233 |
| Commercial loans | 557 | - | 2 | (3) | 556 |
| Total | \$5,453 | \$280 | \$22 | \$422 | \$5,617 |

Activity for the six months ended December 31, 2011

| | Balance June 30, 2011 | Charge-offs | Recoveries | Provision | Balance December 31, 2011 |
|---------------------------------|-----------------------------|-------------|------------|-----------|------------------------------------|
| (In thousands) | | | | | |
| Residential mortgage | \$1,767 | \$58 | \$4 | \$434 | \$2,147 |
| Nonresidential mortgage | 1,859 | 212 | - | 300 | 1,947 |
| Residential construction & land | 27 | - | - | 4 | 31 |
| Commercial construction | 89 | - | - | (11) | 78 |
| Multi-family | 410 | - | - | (2) | 408 |
| Home equity | 186 | - | - | 31 | 217 |
| Consumer installment | 203 | 118 | 34 | 114 | 233 |
| Commercial loans | 528 | - | 2 | 26 | 556 |
| Total | \$5,069 | \$388 | \$40 | \$896 | \$5,617 |

| | Allowance for Loan Loss | | Loans Receivable | |
|-------------------------|--|------------------------|--|------------------------|
| | Ending Balance June 30, 2012 Impairment Analysis | | Ending Balance June 30, 2012 Impairment Analysis | |
| (In thousands) | Individually Evaluated | Collectively Evaluated | Individually Evaluated | Collectively Evaluated |
| Residential mortgage | \$10 | \$2,153 | \$413 | \$192,965 |
| Nonresidential mortgage | 208 | 1,868 | 1,796 | 78,998 |
| | - | 19 | - | 2,156 |

Residential construction &
land

| | | | | |
|-------------------------|-------|---------|---------|-----------|
| Commercial construction | 365 | 42 | 1,075 | 959 |
| Multi-family | 155 | 182 | 861 | 4,661 |
| Home equity | - | 187 | - | 22,808 |
| Consumer installment | - | 207 | - | 4,070 |
| Commercial loans | 35 | 610 | 562 | 21,126 |
| Unallocated | - | 136 | - | - |
| Total | \$773 | \$5,404 | \$4,707 | \$327,743 |

(6) Fair Value Measurements and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of December 31, 2012 and June 30, 2012 and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The FASB ASC Topic on "Fair Value Measurement" established a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

| Fair Value Measurements Using | | | | |
|-------------------------------|---|------------------------------------|---------------------------------------|--|
| December | Quoted Prices In Active Markets For | Significant Other Observable | Significant Unobservable Inputs | |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | Identical Assets | Inputs | |
|---|----------|------------------|-----------|-----------|
| (In thousands) | 31, 2012 | (Level 1) | (Level 2) | (Level 3) |
| Assets: | | | | |
| U.S. Government sponsored enterprises | \$15,143 | \$- | \$15,143 | \$- |
| State and political subdivisions | 3,826 | - | 3,826 | - |
| Mortgage-backed securities-residential | 10,430 | - | 10,430 | - |
| Mortgage-backed securities-multi-family | 43,938 | - | 43,938 | - |
| Asset-backed securities | 18 | 18 | - | - |
| Corporate debt securities | 4,494 | 4,494 | - | - |
| Equity securities | 138 | 138 | - | - |
| Securities available-for-sale | \$77,987 | \$4,650 | \$73,337 | \$- |

| | | Fair Value Measurements Using | | |
|---|------------------|---|--|---------------------------------------|
| | | Quoted Prices In Active Markets For Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| (In thousands) | June 30, 2012 | (Level 1) | (Level 2) | (Level 3) |
| Assets: | | | | |
| U.S. Government sponsored enterprises | \$17,398 | \$- | \$17,398 | \$- |
| State and political subdivisions | 4,899 | - | 4,899 | - |
| Mortgage-backed securities-residential | 19,106 | - | 19,106 | - |
| Mortgage-backed securities-multi-family | 40,663 | - | 40,663 | - |
| Asset-backed securities | 19 | 19 | - | - |
| Corporate debt securities | 5,316 | 5,316 | - | - |
| Equity securities | 127 | 127 | - | - |
| Securities available-for-sale | \$87,528 | \$5,462 | \$82,066 | \$- |

Certain investments that are actively traded and have quoted market prices have been classified as Level 1 valuations. Other available-for-sale investment securities have been valued by reference to prices for similar securities or through model-based techniques in which all significant inputs are observable and, therefore, such valuations have been classified as Level 2.

In addition to disclosures of the fair value of assets on a recurring basis, FASB ASC Topic on “Fair Value Measurement” requires disclosures for assets and liabilities measured at fair value on a nonrecurring basis, such as impaired assets, in the period in which a re-measurement at fair value is performed. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated as required by the “Receivables –Loan Impairment” subtopic of the FASB ASC when establishing the allowance for credit losses. Impaired loans are those loans for which the Company has re-measured impairment generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount may not necessarily represent the actual fair value of the loan. Real estate collateral is typically valued using independent appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Estimates of fair value used for other collateral

supporting commercial loans generally are based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

| | Fair Value | Fair Value Measurements Using | | |
|-------------------|------------|-------------------------------|-----------|-----------|
| (In thousands) | | (Level 1) | (Level 2) | (Level 3) |
| December 31, 2012 | | | | |
| Impaired loans | \$5,086 | \$- | \$- | \$5,086 |
| | | | | |
| June 30, 2012 | | | | |
| Impaired loans | \$2,353 | \$- | \$- | \$2,353 |

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were utilized to determine fair value:

| Basis and for which EOP's inputs were utilized to determine fair value: | | | | |
|---|------------|-------------------------|-----------------------|--------|
| (In thousands) | Fair Value | Valuation Technique | Unobservable Input | Range |
| December 31, 2012 | | | | |
| Impaired Loans | \$5,086 | Appraisal of collateral | Appraisal adjustments | 0-25% |
| | | | Liquidation expenses | 10-15% |
| June 30, 2012 | | | | |
| Impaired Loans | \$2,353 | Appraisal of collateral | Appraisal adjustments | 0-25% |
| | | | Liquidation expenses | 10-15% |

At December 31, 2012, loans subject to nonrecurring fair value measurement had a recorded investment of \$6.3 million with related allowances of \$1.2 million, and consisted of eleven residential mortgage loans, four nonresidential mortgage loans, two multifamily loans, two commercial construction and three commercial loans. At June 30, 2012, loans subject to nonrecurring fair value measurement had a recorded investment of \$3.1 million with related allowances of \$773,000, and consisted of three residential mortgage loans, five nonresidential mortgage loans, one multifamily loan, one commercial construction loan and one commercial loan. No other financial assets or liabilities were re-measured during the year on a nonrecurring basis.

The carrying amounts reported in the statements of financial condition for cash and cash equivalents, accrued interest receivable and accrued interest payable approximate their fair values. Fair values of securities are based on quoted market prices (Level 1), where available, or matrix pricing (Level 2), which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. The carrying amount of Federal Home Loan Bank stock approximates fair value due to its restricted nature. Fair values for variable rate loans that reprice frequently, with no significant credit risk, are based on carrying value. Fair value for fixed rate loans are estimated using discounted cash flows and interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values disclosed for demand and savings deposits are equal to carrying amounts at the reporting date. The carrying amounts for variable rate money market deposits approximate fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using discounted cash flows and interest rates currently being offered in the market on similar certificates. Fair value for Federal Home Loan Bank long term borrowings are estimated using discounted cash flows and interest rates currently being offered on similar borrowings. The carrying value of short-term Federal Home Loan Bank borrowings approximates its fair value.

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

The fair value of commitments to extend credit is estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the credit-worthiness of the potential borrowers. At December 31, 2012 and June 30, 2012, the estimated fair values of these off-balance sheet financial instruments were immaterial, and are therefore excluded from the table below.

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

| (in thousands) | December 31, 2012 | | Fair Value Measurements Using | | |
|-----------------------------------|-------------------|------------|-------------------------------|-----------|-----------|
| | Carrying Amount | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| Cash and cash equivalents | \$10,430 | \$10,430 | \$10,430 | \$- | \$- |
| Securities available-for-sale | 77,987 | 77,987 | 4,650 | 73,337 | - |
| Securities held-to-maturity | 167,449 | 171,673 | - | 171,673 | - |
| Federal Home Loan Bank stock | 1,713 | 1,713 | 1,713 | - | - |
| Net loans | 347,547 | 362,742 | - | - | 362,742 |
| Accrued interest receivable | 2,747 | 2,747 | 2,747 | - | - |
| Deposits | 545,690 | 545,802 | 481,471 | 64,331 | - |
| Federal Home Loan Bank borrowings | 20,300 | 20,245 | - | 20,245 | - |
| Accrued interest payable | 90 | 90 | 90 | - | - |

| (in thousands) | June 30, 2012 | | Fair Value Measurements Using | | |
|-----------------------------------|-----------------|------------|-------------------------------|-----------|-----------|
| | Carrying Amount | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| Cash and cash equivalents | \$7,742 | \$7,742 | \$7,742 | \$- | \$- |
| Securities available-for-sale | 87,528 | 87,528 | 5,462 | 82,066 | - |
| Securities held-to-maturity | 146,389 | 150,162 | - | 150,162 | - |
| Federal Home Loan Bank stock | 1,744 | 1,744 | 1,744 | - | - |
| Net loans | 326,751 | 341,263 | - | - | 341,263 |
| Accrued interest receivable | 2,688 | 2,688 | 2,688 | - | - |
| Deposits | 511,937 | 512,154 | 439,892 | 72,262 | - |
| Federal Home Loan Bank borrowings | 21,000 | 21,264 | - | 21,264 | - |
| Accrued interest payable | 83 | 83 | 83 | - | - |

(7) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares that would have been outstanding under the treasury stock method if all potentially dilutive common shares (such as stock options) issued became vested during the period. There were no anti-dilutive securities or contracts outstanding during the three and six months ended December 31, 2012 and 2011.

| | Weighted Average Number |
|------------|-------------------------|
| Net Income | |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | Of Shares Outstanding | Earnings per Share |
|----------------------------------|-------------|--------------------------|-----------------------|
| Six months ended | | | |
| December 31, 2012 | \$3,433,000 | | |
| Basic | | 4,184,747 | \$0.82 |
| Effect of dilutive stock options | | 38,582 | (0.01) |
| Diluted | | 4,223,329 | \$0.81 |

| | | | |
|----------------------------------|-------------|-----------|--------|
| Six months ended | | | |
| December 31, 2011 | \$3,004,000 | | |
| Basic | | 4,146,965 | \$0.72 |
| Effect of dilutive stock options | | 43,222 | (0.00) |
| Diluted | | 4,190,187 | \$0.72 |

| | | Weighted Average Number | |
|----------------------------------|-------------|-------------------------------|-----------------------|
| | Net Income | Of Shares Outstanding | Earnings per Share |
| Three months ended | | | |
| December 31, 2012 | \$1,669,000 | | |
| Basic | | 4,185,562 | \$0.40 |
| Effect of dilutive stock options | | 40,184 | (0.01) |
| Diluted | | 4,225,746 | \$0.39 |

| | | | |
|----------------------------------|-------------|-----------|--------|
| Three months ended | | | |
| December 31, 2011 | \$1,495,000 | | |
| Basic | | 4,148,102 | \$0.36 |
| Effect of dilutive stock options | | 42,109 | (0.00) |
| Diluted | | 4,190,211 | \$0.36 |

(8) Dividends

On October 16, 2012, the Board of Directors declared a quarterly cash dividend of \$0.175 per share of Greene County Bancorp, Inc.'s common stock. The dividend, which reflected an annual cash dividend rate of \$0.70 cents per share, was unchanged from the dividend declared during the previous quarter. The dividend was payable to stockholders of record as of November 15, 2012, and was paid on November 30, 2012. Historically, Greene County Bancorp, MHC has waived its right to receive dividends declared on its shares of the Company's common stock, and Greene County Bancorp, MHC had waived the receipt of dividends for the October 16, 2012 dividend, subject to the non-objection of the Federal Reserve Board. The Federal Reserve Board has adopted interim final regulations that impose significant conditions and restrictions on the ability of mutual holding companies to waive the receipt of dividends from their subsidiaries, and Greene County Bancorp, MHC did not obtain the non-objection of the Federal Reserve to waive the receipt of its dividend on the Company's common stock for the October 16, 2012 dividend. Accordingly, such dividend was paid to Greene County Bancorp, MHC on November 30, 2012. Greene County Bancorp, MHC's ability to waive dividends in future periods cannot be reasonably determined at this time.

(9) Impact of Recent Accounting Pronouncements

There were no recent accounting pronouncements which are expected to have a material impact the Company's consolidated financial statements issued during the six months ended December 31, 2012.

(10) Employee Benefit Plans

Defined Benefit Plan

The components of net periodic pension costs related to the defined benefit pension plan for the six and three months ended December 31, 2012 and 2011 were as follows:

| | Six months ended December 31, | | Three months ended December 31, | |
|--------------------------------|----------------------------------|--------|------------------------------------|-------|
| (in thousands) | 2012 | 2011 | 2012 | 2011 |
| Interest cost | \$88 | \$108 | \$44 | \$54 |
| Expected return on plan assets | (102) | (112) | (51) | (56) |
| Amortization of net loss | 38 | 18 | 19 | 9 |
| Net periodic pension cost | \$24 | \$14 | \$12 | \$7 |

The Company made a contribution to the defined benefit pension plan during the six months ended December 31, 2012 in the amount of \$1.5 million. The Company does not anticipate that it will make any additional contributions during fiscal 2013.

SERP

On June 21, 2010, the Board of Directors of The Bank of Greene County adopted The Bank of Greene County Supplemental Executive Retirement Plan (the "SERP Plan"), effective as of July 1, 2010. The SERP Plan will benefit certain key senior executives of the Bank who are selected by the Board to participate.

The SERP Plan is intended to provide a benefit from the Bank upon retirement, death or disability or voluntary or involuntary termination of service (other than "for cause"). Accordingly, the SERP Plan obligates the Bank to make a contribution to each executive's account on the first business day of each July and permits each executive to defer up to 50% of his or her base salary and 100% of his or her annual bonus to the SERP Plan, subject to the requirements of Section 409A of the Internal Revenue Code ("Code"). In addition, the Bank may, but is not required to, make additional discretionary contributions to the executives' accounts from time to time. An executive becomes vested in the Bank's contributions after 10 calendar years of service following the effective date of the SERP Plan, and is fully vested immediately for all deferral of salary and bonus. However, the Executive will vest in the present value of his or her account in the event of death, disability or a change in control of the Bank or the Company. In the event the executive is terminated involuntarily or resigns for good reason following a change in control, the present value of all remaining Bank contributions is accelerated and paid to the executive's account, subject to potential reduction to avoid an excess parachute payment under Code Section 280G. In the event of the executive's death, disability or termination within two years after a change in control, executive's account will be paid in a lump sum to the executive or his beneficiary, as applicable. In the event executive is entitled to a benefit from the SERP Plan due to retirement or other termination of employment, the benefit will be paid in 10 annual installments.

The net periodic pension costs related to the SERP for the three and six months ended December 31, 2012 were \$25,000 and \$47,000, respectively, consisting primarily of service and interest costs. The net periodic pension costs related to the SERP for the three and six months ended December 31, 2011 were \$29,000 and \$42,000, respectively, consisting primarily of service costs. The total liability for the SERP was \$513,400 and \$369,000 as of December 31, 2012 and June 30, 2012, respectively.

(11) Stock-Based Compensation

At December 31, 2012, Greene County Bancorp, Inc. had two stock-based compensation plans, which are described more fully in Note 9 of the consolidated financial statements and notes thereto for the year ended June 30, 2012.

The Company recognized \$19,000 in compensation costs and related income tax benefit of \$2,000 related to the 2008 Option Plan for the six months ended December 31, 2011. At December 31, 2012 and 2011, all granted shares were fully vested, with no remaining compensation cost to be recognized.

A summary of the Company's stock option activity and related information for its option plans for the six months ended December 31, 2012 and 2011 is as follows:

| 2012 | | | 2011 | |
|----------------------------------|---------|-----------|--|--|
| | | | Weighted Average Exercise Price | Weighted Average Exercise Price |
| | Shares | Per Share | Shares | Per Share |
| Outstanding at beginning of year | 103,700 | \$12.50 | 144,834 | \$12.50 |
| Exercised | (3,000) | 12.50 | (4,400) | 12.50 |
| Outstanding at period end | 100,700 | \$12.50 | 140,434 | \$12.50 |
| Exercisable at period end | 100,700 | \$12.50 | 140,434 | \$12.50 |

The following table presents stock options outstanding and exercisable at December 31, 2012:

| Options Outstanding and Exercisable | | | |
|-------------------------------------|-----------------------|--|---------------------------------------|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
| \$12.50 | 100,700 | 5.75 | \$12.50 |

The total intrinsic value of the options exercised during the three and six months ended December 31, 2012 was approximately \$7,000 and \$19,000, respectively. The total intrinsic value of the options exercised during the three and six months ended December 31, 2011 was approximately \$23,000. There were no stock options granted during the three or six months ended December 31, 2012 or 2011. All outstanding options were fully vested at December 31, 2012 or 2011.

Phantom Stock Option Plan and Long-term Incentive Plan

On July 12, 2011, Greene County Bancorp, Inc. (the "Company") entered into the Greene County Bancorp, Inc. 2011 Phantom Stock Option and Long-term Incentive Plan (the "Plan"), effective as of July 1, 2011, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interests with those of the Company's shareholders. The Plan is intended to provide benefits to employees and directors of the Company or any subsidiary as designated by the Compensation Committee of the Board of Directors of the Company ("Committee"). A total of 900,000 phantom stock options will be available for awards under the Plan. A phantom stock option represents the right to receive a cash payment on the date the award vests in the participant equal to the positive difference between the strike price on the grant date and the book value of a share of the Company stock on the determination date, which is the last day of the plan year that is the end of the third plan year after the grant date of the award, unless otherwise specified by the

Committee. The strike price will be the price established by the Committee, which will not be less than 100% of the book value of a share on a specified date, as determined under generally accepted accounting principles (GAAP) as of the last day of the quarter ending on or immediately preceding the valuation date with adjustments made, in the sole discretion of the Committee, to exclude accumulated other comprehensive income. During the six months ended December 31, 2012 and 2011, phantom stock options totaling 243,473 and 235,350, respectively, were awarded under the plan. The Company recognized no compensation costs related to the phantom stock option plan during the three months ended December 31, 2012 and \$67,800 during the three months ended December 31, 2011. The Company recognized \$106,800 and \$135,600 in compensation costs related to the phantom stock option plan during the six months ended December 31, 2012 and 2011, respectively.

(12) Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income as of December 31, 2012 and June 30, 2012 are presented in the following table:

| (in thousands) | | |
|--|----------------------|------------------|
| Accumulated other comprehensive income | December 31, 2012 | June 30, 2012 |
| Unrealized gains on available-for-sale securities, net of tax | \$1,214 | \$1,280 |
| Unrealized loss on securities transferred to held-to-maturity, net of tax | (23) | (35) |
| Net losses and past service liability for defined benefit plan, net of tax | (1,057) | (1,072) |
| Accumulated other comprehensive income | \$134 | \$173 |

(13) Subsequent events

On January 16, 2013, the Board of Directors declared a cash dividend for the quarter ended December 31, 2012 of \$0.175 per share on Greene County Bancorp, Inc.'s common stock. The dividend reflects an annual cash dividend rate of \$0.70 per share, which was the same as the dividend declared during the previous quarter. The dividend will be payable to stockholders of record as of February 15, 2013, and will be paid on April 1, 2013. Historically, the MHC has waived its right to receive dividends declared on its shares of the Company's common stock, and the MHC has waived the receipt of dividends for the quarter end December 31, 2012, subject to the non-objection of the Federal Reserve Board. The Federal Reserve Board has adopted interim final regulations that impose significant conditions and restrictions on the ability of mutual holding companies to waive the receipt of dividends from their subsidiaries. If the MHC obtains approval of its members at the special meeting of members to be held on February 19, 2013 to waive the dividend, it will then seek the non-objection of the Federal Reserve Board for such dividend waiver. If this non-objection is obtained prior to April 1, 2013, the expected payment date of the dividend, the MHC intends to waive its receipt of the 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, gains and losses from sales of securities, noninterest income and noninterest expense. Noninterest income consists primarily of fees and service charges. Greene County Bancorp, Inc.'s noninterest expense consists principally of compensation and employee benefits, occupancy, equipment and data processing, and other operating expenses. Results of operations are also significantly affected by general economic and competitive conditions, changes in interest rates, as well as government policies and actions of regulatory authorities. Additionally, future changes in applicable law, regulations or government policies may materially affect Greene County Bancorp, Inc.

To operate successfully, the Company must manage various types of risk, including but not limited to, market or interest rate risk, credit risk, transaction risk, liquidity risk, security risk, strategic risk, reputation risk and compliance risk. While all of these risks are important, the risks of greatest significance to the Company relate to market or interest rate risk and credit risk.

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

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

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

Special Note Regarding Forward-Looking Statements

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

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

- (a) changes in general market interest rates,
- (b) general economic conditions, including unemployment rates and real estate values,
- (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 December 31, 2012 and June 30, 2012

ASSETS

Total assets of the Company were \$624.5 million at December 31, 2012 as compared to \$590.7 million at June 30, 2012, an increase of \$33.8 million, or 5.7%. Securities available for sale and held to maturity amounted to \$245.4 million, or 39.3% of assets, at December 31, 2012 as compared to \$233.9 million, or 39.6% of assets, at June 30, 2012, an increase of \$11.5 million or 4.9%. Net loans grew by \$20.7 million, or 6.3%, to \$347.5 million at December 31, 2012 as compared to \$326.8 million at June 30, 2012.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents increased to \$10.4 million at December 31, 2012 as compared to \$7.7 million at June 30, 2012, an increase of \$2.7 million. The level of cash and cash equivalents is a function of the daily account clearing needs and deposit levels as well as activities associated with securities transactions and loan funding. All of these items can cause cash levels to fluctuate significantly on a daily basis.

SECURITIES

Securities, including both available-for-sale and held-to-maturity issues, increased \$11.5 million, or 4.9%, to \$245.4 million at December 31, 2012 as compared to \$233.9 million at June 30, 2012. Securities purchases totaled \$52.9 million during the six months ended December 31, 2012 and consisted of \$11.9 million of state and political subdivision securities, \$2.0 million of U.S. government sponsored enterprises, \$38.4 million of mortgage-backed securities and \$620,000 of other securities. Principal pay-downs and maturities amounted to \$40.7 million, of which \$23.1 million were mortgage-backed securities, \$10.6 million were state and political subdivision securities, \$4.0 million were U.S. Treasury securities, \$2.0 million were U.S. government agency securities and \$1.0 million were corporate securities. Greene County Bancorp, Inc. holds 27.9% of its securities portfolio at December 31, 2012 in state and political subdivision securities to take advantage of tax savings and to promote Greene County Bancorp, Inc.'s participation in the communities in which it operates. Mortgage-backed securities and asset-backed securities held within the portfolio do not contain sub-prime loans and are not exposed to the credit risk associated with such lending.

| (Dollars in thousands) | Carrying Value at | | | |
|--------------------------------|-------------------|--------------|---------------|--------------|
| | December 31, 2012 | | June 30, 2012 | |
| | Percentage | | Percentage | |
| | Balance | of portfolio | Balance | of portfolio |
| Securities available-for-sale: | | | | |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | | | | | |
|--|-----------|-------|---|-----------|-------|---|
| U.S. government sponsored enterprises | \$15,143 | 6.2 | % | \$17,398 | 7.4 | % |
| State and political subdivisions | 3,826 | 1.6 | | 4,899 | 2.1 | |
| Mortgage-backed securities-residential | 10,430 | 4.2 | | 19,106 | 8.2 | |
| Mortgage-backed securities-multifamily | 43,938 | 17.9 | | 40,663 | 17.4 | |
| Asset-backed securities | 18 | 0.0 | | 19 | 0.0 | |
| Corporate debt securities | 4,494 | 1.8 | | 5,316 | 2.3 | |
| Total debt securities | 77,849 | 31.7 | | 87,401 | 37.4 | |
| Equity securities and other | 138 | 0.1 | | 127 | 0.1 | |
| Total securities available-for-sale | 77,987 | 31.8 | | 87,528 | 37.5 | |
| Securities held-to-maturity: | | | | | | |
| U.S. treasury securities | 7,014 | 2.9 | | 11,029 | 4.7 | |
| U.S. government sponsored enterprises | 2,999 | 1.2 | | 998 | 0.4 | |
| State and political subdivisions | 64,521 | 26.3 | | 62,212 | 26.6 | |
| Mortgage-backed securities-residential | 36,318 | 14.8 | | 48,101 | 20.5 | |
| Mortgage-backed securities-multifamily | 55,637 | 22.6 | | 23,673 | 10.1 | |
| Other securities | 960 | 0.4 | | 376 | 0.2 | |
| Total securities held-to-maturity | 167,449 | 68.2 | | 146,389 | 62.5 | |
| Total securities | \$245,436 | 100.0 | % | \$233,917 | 100.0 | % |

LOANS

Net loans receivable increased to \$347.5 million at December 31, 2012 from \$326.8 million at June 30, 2012, an increase of \$20.7 million, or 6.3%. The loan growth experienced during the six months primarily consisted of \$5.5 million in nonresidential real estate loans, \$11.5 million in residential mortgage loans, \$2.3 million in construction loans, \$111,000 in multi-family mortgage loans and \$2.0 million in non-mortgage loans, and was partially offset by a \$587,000 increase in the allowance for loan loss. The continued low interest rate environment and strong customer satisfaction from personal service continued to enhance loan growth. If long term rates begin to rise, the Company anticipates some slow down in new loan demand as well as refinancing activities. The Bank of Greene County continues to use a conservative underwriting policy in regard to all loan originations, and does not engage in sub-prime lending or other exotic loan products. A significant decline in home values, however, in the Company's markets could have a negative effect on the consolidated results of operations, as any such decline in home values would likely lead to a decrease in residential real estate loans and new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and the residential real estate loan portfolios and result in increased losses in these portfolios. Updated appraisals are obtained on loans when there is a reason to believe that there has been a change in the borrower's ability to repay the loan principal and interest, generally, when a loan is in a delinquent status. Additionally, if an existing loan is to be modified or refinanced, generally, an appraisal is ordered to ensure continued collateral adequacy.

| | | December 31, 2012 | | | June 30, 2012 | |
|------------------------|-----------|-------------------|-------------------------|-----------|---------------|-------------------------|
| (Dollars in thousands) | | Balance | Percentage of Portfolio | | Balance | Percentage of Portfolio |
| Real estate mortgages: | | | | | | |
| Residential | \$204,851 | 57.9 | % | \$193,378 | 58.2 | % |
| Nonresidential | 86,257 | 24.4 | | 80,794 | 24.3 | |
| Construction and land | 6,547 | 1.9 | | 4,190 | 1.2 | |
| Multi-family | 5,633 | 1.6 | | 5,522 | 1.7 | |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | | | |
|-----------------------------|-----------|---------|-----------|---------|
| Total real estate mortgages | 303,288 | 85.8 | 283,884 | 85.4 |
| Home equity loans | 22,667 | 6.4 | 22,808 | 6.9 |
| Consumer installment | 4,306 | 1.2 | 4,070 | 1.2 |
| Commercial loans | 23,451 | 6.6 | 21,688 | 6.5 |
| Total gross loans | 353,712 | 100.0 % | 332,450 | 100.0 % |
| Deferred fees and costs | 599 | | 478 | |
| Allowance for loan losses | (6,764) | | (6,177) | |
| Total net loans | \$347,547 | | \$326,751 | |

ALLOWANCE FOR LOAN LOSSES

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

Analysis of allowance for loan losses activity

| (Dollars in thousands) | Six months ended December 31, | |
|--|----------------------------------|---------|
| | 2012 | 2011 |
| Balance at the beginning of the period | \$6,177 | \$5,069 |
| Charge-offs: | | |
| Residential real estate mortgages | 273 | 58 |
| Nonresidential mortgage | 20 | 212 |
| Consumer installment | 132 | 118 |
| Commercial loans | 15 | - |
| Total loans charged off | 440 | 388 |
| Recoveries: | | |

| | | | | |
|--|---------|---------|-------|---|
| Residential real estate mortgages | - | 4 | | |
| Consumer installment | 42 | 34 | | |
| Commercial loans | - | 2 | | |
| Total recoveries | 42 | 40 | | |
| Net charge-offs | 398 | 348 | | |
| Provisions charged to operations | 985 | 896 | | |
| Balance at the end of the period | \$6,764 | \$5,617 | | |
| Ratio of annualized net charge-offs to average loans outstanding | 0.24 | % | 0.23 | % |
| Ratio of annualized net charge-offs to nonperforming assets | 11.03 | % | 9.18 | % |
| Allowance for loan losses to nonperforming loans | 95.60 | % | 77.83 | % |
| Allowance for loan losses to total loans receivable | 1.91 | % | 1.77 | % |

Nonaccrual Loans and Nonperforming Assets

Management places loans on nonaccrual status once the loans have become 90 days or more delinquent or sooner if there is a significant reason for management to believe the collectability is questionable and, therefore, interest on the loan will no longer be recognized on an accrual basis. The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic "Receivables – Loan Impairment." Management may consider a loan impaired once it is classified as nonaccrual and when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring. It should be noted that management does not evaluate all loans individually for impairment. Generally, The Bank of Greene County considers residential mortgages, home equity loans and installment loans as small, homogeneous loans, which are evaluated for impairment collectively based on historical loan experience and other factors. In contrast, large commercial mortgage, construction, multi-family, business loans and select larger balance residential mortgage loans are viewed individually and considered impaired if it is probable that The Bank of Greene County will not be able to collect scheduled payments of principal and interest when due, according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the underlying collateral. The majority of The Bank of Greene County loans, including most nonaccrual loans, are small homogenous loan types adequately supported by collateral. Management considers the payment status of loans in the process of evaluating the adequacy of the allowance for loan losses among other factors. Loans that are either delinquent a minimum of 60 days or are on nonaccrual status, and are not individually considered impaired, are either designated as Special Mention or Substandard, and the allocation of the allowance for loan loss is based upon the risk associated with such designation. For further discussion and detail regarding the Allowance for Loan Losses and impaired loans please refer to Note (5) Credit Quality of Loans and Allowance for Loan Losses. A loan does not have to be 90 days delinquent in order to be classified as nonperforming. Foreclosed real estate is considered to be a nonperforming asset.

Analysis of Nonaccrual Loans and Nonperforming Assets

| | At December 31, 2012 | At June 30, 2012 |
|------------------------|-------------------------------|---------------------|
| (Dollars in thousands) | | |
| Nonaccrual loans: | | |
| Real estate mortgages: | | |
| Residential | \$3,164 | \$4,206 |

Edgar Filing: GREENE COUNTY BANCORP INC - Form 10-Q

| | | |
|--|---------|---------|
| Nonresidential | 2,199 | 1,868 |
| Multifamily | 609 | 431 |
| Home equity loans | 386 | 60 |
| Consumer installment loans | 22 | 25 |
| Commercial loans | 342 | 303 |
| Total nonaccrual loans | 6,722 | 6,893 |
| Accruing loans delinquent 90 days or more | | |
| Residential | 353 | 83 |
| Home Equity | - | 41 |
| Total accruing loans delinquent 90 days or more | 353 | 124 |
| Foreclosed real estate: | | |
| Residential | 100 | 60 |
| Nonresidential | 40 | 200 |
| Foreclosed real estate | 140 | 260 |
| Total nonperforming assets | \$7,215 | \$7,277 |
| Total nonperforming assets as a percentage of total assets | 1.16 | % 1.23 |
| Total nonperforming loans to net loans | 2.04 | % 2.15 |

The table below details additional information related to nonaccrual loans for the six months ended December 31:

| | For the six months ended December 31, | | For the three months ended December 31 | |
|--|--|-------|--|-------|
| (In thousands) | 2012 | 2011 | 2012 | 2011 |
| Interest income that would have been recorded if loans had been performing in accordance with original terms | \$275 | \$314 | \$125 | \$137 |
| Interest income that was recorded on nonaccrual loans | 126 | 143 | 72 | 76 |

The Company identifies impaired loans and measures the impairment in accordance with FASB ASC subtopic “Receivables – Loan Impairment”. A loan is considered impaired when it is probable that the borrower will be unable to repay the loan according to the original contractual terms of the loan agreement or the loan is restructured in a troubled debt restructuring.

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

| (In thousands) | December 31, 2012 | June 30, 2012 |
|---|----------------------|------------------|
| Balance of impaired loans, with a valuation allowance | \$ 5,859 | \$ 2,913 |
| Allowances relating to impaired loans included in allowance for loan losses | 1,166 | 773 |
| Balance of impaired loans, without a valuation allowance | 2,334 | 1,794 |
| Average balance of impaired loans for the six months ended | 7,788 | 3,282 |
| Interest income recorded on impaired loans during the six months ended | 104 | 178 |

Nonperforming assets amounted to \$7.2 million at December 31, 2012 and \$7.3 million as of June 30, 2012, a decrease of approximately \$62,000 or 0.9%, and total impaired loans amounted to \$8.2 million at December 31, 2012 compared to \$4.7 million at June 30, 2012, an increase of \$3.5 million or 74.4%. This growth has been the result of adverse changes within the economy and increases in local unemployment. This growth is also due to a change in the Company’s policy in which it lowered the threshold of loans individually evaluated for impairment. Loans on nonaccrual status totaled \$6.7 million at December 31, 2012 of which \$3.2 million were in the process of foreclosure. Included in nonaccrual loans, \$2.4 million were less than 90 days past due at December 31, 2012, but

have a recent history of delinquency greater than 90 days past due. These loans will be returned to accrual status once they have demonstrated a history of timely payments. Included in total loans past due, were \$1.1 million of loans which were making payments pursuant to forbearance agreements. Under the forbearance agreements, the customers have made arrangements with the Bank to bring the loans current over a specified period of time (resulting in an insignificant delay in repayment). During this term of the forbearance agreement, the Bank has agreed not to continue foreclosure proceedings. While the Bank makes every reasonable effort to work with the borrowers to collect amounts due, the number of loans in process of foreclosure has grown substantially over the past several years. The growth in nonperforming assets is also due in part to the extended length of time required to meet all of the legal requirements mandated by New York State law prior to a foreclosure sale, which may be in excess of two years.

DEPOSITS

Total deposits increased to \$545.7 million at December 31, 2012 from \$511.9 million at June 30, 2012, an increase of \$33.8 million, or 6.6%. This increase was partially the result of an increase of \$13.5 million in balances at Greene County Commercial Bank due primarily to the annual collection of taxes by several local school districts. Interest bearing checking accounts (NOW accounts) increased \$10.5 million, or 5.9%, to \$189.5 million at December 31, 2012 as compared to \$179.0 million at June 30, 2012. Money market deposits increased \$10.1 million, or 13.4%, savings deposits increased \$19.4 million, or 14.6%, and noninterest bearing deposits increased \$1.5 million or 2.9% between June 30, 2012 and December 31, 2012. Partially offsetting these increases was a decrease in certificates of deposit of \$7.8 million, or 10.9%, from \$72.0 million at June 30, 2012 to \$64.2 million at December 31, 2012.

(Dollars in thousands)

| | At December 31, 2012 | Percentage of Portfolio | | At June 30, 2012 | Percentage of Portfolio | |
|------------------------------|-------------------------------|----------------------------|---|------------------------|----------------------------|---|
| Noninterest bearing deposits | \$54,298 | 10.0 | % | \$52,783 | 10.3 | % |
| Certificates of deposit | 64,219 | 11.8 | | 72,045 | 14.1 | |
| Savings deposits | 152,254 | 27.9 | | 132,822 | 25.9 | |
| Money market deposits | 85,373 | 15.6 | | 75,265 | 14.7 | |
| NOW deposits | 189,546 | 34.7 | | 179,022 | 35.0 | |
| Total deposits | \$545,690 | 100.0 | % | \$511,937 | 100.0 | % |

BORROWINGS

At December 31, 2012, The Bank of Greene County had pledged approximately \$178.1 million of its residential mortgage portfolio as collateral for borrowing at the Federal Home Loan Bank ("FHLB"). The maximum amount of funding available from the FHLB through either overnight advances or term borrowings was \$146.0 million at December 31, 2012, of which \$6.0 million in term borrowings were outstanding at December 31, 2012. There were \$14.3 million in overnight borrowings outstanding at December 31, 2012. Interest rates on overnight borrowings are determined at the time of borrowing. Term borrowings consisted of \$1.0 million of fixed rate, fixed term advances with a weighted average rate of 3.74% and a weighted average maturity of 1 month. The remaining \$5.0 million of borrowings, which carried a 3.64% interest rate and a maturity of 9 months at December 31, 2012, is unilaterally convertible by the FHLB under certain market interest rate scenarios, including three-month LIBOR at or above 7.50%, into replacement advances for the same or lesser principal amount based on the then current market rates. If the Bank chooses not to accept the replacement funding, the Bank must repay this convertible advance, including any accrued interest, on the interest payment date.

The Bank also pledges securities as collateral at the Federal Reserve Bank discount window for overnight borrowings. At December 31, 2012, approximately \$4.5 million of collateral was available to be pledged against

potential borrowings at the Federal Reserve Bank discount window. There were no balances outstanding with the Federal Reserve Bank at December 31, 2012.

The Bank of Greene County has established an unsecured line of credit with Atlantic Central Bankers Bank for \$6.0 million. The line of credit provides for overnight borrowing and the interest rate is determined at the time of the borrowing. At December 31, 2012 and 2011 there were no balances outstanding with Atlantic Central Bankers Bank, and there was no activity during the six months ended December 31, 2012 and 2011.

Scheduled maturities of term borrowings at December 31, 2012 were as follows:

(In thousands)

Fiscal year end

| | |
|------|-------|
| 2013 | 1,000 |
|------|-------|

| | |
|------|-------|
| 2014 | 5,000 |
|------|-------|

| | |
|--|----------|
| | \$ 6,000 |
|--|----------|

EQUITY

Shareholders' equity increased to \$54.6 million at December 31, 2012 from \$52.7 million at June 30, 2012, as net income of \$3.4 million was partially offset by dividends declared and paid of \$1.5 million. Additionally, shareholders' equity decreased \$39,000 as a result of a decrease in other comprehensive income. The remaining change in equity, representing a \$38,000 increase, was the result of options exercised under the Company's 2008 Stock Option Plan.

Comparison of Operating Results for the Six and Three Months Ended December 31, 2012 and 2011

Average Balance Sheet

The following table sets forth certain information relating to Greene County Bancorp, Inc. for the six and three months ended December 31, 2012 and 2011. For the periods indicated, the total dollar amount of interest income from average interest earning assets and the resultant yields, as well as the interest expense on average interest bearing liabilities, are expressed both in dollars and rates. No tax equivalent adjustments were made. Average balances are based on daily averages. Average loan balances include non-performing loans. The loan yields include net amortization of certain deferred fees and costs that are considered adjustments to yields.

Six Months Ended December 31, 2012 and 2011

| (Dollars in thousands) | 2012 Average Outstanding Balance | 2012 Interest Earned/ Paid | 2012 Average Yield/ Rate | 2011 Average Outstanding Balance | 2011 Interest Earned/ Paid | 2011 Average Yield/ Rate |
|---|---|-------------------------------------|-----------------------------------|---|-------------------------------------|-----------------------------------|
| Interest earning assets: | | | | | | |
| Loans receivable, net ¹ | \$343,212 | \$9,168 | 5.34% | \$311,308 | \$8,943 | 5.75% |
| Securities ² | 229,444 | 3,017 | 2.63 | 206,382 | 3,374 | 3.27 |
| Interest bearing bank balances and federal funds | 12,340 | 22 | 0.36 | 12,155 | 14 | 0.23 |
| FHLB stock | 1,326 | 31 | 4.68 | 1,516 | 32 | 4.22 |
| Total interest earning assets | 586,322 | 12,238 | 4.17% | 531,361 | 12,363 | 4.65% |
| Cash and due from banks | 8,050 | | | 7,362 | | |
| Allowance for loan losses | (6,417) | | | (5,326) | | |
| Other non-interest earning assets | 17,705 | | | 19,177 | | |
| Total assets | \$605,660 | | | \$552,574 | | |
| Interest bearing liabilities: | | | | | | |
| Savings and money market deposits | \$224,245 | \$561 | 0.50% | \$192,078 | \$591 | 0.62% |
| NOW deposits | 194,201 | 498 | 0.51 | 156,393 | 472 | 0.60 |
| Certificates of deposit | 67,775 | 278 | 0.82 | 85,153 | 651 | 1.53 |
| Borrowings | 11,723 | 139 | 2.37 | 17,417 | 227 | 2.61 |
| Total interest bearing liabilities | 497,944 | 1,476 | 0.59% | 451,041 | 1,941 | 0.86% |
| Non-interest bearing deposits | 50,558 | | | 49,034 | | |
| Other non-interest bearing liabilities | 3,485 | | | 3,242 | | |
| Shareholders' equity | 53,673 | | | 49,257 | | |
| Total liabilities and equity | \$605,660 | | | \$552,574 | | |
| Net interest income | | \$10,762 | | | \$10,422 | |
| Net interest rate spread | | | 3.58% | | | 3.79% |
| Net Earning Assets | \$88,378 | | | \$80,320 | | |
| Net interest margin | | | 3.67% | | | 3.92% |

| | | |
|--|---------|---------|
| Average interest earning assets to average interest bearing liabilities | 117.75% | 117.81% |
|--|---------|---------|

1Calculated net of deferred loan fees and costs, loan discounts, and loans in process.

2Includes tax-free securities, mortgage-backed securities, asset-backed securities and long term certificates of deposit.

Three Months Ended December 31, 2012 and 2011

| (Dollars in thousands) | 2012 | 2012 | 2012 | 2011 | 2011 | 2011 |
|--|-------------|----------|---------|-------------|----------|---------|
| | Average | Interest | Average | Average | Interest | Average |
| | Outstanding | Earned/ | Yield/ | Outstanding | Earned/ | Yield/ |
| | Balance | Paid | Rate | Balance | Paid | Rate |
| Interest earning assets: | | | | | | |
| Loans receivable, net ¹ | \$349,120 | \$4,590 | 5.26% | \$313,985 | \$4,475 | 5.70% |
| Securities ² | 231,515 | 1,481 | 2.56 | 201,488 | 1,653 | 3.28 |
| Interest bearing bank balances | | | | | | |
| and federal funds | 22,959 | 18 | 0.30 | 21,384 | 13 | 0.24 |
| FHLB stock | 1,177 | 18 | 6.12 | 1,273 | 17 | 5.34 |
| Total interest earning assets | 604,771 | 6,107 | 4.04% | 538,130 | 6,158 | 4.58% |
| Cash and due from banks | 8,588 | | | 7,255 | | |
| Allowance for loan losses | (6,577) | | | (5,516) | | |
| Other non-interest earning assets | 17,345 | | | 19,006 | | |
| Total assets | \$624,127 | | | \$558,875 | | |
| Interest bearing liabilities: | | | | | | |
| Savings and money market deposits | \$234,131 | \$287 | 0.49% | \$193,787 | \$296 | 0.61% |
| NOW deposits | 207,212 | 259 | 0.50 | 167,994 | 250 | 0.60 |
| Certificates of deposit | 65,874 | 127 | 0.77 | 82,620 | 281 | 1.36 |
| Borrowings | 8,402 | 64 | 3.05 | 12,000 | 108 | 3.60 |
| Total interest bearing liabilities | 515,619 | 737 | 0.57% | 456,401 | 935 | 0.82% |
| Non-interest bearing deposits | 51,430 | | | 49,708 | | |
| Other non-interest bearing liabilities | 2,801 | | | 2,833 | | |
| Shareholders' equity | 54,277 | | | 49,933 | | |
| Total liabilities and equity | \$624,127 | | | \$558,875 | | |
| Net interest income | | \$5,370 | | | \$5,223 | |
| Net interest rate spread | | | 3.47% | | | 3.76% |
| Net Earning Assets | \$89,152 | | | \$81,729 | | |
| Net interest margin | | | 3.55% | | | 3.88% |
| Average interest earning assets to average interest bearing liabilities | | | 117.29% | | | 117.91% |

1Calculated net of deferred loan fees and costs, loan discounts, and loans in process.

2Includes tax-free securities, mortgage-backed securities, asset-backed securities and long term certificates of deposit.

Rate / Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected Greene County Bancorp, Inc.'s interest income and interest expense during the periods indicated. Information is provided in each category with respect to:

- (i) Change attributable to changes in volume (changes in volume multiplied by prior rate);
- (ii) Change attributable to changes in rate (changes in rate multiplied by prior volume); and
- (iii) The net change.

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

| (Dollars in thousands) | Six Months Ended December 31, 2012 versus 2011 | | | Three Months Ended December 31, 2012 versus 2011 | | |
|---------------------------------------|--|-----------|------------|--|-----------|------------|
| | Increase/(Decrease) Due to | | Total | Increase/(Decrease) Due to | | Total |
| | Volume | Rate | (Decrease) | Volume | Rate | (Decrease) |
| Interest-earning assets: | | | | | | |
| Loans receivable, net ¹ | \$ 885 | \$ (660) | \$ 225 | \$ 477 | \$ (362) | \$ 115 |
| Securities ² | 350 | (707) | (357) | 224 | (395) | (171) |
| Interest-bearing bank balances | | | | | | |
| and federal funds | 0 | 8 | 8 | 1 | 3 | 4 |
| FHLB stock | (4) | 3 | (1) | (1) | 2 | 1 |
| Total interest-earning assets | 1,231 | (1,356) | (125) | 701 | (752) | (51) |
| Interest-bearing liabilities: | | | | | | |
| Savings and money market deposits | 93 | (123) | (30) | 55 | (64) | (9) |
| NOW deposits | 103 | (77) | 26 | 54 | (45) | 9 |
| Certificates of deposit | (114) | (259) | (373) | (49) | (105) | (154) |
| Borrowings | (69) | (19) | (88) | (29) | (15) | (44) |
| Total interest-bearing liabilities | 13 | (478) | (465) | 31 | (229) | (198) |
| Net interest income | \$ 1,218 | \$ (878) | \$ 340 | \$ 670 | \$ (523) | \$ 147 |

¹ Calculated net of deferred loan fees, loan discounts, and loans in process.

² Includes tax-free securities, mortgage-backed securities, asset-backed securities and long term certificates of deposit.

GENERAL

Return on average assets and return on average equity are common methods of measuring operating results. Annualized return on average assets increased to 1.13% for the six months ended December 31, 2012 as compared to 1.09% for the six months ended December 31, 2011, and was 1.07% for both the quarters ended December 31, 2012 and 2011. Annualized return on average equity increased to 12.79% for the six months and 12.30% for the quarter ended December 31, 2012 as compared to 12.20% for the six months and 11.98% for the

quarter ended December 31, 2011. The increase in return on average assets and return on average equity was primarily the result of higher net interest income, higher noninterest income and lower noninterest expense. Net income amounted to \$3.4 million and \$3.0 million for the six months ended December 31, 2012 and 2011, respectively, an increase of \$429,000 or 14.3% and amounted to \$1.7 million and \$1.5 million for the quarters ended December 31, 2012 and 2011, respectively, an increase of \$174,000 or 11.6%. Average assets increased \$53.1 million, or 9.6% to \$605.7 million for the six months ended December 31, 2012 as compared to \$552.6 million for the six months ended December 31, 2011. Average equity increased \$4.4 million, or 8.9%, to \$53.7 million for the six months ended December 31, 2012 as compared to \$49.3 million for the six months ended December 31, 2011. Average assets increased \$65.2 million, or 11.7% to \$624.1 million for the quarter ended December 31, 2012 as compared to \$558.9 million for the quarter ended December 31, 2011. Average equity increased \$4.4 million, or 8.8% to \$54.3 million for the quarter ended December 31, 2012 as compared to \$49.9 million for the quarter ended December 31, 2011.

INTEREST INCOME

Interest income amounted to \$12.2 million for the six months ended December 31, 2012 as compared to \$12.4 million for the six months ended December 31, 2011, a decrease of \$125,000 or 1.0%. Interest income amounted to \$6.1 million for the quarter ended December 31, 2012 as compared to \$6.2 million for the three months ended December 31, 2011, a decrease of \$51,000 or 0.83%. The combined decrease in loan and securities yields had the greatest impact on interest income when comparing the six months and quarters ended December 31, 2012 and 2011, and was partially offset by increases in loan and securities volumes. Average loan balances increased \$31.9 million for the six months ended December 31, 2012 as compared to December 31, 2011 while the yield decreased by 41 basis points when comparing the same periods. Average loan balances increased \$35.1 million for the quarter ended December 31, 2012 as compared to the quarter ended December 31, 2011 and the yield decreased by 44 basis points when comparing the same periods. Average securities balances increased \$23.1 million for the six months ended December 31, 2012 as compared to December 31, 2011 while the yield decreased by 64 basis points when comparing the same periods. Average securities balances increased \$30.0 million for the quarter ended December 31, 2012 as compared to the quarter ended December 31, 2011 and the yield decreased 72 basis points when comparing the same periods.

INTEREST EXPENSE

Interest expense amounted to \$1.5 million for the six months ended December 31, 2012, as compared to \$1.9 million for the six months ended December 31, 2011, a decrease of \$465,000. Interest expense amounted to \$737,000 for the quarter ended December 31, 2012, as compared to \$935,000 for the quarter ended December 31, 2011, a decrease of \$198,000. Decreases in rates on interest-bearing liabilities had the greatest impact on overall interest expense for the quarter and six months ended December 31, 2012 as compared to December 31, 2011.

As illustrated in the Rate/Volume Analysis Table, interest expense was reduced \$465,000 and \$198,000 when comparing the six months and quarters ended December 31, 2012 and 2011, respectively, due to decreases of 27 basis points and 25 basis points, respectively, in the average rate on interest-bearing liabilities in those same periods. Also, interest expense was further reduced as a result of a shift in deposit balances from higher-costing certificates of deposit and borrowed funds, to lower-costing savings and money market deposits.

The average rate paid on NOW deposits decreased 9 basis points and 10 basis points, respectively, when comparing the six months and quarters ended December 31, 2012 and 2011. The average balance of such accounts grew by \$37.8 million for the six months ended December 31, 2012 and increased by \$39.2 million for the quarter ended December 31, 2012. The average balance of certificates of deposit decreased by \$17.4 million and the average rate paid decreased by 71 basis points when comparing the six months ended December 31, 2012 and 2011. The average balance of certificates of deposit decreased by \$16.7 million and the average rate paid decreased by 59 basis points when comparing the quarters ended December 31, 2012 and 2011. The average balance of savings and money market deposits increased by \$32.2 million when comparing the six months ended December 31, 2012 and 2011 and increased by \$40.3 million when comparing the quarters ended December 31, 2012 and 2011. The average rate paid on savings and money markets decreased 12 basis points when comparing the six months and quarters ended December 31, 2012 and 2011. The average balance of borrowings decreased \$5.7 million and \$3.6 million when comparing the six months and quarters ended December 31, 2012 and 2011. The rate paid on these borrowings decreased 24 basis points and 55 basis points when comparing the same periods.

NET INTEREST INCOME

Net interest income increased \$340,000 to \$10.8 million for the six months ended December 31, 2012 compared to \$10.4 million for the six months ended December 31, 2011, and increased \$147,000 to \$5.4 million for the quarter ended December 31, 2012 compared to \$5.2 million for the quarter ended December 31, 2011. The increase in

average balances of loans and securities, along with a decrease in rates paid on deposit accounts, primarily led to an increase in net interest income when comparing the six months and quarters ended December 31, 2012 and 2011. Net interest rate spread decreased 21 basis points to 3.58% for the six months ended December 31, 2012 from 3.79% for the six months ended December 31, 2011, and decreased 29 basis points to 3.47% for the three months ended December 31, 2012 from 3.76% for the three months ended December 31, 2011. Net interest margin decreased 25 basis points to 3.67% for the six months ended December 31, 2012 from 3.92% for the six months ended December 31, 2011, and decreased 33 basis points to 3.55% for the quarter ended December 31, 2012 as compared to 3.88% for the quarter ended December 31, 2011.

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.

PROVISION FOR LOAN LOSSES

Management continues to closely monitor asset quality and adjust the level of the allowance for loan losses when necessary. The amount recognized for the provision for loan losses is determined by management based on its ongoing analysis of the adequacy of the allowance for loan losses. During the six months ended December 31, 2012 and 2011, the Company increased the level of allowance for loan losses due to the continued high level of nonperforming assets and loan charge-offs resulting from a decline in the overall economy, and an increase in local unemployment. As a result, the provision for loan losses amounted to \$985,000 and \$896,000 for the six months ended December 31, 2012 and 2011, respectively, an increase of \$89,000 or 9.9%. The provision for loan losses amounted to \$541,000 and \$422,000 for the quarters ended December 31, 2012 and 2011, respectively. The level of allowance for loan losses to total loans receivable increased to 1.91% at December 31, 2012 compared to 1.86% at June 30, 2012. Nonperforming loans amounted to \$7.1 million and \$7.0 million at December 31, 2012 and June 30, 2012, respectively, an increase of \$58,000 or 0.8%. Net charge-offs amounted to \$398,000 and \$348,000 for the six months ended December 31, 2012 and 2011, respectively, an increase of \$50,000. At December 31, 2012, nonperforming assets were 1.16% of total assets and nonperforming loans were 2.04% of net loans. The Company has not been an originator of "no documentation" mortgage loans and the loan portfolio does not include any mortgage loans that the Company classifies as sub-prime.

NONINTEREST INCOME

Noninterest income increased \$153,000 and \$88,000 when comparing the six months and quarters ended December 31, 2012 and 2011, respectively. Noninterest income amounted to \$2.6 million and \$1.3 million for the six months and quarter ended December 31, 2012, respectively. These increases were primarily the result of higher service charges on deposit accounts due to growth in the number of deposit accounts, as well as an increase in fees earned through investment services.

NONINTEREST EXPENSE

Noninterest expense decreased \$7,000 and \$22,000 when comparing the six months and quarters ended December 31, 2012 and 2011, respectively. These decreases were primarily due to a decrease in legal and professional fees, equipment and furniture expense, occupancy expense, and other expenses. The decrease in legal and professional fees of \$68,000 and \$43,000 when comparing the six months and quarters ended December 31, 2012 and 2011, respectively, were the result of lower costs for legal services related to loans in process of foreclosure and consulting

services related to the implementation of strategic objectives. The decrease in equipment and furniture expense was the result of lower depreciation as assets previously capitalized have become fully depreciated. The decrease in other expenses was the result of the recognition of a loss on foreclosed assets of \$27,700 and \$131,500 for the six months ended December 31, 2012 and 2011, respectively. Partially offsetting these decreases were increases in salaries and employee benefits, service and data processing fees. The increase in salaries and employee benefits of \$129,000 and \$63,000 when comparing the six months and three months ended December 31, 2012 and 2011, respectively, was primarily the result of an increase in the number of employees. Included in the increases in service and data processing fees of \$39,000 and \$13,000 when comparing the six months and three months ended December 31, 2012 and 2011, respectively, were increased costs associated with the increase in the number of accounts with a debit card.

INCOME TAXES

The provision for income taxes directly reflects the expected tax associated with the pre-tax income generated for the given year and certain regulatory requirements. The effective tax rate was 29.8% and 30.4% for the three and six months ended December 31, 2012, compared to 33.3% and 33.6% for the three and six months ended December 31, 2011. The decrease in the effective tax rate is related to benefits derived from tax reduction strategies implemented between the periods reported.

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 and Atlantic Central Bankers 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.

Mortgage loan commitments, including construction and land loan commitments, totaled \$13.2 million at December 31, 2012. The unused portion of overdraft lines of credit amounted to \$732,000, the unused portion of home equity lines of credit amounted to \$7.5 million, and the unused portion of commercial lines of credit and commercial loan commitments amounted to \$10.2 million at December 31, 2012. 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.

The Bank of Greene County and Greene County Commercial Bank met all applicable regulatory capital requirements at December 31, 2012 and June 30, 2012. Consolidated shareholders' equity represented 8.7% of total assets at December 31, 2012 and 8.9% of total assets of June 30, 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Item 4. 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.

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 1A. Risk Factors

Not applicable to smaller reporting companies.

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

- a) Not applicable
- b) Not applicable
- c) Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

- a) Not applicable

- b) There were no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors during the period covered by this Form 10-Q.

Item 6. Exhibits

Exhibits

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

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

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

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

101 The following materials from Greene County Bancorp, Inc. Form 10-Q for the quarter ended September 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Financial Condition, (iii) Consolidated Statements of Cash Flows and (iv) related notes, tagged as blocks of text.

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, 2013

By: /s/ Donald E. Gibson

Donald E. Gibson
President and Chief Executive Officer

Date: February 14, 2013

By: /s/ Michelle M. Plummer

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

EXHIBIT 31.1

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

I, Donald E. Gibson, certify that:

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

Date: February 14, 2013
Gibson

Donald E. Gibson

/s/ Donald E.

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

Date: February 14, 2013
Plummer

/s/ Michelle M.

Michelle M. Plummer, CPA

Executive Vice President, Chief Financial Officer and Chief Operating Officer

EXHIBIT 32.1

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

Donald E. Gibson, President and Chief Executive Officer, of Greene County Bancorp, Inc. (the “Company”) certifies in his capacity as an officer of the Company that he has reviewed the Quarterly Report of the Company on Form 10-Q for the quarter ended December 31, 2012 and that to the best of his knowledge:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the report fairly presents, in all material respects, the consolidated financial condition and consolidated 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, 2013
Gibson

Donald E. Gibson

/s/ Donald E.

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-Q for the quarter ended December 31, 2012 and that to the best of her knowledge:

1. the report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the report fairly presents, in all material respects, the consolidated financial condition and consolidated 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, 2013
Plummer

/s/ Michelle M.

Michelle M. Plummer, CPA

Executive Vice President, Chief Financial Officer and Chief Operating Officer
