

GREENE COUNTY BANCORP INC
Form 10KSB
September 29, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended June 30, 2003
OR
 TRANSITION REPORT
UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transaction period from _____ to

Commission File Number: 0-25165

GREENE COUNTY BANCORP, INC.
(Name of Small Business Issuer in its Charter)

United States 14-1809721 (I.R.S. Employer
(State or Other Jurisdiction of Incorporation or Organization) Identification No.)

302 Main Street, Catskill, New York 12414
(Address of Principal Executive Office) (Zip Code)

(518) 943-2600
(Issuer 's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:
None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.10 per share
(Title of Class)

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 past twelve 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. []

The Registrant 's revenues for the fiscal year ended June 30, 2003 were \$15,535,945.

As of September 17, 2003, there were issued and outstanding 2,041,543 shares of the Registrant's common stock of which 711,135 were shares of voting stock held by non-affiliates of the Registrant. Computed by reference to the closing price of Common Stock of \$29.00 on such date, the aggregate value of stock held by non-affiliates was \$20,622,915.

DOCUMENTS INCORPORATED BY REFERENCE

1. Sections of Annual Report to Shareholders for the fiscal year ended June 30, 2003 (Part II).
2. Proxy Statement for the 2003 Annual Meeting of Shareholders (Part III)

Transitional Small Business Disclosure Formant Yes _____ No X

GREENE COUNTY BANCORP, INC. AND SUBSIDIARY
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PART I

ITEM 1. Description of Business

General

Greene County Bancorp, Inc. operates as the federally chartered holding company of The Bank of Greene County, a New York-chartered savings bank. A majority of Greene County Bancorp, Inc. s common stock (53.5%) is held by Greene County Bancorp, MHC, a federally chartered mutual holding company. The remaining shares of Greene County Bancorp, Inc. are owned by public stockholders and The Bank of Greene County s Employee Stock Ownership Plan.

Greene County Bancorp, Inc.

Greene County Bancorp, Inc. was organized in December of 1998 at the direction of the Board of Trustees of The Bank of Greene County (formerly Greene County Savings Bank) for the purpose of acting as the holding company of The Bank of Greene County. In 2001, Greene County Bancorp, Inc. converted its charter from a Delaware corporation regulated by the New York Superintendent of Banks and the Board of Governors of the Federal Reserve System to a federal corporation regulated by the Office of Thrift Supervision. At June 30, 2003, Greene County Bancorp, Inc. s assets consisted primarily of the outstanding capital stock of The Bank of Greene County and cash and investments of \$4.5 million. At June 30, 2003, 889,227 shares of Greene County Bancorp, Inc. s common stock, par value \$0.10 per share, were held by the public including executive officers and directors, 111,292 shares were held as Treasury stock and 1,152,316 shares were held by Greene County Bancorp, MHC, Greene County Bancorp, Inc. s mutual holding company. Greene County Bancorp, Inc. s principal business is overseeing and directing the business of The Bank of Greene County and various Greene County Bancorp, Inc. investment securities.

At June 30, 2003, Greene County Bancorp, Inc. had consolidated total assets of \$257.0 million, consolidated total deposits of \$218.0 million, consolidated borrowings from Federal Home Loan Bank of \$8.0 million and consolidated total equity of \$29.1 million.

Greene County Bancorp, Inc. s administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

The Bank of Greene County

The Bank of Greene County was organized in 1889 as The Building and Loan Association of Catskill, a New York-chartered savings and loan association. In 1974, The Bank of Greene County converted to a New York mutual savings bank under the name Greene County Savings Bank. In conjunction with the reorganization and the offering completed in December 1998, which resulted in the organization of Greene County Bancorp, Inc., Greene County Savings Bank changed its name to The Bank of Greene County. The Bank of Greene County s deposits are insured by the Bank Insurance Fund, as administered by the Federal Deposit Insurance Corporation, up to the maximum amount permitted by law. The Bank of Greene County's principal business consists of attracting retail deposits from the general public in the areas surrounding its branches and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family residential mortgage loans, commercial real estate loans, consumer loans, home equity loans and commercial business loans. In addition, The Bank of Greene County invests a significant portion of its assets in investment securities and mortgage- and asset-backed securities. The Bank of Greene County's revenues are derived principally from the interest on its residential mortgages, and to a lesser extent, from interest on consumer and commercial loans and securities, as well as from servicing fees and service charges and other fees collected on its deposit accounts. The Bank of Greene County's primary sources of funds are deposits, and principal and interest payments on loans and investment securities and mortgage- and asset-backed securities. At June 30, 2003, The Bank of Greene County had borrowed \$8.0 million from the Federal Home Loan Bank.

The Bank of Greene County s administrative office is located at 302 Main Street, Catskill, New York 12414-1317. Its telephone number is (518) 943-2600.

Greene County Bancorp, MHC

Greene County Bancorp, MHC was formed in December 1998 as part of The Bank of Greene County's mutual holding company reorganization. In 2001, Greene County Bancorp, MHC converted from a state to a federal charter. The Office of Thrift Supervision under the new charter currently regulates Greene County Bancorp, MHC. Greene County Bancorp, MHC owns 53.5% of the common stock of Greene County Bancorp, Inc. Greene County Bancorp, MHC does not engage in any business activity other than to hold Greene County Bancorp, Inc. s common stock and to invest

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any liquid assets of Greene County Bancorp, MHC, which amounted to \$159,000 in cash and cash equivalents at June 30, 2003.

Greene County Bancorp, MHC's administrative office is located at 302 Main Street, Catskill, New York 12414-1317, and its telephone number at that address is (518) 943-2600.

Market Area

The Bank of Greene County has been, and intends to continue to be, a community-oriented bank offering a variety of financial services to meet the needs of the communities it serves. The Bank of Greene County currently operates six full-service banking offices in Greene County and southern Albany County, New York. The Bank of Greene County's primary market area is currently concentrated around the areas within Greene County and southern Albany County where its full-service banking offices are located, namely the towns of Catskill, Cairo, Coxsackie, Greenville, Tannersville and Westerlo.

As of the 2000 census estimates, the Greene County population was 48,300 persons, indicating an overall increase in the population level of 8.0% since the last census conducted in 1990. Greene County is primarily rural and the major industry consists of tourism associated with the several ski facilities and festivals located in the Catskill Mountains. The County has no concentrations of manufacturing industry. Greene County is contiguous to the Albany-Schenectady-Troy metropolitan statistical area. The close proximity of Greene County to the city of Albany has made it a "bedroom" community for persons working in the Albany capital area. Greene County and the Coxsackie Correctional Facilities are the largest employers in the County. Other large employers include the Hunter Mountain and Ski Windham resort areas, the Catskill, Cairo-Durham, Greenville and Coxsackie-Athens Central School Districts and Stiefel Labs, Inc.

Competition

The Bank of Greene County faces significant competition both in making loans and in attracting deposits. The Bank of Greene County's market area has a high density of financial institutions, many of which are branches of significantly larger institutions that have greater financial resources than The Bank of Greene County, and all of which are competitors of The Bank of Greene County to varying degrees. The Bank of Greene County's competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage-banking companies, credit unions, insurance companies and other financial service companies. Its most direct competition for deposits has historically come from commercial banks, savings banks, savings and loan associations and credit unions. The Bank of Greene County faces additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Competition may also increase as a result of the lifting of restrictions on the interstate operations of financial institutions.

Competition is likely to increase as a result of the enactment of the Gramm-Leach-Bliley Act of 1999, which eases restrictions on entry into the financial services market by insurance companies and securities firms. Moreover, to the extent that these changes permit banks, securities firms and insurance companies to affiliate, the financial services industry could experience further consolidation. This could result in a growing number of larger financial institutions competing in The Bank of Greene County's primary market area that offer a wider variety of financial services than The Bank of Greene County currently offers. Competition for deposits, for the origination of loans and the provision of other financial services may limit The Bank of Greene County's growth and adversely impact its profitability in the future.

Lending Activities

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General. The principal lending activity of The Bank of Greene County is the origination, for retention in its portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located within its primary market area. To a lesser extent, The Bank of Greene County also originates commercial real estate loans, home equity loans, consumer loans and commercial business loans. The Bank of Greene County also offers a variety of line of credit products.

In an effort to manage the interest rate risk associated with its predominantly fixed-rate loan portfolio, The Bank of Greene County maintains high levels of liquidity. Cash, cash equivalents and securities available for sale comprised 45.4% of total assets at June 30, 2003, all of which can be used for liquidity needs. The Bank of Greene County seeks to attract checking and other transaction accounts that generally have lower interest rate costs and tend to be less interest rate sensitive when interest rates rise to fund fixed-rate residential mortgages. Additionally, The Bank of Greene County originates shorter-term consumer loans and other adjustable rate loans in order to help mitigate interest rate risk.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of The Bank of Greene County's loan portfolio in dollar amounts and in percentages (before deductions for deferred fees and costs, unearned discounts and allowances for losses) as of the dates indicated.

	2003		At June 30, 2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Real estate loans:						
One- to four-family	\$ 98,511	73.67%	\$ 98,834	76.19%	\$ 86,336	77.84%
Commercial real estate	11,481	8.59	8,764	6.76	5,239	4.72
Construction and land	2,519	1.88	3,003	2.31	1,979	1.78
Multi-family	1,696	1.27	1,657	1.28	1,213	1.09
Total real estate loans	114,207	85.41	112,258	86.54	94,767	85.43
Consumer loans						
Installment ⁽¹⁾	4,360	3.26	5,611	4.32	6,128	5.53
Home equity	7,821	5.85	6,957	5.36	6,138	5.53
Passbook	747	0.56	545	0.42	596	0.54
Total consumer loans	12,928	9.67	13,113	10.10	12,862	11.60
Commercial business loans						
	6,576	4.92	4,356	3.36	3,291	2.97
Total consumer loans and commercial business loans						
	19,504	14.59	17,469	13.46	16,153	14.57
Total gross loans	133,711	100.00%	129,727	100.00%	110,920	100.00%

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Less:			
Deferred fees and discounts	(337)	(285)	(277)
Allowance for loan losses	(1,164)	(1,069)	(886)
Total loans receivable, net	\$ 132,210	\$ 128,373	\$ 109,757

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

	At June 30,					
	2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Fixed-rate loans:						
Real estate loans:						
One- to four-family	\$ 92,718	69.34%	\$ 91,586	70.60%	\$ 77,852	70.19%
Commercial real estate	7,097	5.31	6,587	5.08	3,589	3.23
Construction and land	2,445	1.83	2,554	1.97	1,979	1.78
Multi-family	1,379	1.03	1,442	1.11	1,175	1.06
Total fixed-rate real estate loans	103,639	77.51	102,169	78.76	84,595	76.26
Consumer loans						
Installment ⁽¹⁾	4,360	3.26	5,611	4.32	6,128	5.53
Home equity	7,821	5.85	6,957	5.36	6,138	5.53
Passbook	747	0.56	545	0.42	596	0.54
Commercial business loans	6,576	4.92	4,356	3.36	3,291	2.97
Total fixed-rate loans	123,143	92.10	119,638	92.22	100,748	90.83
Adjustable-rate loans						
Real estate loans:						
One- to four-family	5,793	4.33	7,248	5.59	8,484	7.65
Commercial real estate	4,384	3.28	2,177	1.68	1,650	1.49
Construction and land	74	0.05	449	0.34	---	---
Multi-family	317	0.24	215	0.17	38	0.03

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Total adjustable-rate loans	10,568	7.90	10,089	7.78	10,172	9.17
Total gross loans	133,711	100.00%	129,727	100.00%	110,920	100.00%
Less:						
Deferred fees and discounts	(337)		(285)		(277)	
Allowance for loan losses	(1,164)		(1,069)		(886)	
Total loans receivable, net	\$ 132,210		\$ 128,373		\$ 109,757	

(1) Includes direct automobile loans (on both new and used automobiles) and personal loans.

One- to Four-Family Residential Loans. The Bank of Greene County's primary lending activity is the origination of one- to four-family residential mortgage loans collateralized by property located in The Bank of Greene County's primary market area. One- to four-family residential mortgage loans refer to loans collateralized by single-family residences; by contrast, multi-family loans refer to loans secured by multi-family units, such as apartment buildings. Generally, one- to four-family residential mortgage loans are made in amounts up to 89.9% of the appraised value of the property. However, The Bank of Greene County will originate one- to four-family residential mortgage loans with loan-to-value ratios of up to 95%, with private mortgage insurance. For the year ended June 30, 2003, less than one percent of the one- to four-family mortgage loans originated by The Bank of Greene County were originated with loan-to-value ratios over 89.9%. For the year ended June 30, 2003, The Bank of Greene County originated 75 to 80% in one- to four-family residential mortgage loans with loan-to-value ratios of 80% or more but without private mortgage insurance. Generally, residential mortgage loans are originated for terms of up to 30 years, though in recent years The Bank of Greene County has been successful in marketing and originating such loans with 15-year terms. One- to four-family fixed-rate loans are offered with both a monthly and bi-weekly payment feature. The Bank of Greene County generally requires fire and casualty insurance, the establishment of a mortgage escrow account for the payment of real estate taxes, hazard and flood insurance, as well as title insurance on all properties collateralizing real estate loans made by The Bank of Greene County.

At June 30, 2003, virtually all of The Bank of Greene County's one- to four-family residential mortgage loans were conforming loans and, accordingly, were eligible for sale in the secondary mortgage market. However, generally the one- to four-family residential mortgage loans originated by The Bank of Greene County are retained in its portfolio and are not sold into the secondary mortgage market. To the extent fixed rate one- to four-family residential mortgage loans are retained by The Bank of Greene County, it is exposed to increases in market interest rates, since the yields earned on such fixed-rate assets would be lower than the rates paid by The Bank of Greene County for deposits and borrowings, which could result in lower net interest income.

The Bank of Greene County currently offers one- to four-family residential mortgage loans with fixed and adjustable interest rates. Originations of fixed-rate loans versus adjustable-rate loans are monitored on an ongoing basis and are affected significantly by the level of market interest rates, customer preference, The Bank of Greene County's interest

rate gap position, and loan products offered by The Bank of Greene County's competitors. Particularly, in a relatively low interest rate environment, borrowers may prefer fixed-rate loans to adjustable-rate loans. Single-family residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that The Bank of Greene County's single-family residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors.

The Bank of Greene County's adjustable-rate mortgage ("ARM") loans currently provide for maximum rate adjustments of 150 basis points per year and 600 basis points over the term of the loan. The Bank of Greene County offers ARM loans with initial interest rates that are below market, referred to as "teaser rates." However, in underwriting such loans, borrowers are qualified at the full index rate. Generally, The Bank of Greene County's ARM loans adjust every year. After origination, the interest rate on such ARM loans is reset based upon a contractual spread or margin above the average yield on one-year United States Treasury securities, adjusted to a constant maturity, as published weekly by the Federal Reserve Board.

ARM loans decrease the risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustment permitted by the terms of the ARM loans, and, therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At June 30, 2003, \$5.8 million, or 4.33% of The Bank of Greene County's loan portfolio consisted of one- to four-family residential loans with adjustable interest rates, compared to \$92.7 million, or 69.3% of the loan portfolio comprised of one- to four-family residential loans with fixed interest rates. The Bank of Greene County's willingness and capacity to originate and hold in portfolio fixed rate one- to four-family residential mortgage loans has enabled it to expand customer relationships in the current low interest rate environment where borrowers have generally preferred fixed rate mortgage loans. However, as noted above, to the extent The Bank of Greene County retains fixed rate one- to four-family residential mortgage loans in its portfolio, it is exposed to increases in market interest rates, since the yields earned on such fixed rate assets would be lower than the rates paid by The Bank of Greene County for deposits and borrowings, which could result in lower net interest income.

The Bank of Greene County originates construction-to-permanent loans to homeowners for the purpose of construction of primary and secondary residences. The Bank of Greene County issues a commitment and has one closing which encompasses both the construction phase and permanent financing. The construction phase is a maximum term of six months and the interest charged is the rate as stated in the commitment, with loan-to-value ratios of up to 89.9% (or up to 95% with private mortgage insurance), of the completed project. The Bank of Greene County began offering loans collateralized by undeveloped land during fiscal year 2001. The acreage associated with such loans is limited. These land loans generally are intended for future sites of primary or secondary residences. The terms of vacant land loans generally have a ten year amortization and a five year balloon payment.

Construction lending generally involves a greater degree of risk than other one- to four-family 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. Construction delays may further impair the borrower's ability to repay the loan.

The Bank of Greene County's residential mortgage loan originations are generally obtained from The Bank of Greene County's loan representatives operating in its branch offices through their contacts with existing or past loan customers, depositors of The Bank of Greene County, attorneys and accountants who refer loan applications from the general public, and local realtors. The Bank of Greene County has a loan originator who calls upon customers during non-banking hours and at locations convenient to the customer.

All one- to four-family residential mortgage loans originated by The Bank of Greene County include "due-on-sale" clauses, which give The Bank of Greene County the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

At June 30, 2003, \$98.5 million, or 73.67% of The Bank of Greene County's loan portfolio, consisted of one- to four-family residential mortgage loans. Approximately \$211,000 of such loans (representing three loans) were included in nonperforming loans as of that date.

Commercial Real Estate and Multifamily Loans . At June 30, 2003, \$11.5 million, or 8.59%, of the total loan portfolio consisted of commercial real estate loans. Office buildings, mixed-use properties and other commercial properties collateralize commercial real estate loans. The Bank of Greene County originates fixed- and adjustable-rate commercial mortgage loans with maximum terms of up to 20 years. The maximum loan-to-value ratio of commercial real estate loans is generally 75%. At June 30, 2003, the largest commercial mortgage loan had a principal balance of \$757,000 and was a construction-to-permanent loan for a firehouse. At June 30, 2003, there were no commercial real estate loans included in nonperforming loans.

In underwriting commercial real estate loans, The Bank of Greene County reviews the expected net operating income generated by the real estate to ensure that it is generally at least 110% of the amount of the monthly debt service; the age and condition of the collateral; the financial resources and income level of the borrower; and the borrower's business experience. The Bank of Greene County's policy is to require personal guarantees from all commercial real estate borrowers.

Loans collateralized by commercial real estate generally are larger than one- to four-family 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 commercial real estate loans makes them more difficult for Bank management to monitor and evaluate.

The Bank of Greene County originates a limited number of multi-family loans, which totaled \$1.7 million, or 1.27% of The Bank of Greene County's total loans at June 30, 2003. Multi-family loans are generally collateralized by apartment buildings located in The Bank of Greene County's primary market area. There were no multi-family loans included in nonperforming loans at June 30, 2003. The Bank of Greene County's underwriting practices and the risks associated with multi-family loans do not differ substantially from that of commercial real estate loans.

Consumer Loans. The Bank of Greene County's consumer loans consist of direct loans on new and used automobiles, personal loans (either secured or unsecured), home equity loans, and other consumer installment loans (consisting of passbook loans, unsecured home improvement loans and recreational vehicle loans). Consumer loans (other than home equity loans) are originated at fixed rates with terms to maturity of one to five years. At June 30, 2003 consumer loans totaled \$12.9 million, or 9.67% of the total loan portfolio. Approximately \$9,287 of such loans (representing six loans) were included in nonperforming loans as of that date.

Consumer loans generally have shorter terms and higher interest rates than one- to four-family 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 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.

The Bank of Greene County's underwriting procedures for consumer loans includes an assessment of the applicant's credit history and an assessment of the applicant's ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral to the proposed loan amount. The Bank of Greene County underwrites its consumer loans internally, which The Bank of Greene County believes limits its exposure to credit risks associated with loans underwritten or purchased from brokers and other external sources. At this time, The Bank of Greene County does not purchase loans from any external sources.

The Bank of Greene County offers fixed and adjustable-rate home equity loans that are collateralized by the borrower's residence. Home equity loans are generally underwritten with terms not to exceed 15 years and under the same criteria that The Bank of Greene County uses to underwrite one- to four-family fixed rate loans. Home equity loans may be underwritten with terms not to exceed 15 years and with a loan to value ratio of 80% when combined with the principal balance of the existing mortgage loan. The maximum amount of a home equity loan may not exceed \$50,000 unless approved by the Board of Directors. The Bank of Greene County appraises the property collateralizing the loan at the time of the loan application (but not thereafter) in order to determine the value of the property collateralizing the home equity loans. At June 30, 2003, the outstanding balance of home equity loans totaled \$7.8 million, or 5.85% of The Bank of Greene County's total loan portfolio. There was one home equity loan which amounted to \$2,100 included in nonperforming loans, at June 30, 2003.

Commercial Business Loans. The Bank of Greene County also originates commercial business loans up to 10 years at fixed and adjustable-rates. The Bank of Greene County attributes growth in this portfolio to its ability to offer borrowers senior management attention as well as timely and local decision-making on commercial loan applications. The decision to grant a commercial business loan depends primarily on the creditworthiness and cash flow of the borrower (and any guarantors) and secondarily on the value of and ability to liquidate the collateral which may consist of receivables, inventory and equipment. The Bank of Greene County generally requires annual financial statements, tax returns and personal guarantees from the commercial business borrowers. The Bank of Greene County also generally requires an appraisal of any real estate that collateralizes the loan. At June 30, 2003, The Bank of Greene County had \$6.6 million of commercial business loans representing 4.92% of the total loan portfolio. On such date, the average balance of The Bank of Greene County's commercial business loans was approximately \$53,900. The largest commercial business loan had a balance of \$520,000 and represented a fire truck loan for a local fire district. At June 30, 2003, The Bank of Greene County's commercial loan portfolio included 126 loans collateralized by real estate, fire trucks, or other equipment. There were no commercial business loans included in nonperforming loans at June 30, 2003.

Commercial business lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based, with loan amounts based on fixed-rate 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 business 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 business 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 Maturity Schedule. The following table sets forth certain information as of June 30, 2003 regarding the amount of loans maturing or re-pricing in The Bank of Greene County's portfolio. Adjustable-rate loans are included in the period in which interest rates are next scheduled to adjust rather than the period in which they contractually mature, and fixed-rate loans are included in the period in which the final contractual repayment is due. Lines of credit with no

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specified maturity date are included in the category "within one year".

The following table illustrates the future maturities of such loans at June 30, 2003.

	Within 1 Year	1 Year Through 3 Years	3 Years Through 5 Years	5 Years Through 10 Years	Beyond 10 Years	Total
(Dollars in thousands)						
Real estate loans:						
One- to four-family	\$ 3,841	\$ 1,771	\$ 2,758	\$ 11,974	\$ 78,167	\$ 98,511
Commercial	3,420	1,028	227	1,275	5,531	11,481
Construction and land	---	---	---	---	2,519	2,519
Multi-family	---	42	---	22	1,632	1,696
Total real estate loans	7,261	2,841	2,985	13,271	87,849	114,207
Consumer loans	1,293	2,416	2,551	2,232	4,436	12,928
Commercial business loans	1,729	563	2,134	297	1,853	6,576
Total loan portfolio	\$ 10,283	\$ 5,820	\$ 7,670	\$ 15,800	\$ 94,138	\$ 133,711

The total amount of the above loans due after June 30, 2004 which have fixed-rate interest rates is \$120.9 million while the total amount of loans due after such date which have adjustable interest rates is \$10.1 million. The interest rate risk implications of Greene County Bancorp's substantial preponderance of fixed-rate loans is discussed in detail on pages 8-14 of Greene County Bancorp, Inc.'s 2003 Annual Report to Shareholders, which discussion is incorporated herein by reference.

The following table sets forth the loan origination and repayment activities of The Bank of Greene County for the periods indicated. The Bank of Greene County did not purchase or sell any loans during the periods presented.

	2003	For the Years Ended June 30,	
		2002	2001
(Dollars in thousands)			
Originations by type:			
Adjustable rate loans			
One- to four-family	\$ 798	\$ 466	\$ 409
Commercial real estate	2,481	1,398	252
Construction and land	87	449	---
Multi-family	141	185	10
Total adjustable rate loans	3,507	2,498	671
Fixed rate loans			
One- to four-family	25,073	27,589	17,123
Commercial real estate	1,781	5,496	1,485

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Construction and land	4,547	3,871	4,405
Multi-family	222	701	145
Installment	3,105	4,354	5,630
Home equity	4,482	3,800	3,311
Passbook	604	415	431
Commercial business	3,473	4,099	3,286
	<u> </u>	<u> </u>	<u> </u>
Total fixed rate loans	43,287	50,325	35,816
	<u> </u>	<u> </u>	<u> </u>
Total loans originated	46,794	52,823	\$ 36,487
	<u> </u>	<u> </u>	<u> </u>
Repayments:			
One- to four-family	26,194	15,557	11,892
Commercial real estate	1,545	3,369	1,200
Construction and land	5,118	3,296	3,042
Multi-family	324	442	195
Installment	4,356	4,871	4,367
Home equity	3,618	2,981	1,804
Passbook	402	466	325
Commercial business	1,253	3,034	1,702
	<u> </u>	<u> </u>	<u> </u>
Total repayments	42,810	34,016	24,527
	<u> </u>	<u> </u>	<u> </u>
Net increase in loans	\$ 3,984	\$ 18,807	\$ 11,960
	<u> </u>	<u> </u>	<u> </u>

Loan Approval Procedures and Authority. The Board of Directors establishes the lending policies and loan approval limits of The Bank of Greene County. Loan officers generally have the authority to originate mortgage loans, consumer loans and commercial business loans up to amounts established for each lending officer. The Executive Committee or the full Board of Directors must approve all residential loans over \$200,000.

The Board annually approves independent appraisers used by The Bank of Greene County. For larger loans, The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for all non-residential mortgage loans. It is The Bank of Greene County's policy to require hazard insurance on all mortgage loans.

Loan Origination Fees and Other Income. In addition to interest earned on loans, The Bank of Greene County receives loan origination fees. Such fees and costs vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money.

In addition to loan origination fees, The Bank of Greene County also receives other income that consists primarily of deposit account service charges, ATM fees and loan payment late charges. The Bank of Greene County also installs, maintains and services merchant bankcard equipment for local retailers and is paid a percentage of the transactions processed using such equipment.

Loans to One Borrower . Savings banks are subject to the same loans to one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired capital and unimpaired surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and unimpaired surplus if the loan is collateralized by readily marketable collateral (generally, financial instruments and bullion, but not real estate). The Bank of Greene County's policy provides that loans to one borrower (or related borrowers) should not exceed 10% of The Bank of Greene County's capital and reserves.

At June 30, 2003, the largest aggregate amount loaned by The Bank of Greene County to one borrower consisted of a commercial real estate loan of \$757,000 for the construction of a firehouse. The loan comprising the lending relationship was performing in accordance with its terms as of June 30, 2003.

Delinquencies and Classified Assets

Collection Procedures. A computer generated late notice is sent and a 2% late charge is assessed when a payment is 15 days late. A second notice will be incorporated in the next month's billing notice, approximately 21 days after the due date of the first late payment. Accounts thirty days or more past due will be reviewed by the collection manager and receive individual attention as required, including collection letters and telephone calls. The collection manager, in order to avoid further deterioration, will closely monitor accounts that have a history of consistent late or delinquent payments. Accounts two or more payments past due are reported to the Board of Directors for consideration of foreclosure action. With respect to consumer loans, a late notice is sent and a late charge is assessed 10 days (or, in the case of home equity loans, 15 days) after payment is due. A second notice is sent 15 days (in the case of home equity loans, 25 days) thereafter. The collection manager reviews loans 30 days or more past due individually, following up with collection letters and telephone calls. Accounts three or more payments past due are reported to the Board of Directors and are subject to legal action and repossession of collateral.

Loans Past Due and Non-performing Assets . Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable at least a portion of the loan will not be collected due to an irreversible deterioration in the financial condition of the borrower or the value of the underlying collateral. When a loan is determined to be impaired, the measurement of the loan is based on present value of estimated future cash flows, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. Management places loans on nonaccrual status once the loans have become 90 days or more delinquent. Nonaccrual is defined as a loan in which collectibility is questionable and therefore interest on the loan will no longer be recognized on an accrual basis. A loan does not have to be 90 days delinquent in order to be classified as non-performing. Interest on nonaccrual loans is recognized on a cash basis until such time as the borrower has brought the loan to performing status. Other real estate owned is included in non-performing assets. At June 30, 2003, The Bank of Greene County had non-performing loans of \$220,000 and a ratio of non-performing loans to total loans of 0.16%.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as other real estate owned ("OREO") until such time as it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at its fair value, less estimated costs of disposal. If the value of the property is less than the loan, less any related specific loan loss provisions, the difference is charged against the allowance for loan losses. Any subsequent write-down of OREO is charged against earnings. At June 30, 2003, The Bank of Greene County's OREO totaled \$55,125 and its ratio of non-performing assets to total assets was 0.11%. The following table sets forth delinquencies in The Bank of Greene County's loan portfolio at June 30, 2003. When a loan is delinquent 90 days or more, The Bank of Greene County fully reverses all accrued interest thereon and ceases to accrue interest thereafter. A loan is not removed from nonaccrual status until the loan is current and evidence supports the borrower's ability to maintain a current status. The Bank of Greene County also had a single one- to four-family real estate loan that amounted to \$51,599 classified as nonaccrual which was in the 60 to 89 days delinquent category at June 30, 2002 and none at June 30, 2003. For all the dates indicated, The Bank of Greene County did not have any material restructured loans.

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	<u>Number</u>	Dollar amount	Percentage of loan <u>category</u>
60 to 89 days delinquent			
Real estate:			
One- to four-family	17	\$ 780,356	81.1%
Commercial	1	36,388	3.8
Construction and land	---	---	---
Multi-family	---	---	---
Installment	8	23,511	2.4
Home equity	2	63,713	6.6
Commercial business	4	58,753	6.1
Total loan delinquency 60 to 89 days	32	962,721	100.0
90 days and over delinquent			
Real estate:			
One- to four-family	3	211,074	95.8
Commercial	---	---	---
Construction and land	---	---	---
Multi-family	---	---	---
Installment	5	7,183	3.3
Home equity	1	2,104	0.9
Commercial business	---	---	---
Total loan delinquency 90 days and over	9	220,361	100.0
Total loans delinquent over 60 days			
Real estate:			
One- to four-family	20	991,430	83.8
Commercial	1	36,388	3.1
Construction and land	---	---	---
Multi-family	---	---	---
Installment	13	30,694	2.6
Home equity	3	65,817	5.6
Commercial business	4	58,753	4.9
Total loans delinquent over 60 days	41	\$ 1,183,082	100.0%

Nonaccrual Loans and Nonperforming Assets. The following table sets forth information regarding nonaccrual loans and other non-performing assets at the dates indicated. The Bank of Greene County had no accruing loans delinquent more than 90 days at June 30, 2003, 2002, and 2001.

	At June 30,		
	2003	2002	2001
Nonaccruing loans:			

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Real estate loans			
One- to four-family	\$ 211,074	\$ 313,981	\$ 660,607
Commercial real estate	---	---	71,711
Installment and home equity	9,287	18,886	11,150
Commercial business	---	---	---
Total nonaccruing loans	220,361	332,867	743,468
Real estate owned:			
Real estate loans			
One- to four-family	---	---	---
Commercial real estate	55,125	30,229	30,229
Commercial business	---	---	---
Total real estate owned	55,125	30,229	30,229
Total non-performing assets	\$ 275,486	\$ 363,096	\$ 773,697
Total as a percentage of total assets	0.11%	0.16%	0.42%

During the year ended June 30, 2003, gross interest income of \$7,100 would have been recorded on nonaccrual loans under their original terms if the loans had been current throughout the period. No interest income was recorded on nonaccrual loans or on accruing loans more than 90 days delinquent during the year ended June 30, 2003.

Classification of Assets . Consistent with regulatory guidelines, The Bank of Greene County provides for the classification of loans and other assets considered to be 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."

When The Bank of Greene County classifies problem assets as either Substandard or Doubtful, it establishes a valuation allowances or "loss reserves" 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 problem assets. When The Bank of Greene County classifies problem assets as "Loss," it is required either to establish a specific allowance for losses equal to 100% of the amount of assets so classified, or to charge-off such amount. The Bank of Greene County's determination as to the classification of its assets 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. At June 30, 2003, The Bank of Greene County had \$211,000 in loans classified as watch and no other

classified assets.

Allowance for Loan Losses . The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the losses inherent in the loan portfolio, the composition of the loan portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for 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 and valuation of OREO. Such agencies may require The Bank of Greene County to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. The allowance for loan losses is increased by a provision for loan losses (which results in a charge to noninterest expense) and is reduced by net charge-offs. At June 30, 2003, the total allowance was \$1,163,825, which amounted to 0.88% of total net loans receivable and 528.14% of nonperforming loans. Management will continue to monitor and modify the level of the allowance for loan losses. For the year ended June 30, 2003, The Bank of Greene County's charge-offs amounted to \$150,583. For the years ended June 30, 2002 and 2001, The Bank of Greene County's charge-offs amounted to \$52,257 and \$76,915, respectively.

The Bank of Greene County may require an environmental site assessment to be performed by an independent professional for non-residential mortgage loans. It is also The Bank of Greene County's policy to require title and hazard insurance on all mortgage loans. In addition, The Bank of Greene County may require borrowers to make payments to a mortgage escrow account for the payment of property taxes. Any exceptions to The Bank of Greene County's loan policies must be made in accordance with the limitations set out in each policy. Typically, the exception authority ranges from the Chief Lending Officer to the Board of Directors, depending on the size and type of loan involved.

Analysis of the Allowance For Loan Losses . The following table sets forth the analysis of the allowance for loan losses for the periods indicated.

	For the Years Ended June 30,		
	2003	2002	2001
Balance at the beginning of period	\$ 1,068,734	\$ 886,081	\$ 866,443
Charge-offs:			
One- to four family real estate	---	---	---
Commercial real estate	37,494	---	26,432
Installment	113,089	49,877	50,483
Home equity	---	2,380	---
Commercial business	---	---	---
Total charge-offs	150,583	52,257	76,915
Recoveries:			
One- to four family real estate	1,072	---	---
Commercial real estate	24,093	16,010	36,553
Installment	40,509	---	---
Total recoveries	65,674	16,010	36,553

Net charge-offs	84,909	36,247	40,362
Additions charged to operations	180,000	218,900	60,000
Balance at end of period	\$ 1,163,825	\$ 1,068,734	\$ 886,081

Ratio of net charge-offs to average loans outstanding	0.04%	0.03%	0.04%
Ratio of net charge-offs to nonperforming assets	30.82%	9.98%	5.22%
Allowance for loan loss to nonperforming loans	528.14%	321.07%	119.18%
Allowance for loan loss to net loans	0.88%	0.83%	0.81%

Allocation of Allowance for Loan Losses . The following table sets forth the allocation of the allowance for loan losses by loan category for at the dates indicated. The allowance is allocated to each loan category based on historical loss experience and economic conditions. The unallocated portions of the allowance represent reserves for unused lines of credit and losses inherent in the loan portfolio.

	June 30, 2003			June 30, 2002			June 30, 2001		
	Percent of loans			Percent of loans			Percent of loans		
	Loan in each			Loan in each			Loan in each		
	Amount of amounts category			Amount of Amounts category			Amount of Amounts category		
	loan loss allowance category	by	to total loans	loan loss allowance Category	By	to total loans	Loan loss allowance Category	By	to total loans

(Dollars in thousands)