GREENVILLE FIRST BANCSHARES INC
Form 10QSB
May 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ________ to _________

Commission file number 333-83851

Greenville First Bancshares, Inc.
(Exact name of registrant as specified in its charter)

South Carolina	58-2459561
(State of Incorporation)	(I.R.S. Employer Identification No.)

112 Haywood Road Greenville, S.C.	29607
(Address of principal executive offices)	(Zip Code)

864-679-9000
(Telephone Number)

Not Applicable
(Former name, former address
and former fiscal year,
if changed since last report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

1,150,000 shares of common stock, $.01 par value per share, issued and outstanding as of April 29, 2002

Transitional Small Business Disclosure Format (check one): YES NO X

GREENVILLE FIRST BANCSHARES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The financial statements of Greenville First Bancshares, Inc. and Subsidiary are set forth in the following pages.

GREENVILLE FIRST BANCSHARES, INC. & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	March
	2002
	(Unaudit
Assets	
Cash and due from banks	$ 1,8
Federal funds sold	6,4
Investment securities available for sale	14,4
Other investments, at cost	5
Loans, net	108,3
Accrued interest	5
Property and equipment	8
Real estate owned	3
Other assets	2
Total assets	$133,7
Liabilities and Shareholders' Equity	
Liabilities	
Deposits	$119,0
Official checks outstanding	1,6
Federal funds purchased and repurchase agreements	
Federal Home Loan Bank advances	3,0
Accrued interest payable	4

Accounts payable	
Accrued expenses	1
Total liabilities	124,3
Commitments and contingencies	
Shareholders' equity	
Preferred stock, par value $.01 per share, 10,000,000 shares authorized, no shares issued	
Common stock, par value $.01 per share, 10,000,000 shares authorized, 1,150,000 issued	
Additional paid-in capital	10,6
Accumulated other comprehensive income	
Retained deficit	(1,2
Total shareholders' equity	9,4
Total liabilities and shareholders' equity	$ 133,7

See notes to consolidated financial statements that are an integral part of these consolidated statements.

GREENVILLE FIRST BANCSHARES, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For th
	2002
Interest income	
Loans	$ 1,5
Investment securities	1
Federal funds sold	
Total interest income	1,7
Interest expense	
Deposits	7
Borrowings	
Total interest expense	8

Net interest income before provision for loan losses	9
Provision for loan losses	2
Net interest income after provision for loan losses	7
Noninterest income	
Loan fee income	
Service fees on deposit accounts	
Other income	
Total noninterest income	1
Noninterest expenses	
Salaries and benefits	4
Professional fees	
Marketing	
Insurance	
Occupancy	1
Other outside services	
Telephone	
Other	
Total noninterest expenses	8
Loss before income taxes benefit	
Income tax benefit	
Net income (loss)	$
Basic and diluted income (loss) per common share	$
Weighted average common shares outstanding, basic and diluted	1,1

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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GREENVILLE FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Common stock Shares	Amount	Additional paid-in capital	Accumulated other comprehensive income	R

December 31, 2000	1,150,000	$ 11,500	$10,635,200	$ 24,162	$ (
Net loss	-	-	-	-	
Comprehensive loss, net of tax					
Unrealized holding gain on securities available for sale	-	-	-	66,439	
Comprehensive loss	-	-	-	-	
March 31, 2001	1,150,000	$ 11,500	$ 10,635,200	$ 90,601	$ (
December 31, 2001	1,150,000	$ 11,500	$ 10,635,200	$ 127,779	$
Net income	-	-	-	-	
Comprehensive loss, net of tax					
Change in unrealized holding gain on securities available for sale	-	-	-	(81,892)	
Comprehensive loss	-	-	-	-	
March 31, 2002	1,150,000	$ 11,500	$10,635,200	$ 45,887	$

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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GREENVILLE FIRST BANCSHARES, INC.AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For t

2002

Operating activities	
Net income (loss)	$ 42,
Adjustments to reconcile net income (loss) to cash provided by (unused for) operating activities:	
Provision for loan losses	200,
Depreciation and other amortization	50,
Accretion and amortization of securities discounts and premium, net	11,
Decrease (increase) in other assets, net	110,
Increase (decrease) in other liabilities, net	384,
Net cash provided by (used for) operating activities	799,
	258,
Investing activities	
Increase (decrease) in cash realized from:	
Origination of loans, net	(13,582,
Purchase of property and equipment	(22,
Purchase of securities available for sale	(6,000,
Payments and maturity of securities available for sale	9,297,
Net cash used for investing activities	
	(10,308,
Financing activities	
Increase in deposits, net	26,366,
Decrease in short-term borrowings	(8,482,
Decrease in Federal Home Loan Bank advances	(3,000,
Net cash provided by financing activities	14,883,
Net increase in cash and cash equivalents	5,374,
Cash and cash equivalents at beginning of the year	2,982,
Cash and cash equivalents at end of the year	$ 8,357,
Supplemental information	
Cash paid for	
Interest	$ 1,105,
Income taxes	
Supplemental schedule of non-cash transaction	
Foreclosure of real estate	$ 362,
Unrealized gain on securities, net of income taxes	$ (81,

See notes to consolidated financial statements that are an integral part of these consolidated statements

GREENVILLE FIRST BANCSHARES AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Nature of Business and Basis of Presentation

Business activity and organization

Greenville First Bancshares, Inc. (the "company") is a South Carolina corporation organized for the purpose of owning and controlling all of the capital stock of Greenville First Bank, N.A (the "bank"). The bank is a national bank organized under the laws of the United States located in Greenville County, South Carolina. The bank began operations on January 10, 2000.

Until January 10, 2000, the company engaged in organizational and pre-opening activities necessary to obtain regulatory approvals and to prepare its subsidiary, the bank, to commence business as a financial institution. The bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the Federal Deposit Insurance Corporation, and providing commercial, consumer and mortgage loans to the general public.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the company's Form 10-KSB (Registration Number 333-83851) as filed with and declared effective by the Securities and Exchange Commission.

Cash and Cash Equivalents

For purposes of the Consolidated statement of Cash Flows, cash and federal funds sold are included in "cash and cash equivalents". These assets have contractual maturities of less than three months.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

DISCUSSION OF FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations and other portions of this annual report contain certain "forward-looking statements" concerning our future operations. We 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 ourselves of protections of such safe harbor with respect to all "forward-looking statements." We have used "forward-looking statements" to describe future plans and strategies including our expectations of our future financial results. Our ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include, but are not limited to: changes in interest rates and their effect on the level and composition of deposits, loan demand, and the values of loan collateral, securitites, and other interest-sensitive asssets and liabilities; the general economic climate in our market area, the State of South Carolina and the country as a whole; governmental monetary and fiscal policies; our ability to control costs and expenses; and our ability to offer competitive products and pricing, manage loan delinquency rates, and react to changes in federal and state regulation. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements.

CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to the consolidated financial statements at December 31, 2001 as filed on our annual report on Form 10-KSB.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carry value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on our carrying values of assets and liabilities and our results of operations.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a description of our processes and methodology for determining our allowance for loan losses.

GENERAL

The following is a discussion of our financial condition as of March 31, 2002 and the results of operations for the three months ended March 31, 2002. These comments should be read in conjunction with our consolidated financial statements and accompanying consolidated footnotes appearing in this report. The significant accounting policies are described throughout the Management's discussion section of this document

NATIONAL AND ECONOMIC EVENTS

Nationally, during most of 2001 and the first three months of 2002, the United States experienced a slowing economy following a tenth year of expansion.

During this period, the economy was also affected by lower returns and expectations of the stock markets. Economic data led the Federal Reserve to begin an aggressive program of rate cutting, which moved the Federal Funds rate down 11 times during 2001 for a total reduction of 475 basis points, bringing the Federal Funds rate to its lowest level in 40 years. During the first quarter of 2002, the Federal reserve did not adjust the Federal Funds rate.

Despite sharply lower short-term rates, stimulus to the economy has been muted because the yield curve has steepened and consumer demand and business investment activity has been weak. The financial markets are operating now under very low historical interest rates. Under these unusual conditions, many observers expect Congress to pass an economic stimulus plan. The Federal Reserve has taken a neutral position related to future interest rate changes. Most economists believe the Federal Reserve will began increasing interest rate in the second half of the 2002 year. No assurance can be given that the Federal Reserve will take such action. We continue to believe that the markets we serve generally perform better than national markets, even in times of recession.

We believes that the economic impact of the terrorist attacks of September 11, 2001 did not materially affect our operations. It is evident from recent economic data that the U.S. economy was affected significantly by these events. The extent and duration of the economic impact from the attacks are not predictable but could affect consumer confidence and the financial activities of retail and business customers. Prior to these events, many economists were predicting that the U.S. had been in a recession. Official economic data released in November 2001 confirms that the U.S. has been in a recession for several months and it is likely that recovery will not occur until sometime later in 2002 or beyond.

INCOME STATEMENT REVIEW

Net Interest Income

Net interest income, the largest component of our income, was $944,178 for the three months ended March 31, 2002 compared to $612,038 for the same period in 2001, or an increase of 54.3%. The level of net interest income is determined by balances of earning assets and successfully managing the net interest margin. Changes in interest rates paid on assets and liabilities, the rate of growth of the asset and liability base, the ratio of interest-earning assets to interest-bearing liabilities, and management of the balance sheet's interest rate sensitivity all factor into changes in net interest income.

Interest income for the first three months of 2002 was $1,790,358 and consisted of $1,586,655 on loans, $181,153 in investments and $22,550 on federal funds sold. Interest income for the same period in 2001 was $1,412,535 and included $1,130,976 on loans, $219,374 on investments and $62,185 on federal funds sold.

Interest expense for the first quarter of 2002 was $846,180 and consisted of $769,597 related to deposits and $76,583 related to borrowings. Our interest expense of $800,497 during the first quarter of 2001 related soley to deposits. Our interest expense increased $45,683, or 5.7%, while our average deposits and borrowings increased from $59.7 million for the quarter ended March 31, 2001 to $115.0 million for the quarter ended March 31, 2002, an increase of 92.8%. The increase in our interst expense was proportionately less than the increase in our deposits and borrowings because of the declining interest rate envirnment.

The following table sets forth, for the three months ended March 31, 2002 and 2001, information related to our average balance sheet and average yields on assets and average costs of liabilities. We derived these yields by dividing income or expense by the average balance of the corresponding assets or liabilities. We derived average balances from the daily balances throughout the periods indicated.

Average Balances, Income and Expenses, and Rates (in $000's)

	For the three months ended March 31, 2002				
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Inco Expen
Federal funds sold	$ 5,000	$ 22	1.78%	$ 4,533	$
Investment securities	13,353	181	5.50%	12,779	
Loans	104,620	1,587	6.15%	50,906	1,
Total earning-assets	$122,973	$1,790	5.90%	$ 68,218	$ 1,
NOW accounts	$ 19,870	$ 48	.98%	$ 10,774	$
Savings & money market	22,299	94	1.71%	15,193	
Time deposits	62,534	628	4.07%	33,706	
Total interest-bearing deposits	104,703	770	2.98%	59,673	
FHLB advances	5,867	49	3.39%	-	
Other borrowings	4,465	27	2.45%	-	
Total interest-bearing liabilities	$115,035	$ 846	2.98%	$ 59,673	$
Net interest spread			2.92%		
Net interest income/margin		$ 944	3.11%		$

Our net interest spread was 2.92% for the three months ended March 31, 2002 as compared to 2.95% for the three months ended March 31, 2001. The net interest spread is the difference between the yield we earn on our interest-earning assets and the rate we pay on our interest-bearing liabilities.

Our net interest margin for the period ended March 31, 2002 was 3.11% as compared to 3.64% for the three months ended March 31, 2001. The net interest margin is calculated as net interest income divided by year-to-date average earning assets. Our net interest margin decrease because our assets repriced downward faster than our liabilities.

In pricing deposits, we considered our liquidity needs, the direction and levels of interest rates and local market conditions

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing rates and changing volume. The following table sets forth the effect which the varying levels of earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented. Changes that are not solely attributable to either volume, rate or rate/volume have been allocated to each category on a prorated basis.

Three months ended March 31, 2002 (Dollars in Thousands)	Change Related to			
	Volume	Rate	Rate/ Volume	Net
EARNING ASSETS:				
Federal funds sold	$ 2	(38)	(4)	$
Investment securities	10	(46)	(2)	
Loans	1,193	(359)	(379)	
Total earning assets	$ 1,205	(443)	(385)	$
INTEREST BEARING LIABILITIES				
Deposits	$ 604	(361)	(273)	$
FHLB advance	49	-	-	
Other borrowings	27	-	-	
Total interest bearing liabilities	680	(361)	(273)	
Net interest income	$ 525	(82)	(112)	$

As the above table demonstarates, the change in our net interest income is primarily due to the increase in our assets and liabilities. This increase is partially offset by the decrease in the rates as a result of the significant reduction in market rates over the last twelve months.

Provision for Loan Losses

Included in the results of operations for the quarters ended March 31, 2002 and 2001 is a non-cash expense of $200,000 and $122,000, respectively related to the provision for loan losses. The loan loss reserve was $1,388,126 at March 31, 2002 and $1,192,247 at December 31, 2001. The allowance for loan losses as a percentage of gross loans was 1.26% at March 31, 2002 and 1.24% at December 31, 2001. The loan portfolio is periodically reviewed to evaluate the outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. For information about how we determine the provision for loan losses, please see our discussion under "Provision and Allowance for Loan Losses." For the three months ended March 31, 2002, we reported net charge-offs of $4,121. All of the charge-offs in 2002 related to credit lines associated with customer checking accounts. There were no loans charged off during the three months ended March 31, 2001.

Noninterest Income and Expenses

Noninterest income in the first quarter of 2002 was $102,950, an increase of 130% over noninterest income of $44,853 in the first quarter of 2001. This increase was primarily due to the increases in the volume of service charges on deposits, increases in the volume of fees charged on ATM transactions, and additional loan fees received on the origination of mortgage loans that were sold.

We incurred general and administrative expenses of $804,315 for the three months ended March 31, 2002 compared to $613,127 for the same period in 2001. The $191,188 additional general and administrative expenses resulted primarily from the move into our new main office building and the additional staff hired to handle the current and anticipated future growth in both loans and deposits. Salaries and benefits in first quarter 2002 were $431,523, or an increase of $104,789. Salaries and benefits represented 53.7% of the total noninterest expense. Salaries and benefits in first quarter 2001 were $326,734. All other expenses increased only $86,399. This increase relates primarily to $49,660 additional cost for outside services and $20,831 of additional occupancy expenses. The primary reason for the higher level of outside services is the additional data processing expense associated with the higher level of activity that resulted from the significant increases in both loans and deposits. The primary reason for the increase in occupancy cost is that the bank incurred only two months of the higher occupancy costs in the first quarter of 2001 associated with the new main office building.

BALANCE SHEET REVIEW

General

At March 31, 2002, we had total assets of $133.8 million, consisting principally of $108.4 million in loans, $21.5 million in investments and $1.9 million in cash and due from banks. Liabilities at March 31, 2002 totaled $124.3 million, consisting principally of $119.0 million in deposits and $3.0 million in FHLB advances. At March 31, 2002, shareholders' equity was $9.4 million.

Investments

At March 31, 2002, the $21.5 million of investment securities portfolio represented approximately 16.1% of our total assets. We were invested in U.S. Government agency securities, mortgage-backed securities and federal funds with a fair value of $21.5 million and an amortized cost of $21.4 for an unrealized gain of $69,526.

Contractual maturities and yields on our investments (all available for sale) at March 31, 2002 are shown in the following table (dollars in thousands). 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. Based on the comparison of investment securities coupon rates and the market interest rate as of March 31, 2002, the bank anticipates that between $4.0 million and $10.0 million may be called during the twelve months ending March 31, 2003.

	Within	After one but Within five	Over

	one year	Yield	Years	Yield	Five years	Yield	Total
U.S.Government agencies	---	---	$ 7,656	4.31%	$ 6,694	5.68%	$ 14,350
Mortgage-backed securities	---	---	131	3.96%	---	---	131
Total	---	---	$ 7,787	4.29%	$ 6,694	5.68%	$ 14,481

At March 31, 2002, the $6.5 million of short-term investments in federal funds sold on an overnight basis comprised 4.8% of total assets at March 31, 2002, as compared to $100,841 or .1% of total assets at December 31, 2001.

Loans

Since loans typically provide higher interest yields than do other types of interest earning assets, it is our intent to channel a substantial percentage of our earning assets into the loan portfolio. Average loans for the three months ended March 31, 2002 and 2001 were $104.6 million and $50.9 million, respectively. Total loans outstanding at March 31, 2002 and December 31, 2001 were $109.7 million and $96.5 million, respectively, before allowance for loan losses.

The following table summarizes the composition of the loan portfolio:

	March 31, 2002		December 31, 2001	
	Amount	% of Total	Amount	% of Tota
Real estate:				
Commercial				
Owner occupied	$ 18,666,767	17.01%	$ 16,532,696	17.13%
Non-owner occupied	28,105,095	25.61%	22,813,424	23.63%
Construction	8,005,208	7.29%	8,292,228	8.59%
	54,777,070	49.91%	47,638,348	49.35%
Consumer				
Residential	13,062,021	11.91%	12,898,543	13.36%
Home Equity	11,744,975	10.70%	8,937,054	9.26%
Construction	4,918,607	4.48%	3,972,206	4.11%
	29,725,603	27.09%	25,807,803	26.73%
Total real-estate	84,502,673	77.00%	73,446,151	76.08%
Commercial business	22,419,412	20.43%	20,529,004	21.27%
Consumer-other	3,142,543	2.86%	2,812,703	2.91%
Deferred origination fees, net	(315,902)	(.29%)	(255,990)	(.26%

	109,748,726	100.00%	96,531,868	100.00
Less allowance for loan Losses	(1,388,126)		(1,192,247)	
Total loans, net	$108,360,600		$ 95,339,621	

The principal component of our loan portfolio at March 31, 2002 and at December 31, 2001 was loans secured by real estate mortgages. Due to the short time the portfolio has existed, the current mix of loans may not be indicative of the ongoing portfolio mix. Management will attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration of collateral.

Provision and Allowance for Loan Losses

We have developed policies and procedures for evaluating the overall quality of our credit portfolio and the timely identification of potential credit problems.

We have established an allowance for loan losses through a provision for loan losses charged to expense on our statement of operations. The allowance represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans, including consideration of factors such as the balance of impaired loans; the quality, mix and size of our overall loan portfolio; economic conditions that may affect the borrower's ability to repay; the amount and quality of collateral securing the loans; our historical loan loss experience and a review of specific problem loans. We adjust the amount of the allowance periodically based on changing circumstances as component of the provision for loan losses. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance.

Our evaluation is inherently subjective as it requires estimates that are susceptible to significant change. In additiona, regulatory agencies periodically review our allowance for loan losses as part of their examination process, and they may require us to record additions to the allowance based on their judgment about information available to them at the time of their examinations. Our losses will undoubtedly vary from our estimates, and there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time.

We do not allocate the allowance for loan losses to specific categories of loans but evaluate the adequacy on an overall portfolio basis utilizing our credit grading system which we apply to each loan. We have engaged an independent consultant to review the loan files on a test basis, to verify that the lenders have properly graded each loan. Due to our limited operating history, the provision for loan losses has been made primarily as a result of management's assessment of general loan loss risk as compared to banks of similar size and maturity.

At March 31, 2002 and at December 31, 2001, the allowance for loan losses was $1.4 million and $1.2 million, respectively, or 1.26% of outstanding loans at March 31, 2002 and 1.24% at December 31, 2001, respectively. During the three months ended March 31, 2002, we charged off loans of $4,121. There were no loans charged off during the three months ended March 31, 2001.

At March 31, 2002, nonaccrual loans represented .47% of total loans. We had one commercial business loan of approximately $510,000 thousand that was on nonaccrual status. We classified this loan and put it on non-accrual status during the first quarter of 2002. There was only one loan on nonaccrual status at December 31, 2001. During the first quarter of 2002, the bank obtained ownership through foreclosure procedures on the residental construction loan that was on nonaccrual status at December 31, 2001. At March 31, 2002, the bank carried this asset as real estate owned with a carrying value of approximately $363,000. The bank is in the process of completing the construction of this home. The bank carries all real estate acquired through foreclosure at the lower of cost or market value.

Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the loan is doubtful.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

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The following table summarizes the loan maturity distribution, by type, and related interest rate characteristics at March 31, 2002 (dollars in thousands):

	One year or less	After one but Within five Years	After five years	Total
Commercial	$ 10,795	$ 11,398	$ 172	$ 22,365
Real estate - construction	6,146	4,686	2,025	12,857
Real estate- mortgage	10,539	58,479	2,385	71,403
Consumer and other	1,561	1,349	214	3,124
Total loans	$ 29,041	$ 75,912	$ 4,796	$ 109,749
Loans maturing after one year with:				
Fixed interest rates				$ 25,197
Floating interest rates				$ 55,511

Deposits and Other Interest-Bearing Liabilities

Our primary sources of funds for loans and investments are our deposits, advances from the FHLB, and short-term repurchase agreements. National and local market trends over the past several years suggest that consumers have moved an increasing percentage of discretionary savings funds into investments such as annuities and stock and fixed income mutual funds. We believe that conditions in 2002 were favorable for deposit growth and that factors such as the low returns on investments and mutual funds may have increased traditional deposit inflows during 2002.

The following is a table of deposits by category (dollars in thousands):

	March 31, 2002		December 3
Demand deposit accounts	$ 7,863	6.61%	$ 7,729
NOW accounts	16,648	13.98%	8,295
Money market accounts	21,422	17.99%	24,139
Savings accounts	289	.24%	255
Time deposits less than $100,000	33,457	28.10%	31,900
Time deposits of $100,000 or more	39,387	33.08%	20,382
Total deposits	$ 119,066	100.00%	$ 92,700

Core deposits, which traditional exclude time deposits of $100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were $79.7 million and $72.3 million at March 31, 2002 and December 31, 2001, respectively. Our loan-to-deposit ratio was 91.0% and 103% at March 31, 2002 and December 31, 2001, respectively.

The significant portion of the increase in time deposits over $100,000 relates to deposits that were obtained outside of the local market. The maturites on these deposits range from three months to five years. These deposits were obtained at rates that were either comparable or lower than rates paid in the local market. The long term CDs were obtained to "lock in" long term funding at low interest rates. The short-term deposits were used to fund a significant increase in loan demand. The Bank does not plan to renew the short-term deposits.

The maturity distribution of our time deposits of $100,000 or more is as follows:

	March 31, 2002	December 31, 2001
	(Dollars in thousands)	
Three months or less	$ 3,006	$ 7,929
Over three through twelve months	25,935	8,703
Over twelve months	10,446	3,750
Total	$ 39,387	$ 20,382

Borrowings

At March 31, 2002 the bank had $3.0 million of advances from the FHLB of Atlanta. These advances are secured with approximately $9.0 million of first mortgage loans, investment securities and stock in the FHLB. The advance of $3.0 million with a weighted rate of 4.83% has a maturity of August 24, 2011. The FHLB has the option to re-price this advance as of August 24, 2006.

At March 31, 2002 the bank had an unused $2.8 million of federal funds line of credit. This line of credit is unsecured and bears interest at the daily rate of federal funds plus 25 basis points (5.00% at March 31, 2002). At March 31, 2002, the bank also had an unused $10.0 million line of credit with a brokerage firm, secured by $10.0 million of investment securities. This line of credit bears market interest rates based on the maturities of the various repurchase agreements.

CAPITAL RESOURCES

Total shareholders' equity amounted to $9.4 million at March 31, 2002 and $9.5 million at December 31, 2001. The decrease during the three months ended March 31, 2002 resulted from $81,892 reduction in the unrealized gains on investment securities, partly offset by $42,813 net income.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), and equity to assets ratio (average equity divided by average total assets). Since our inception, we have not paid cash dividends.

	March 31, 2002	March 31, 2001
Return on average assets	.03%	- .11%
Return on average equity	.45%	- .83%
Equity to assets ratio	7.34%	12.95%

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. The Federal Reserve guidelines also contain an exemption from the capital requirements for bank holding companies with less than $150 million in consolidated assets. Because we had less than $150 million in assets, the company is not currently subject to these guidelines. However, the bank falls under these rules as set per bank regulatory agencies.

Under the capital adequacy guidelines, capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common stockholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses subject to certain limitations. The bank is also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

The bank is subject to various regulatory capital requirements administered by the federal banking agencies. Under these capital guidelines, we must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, we must maintain a minimum Tier 1 leverage ratio of at least 4%. To be considered "well-capitalized", we must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%.

The following table sets forth the company's and the bank's various capital ratios at March 31, 2002 and December 31, 2001. At March 31, 2002 and December 31, 2001, we both were in compliance with each of the applicable regulatory capital requirements and were considered to be "well capitalized" at the bank level.

	March 31, 2002		December 31, 2001	
	The company	The bank	The company	The bank
Total risk-based capital	10.3%	10.3%	10.4%	10.1%
Tier 1 risk-based capital	9.0%	9.0%	9.2%	8.9%
Leverage capital	7.4%	7.4%	8.2%	8.2%

Our objective is to maintain the capital levels such that the bank will continue to be considered well capitalized. The company has received loan commitment letters whereby the loan proceeds can be used by the company to increase the bank's capital position. Depending on the timing of when additional capital is obtained, the bank may be required to limit the level of growth that has been experienced in the past two years. As of March 31, 2002, there were no significant firm commitments outstanding for capital expenditures.

EFFECT OF INFLATION AND CHANGING PRICES

The effect of relative purchasing power over time due to inflation has not been taken into effect in our financial statements. Rather, the statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles in the United States of America.

Unlike most industrial companies, the assets and liabilities of financial institutions such as our company and bank are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on our performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. As discussed previously, we seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

OFF-BALANCE SHEET RISK

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At March 31, 2002, unfunded commitments to extend credit were $28.0 million, of which approximately $4.7 million is at fixed rates and $23.3 million is at variable rates. The significant portion of the unfunded commitments relates to consumer equity lines of credit. The bank anticipates, based on historical experience, that the significant portion of these lines of credit will not be funded. The bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At March 31, 2002, there was a $447,000 commitment under a letter of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in this report, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements, or transactions that could result in liquidity needs or other commitments that could significantly impact earnings.

MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates, which principally arises from interest rate risk inherent in our lending, investing, deposit gathering and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not normally arise in the normal course of our business. We actively monitor and manage our interest rate risk exposure.

The principal interest rate risk monitoring technique we employ is the measurement of our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when we are liability-sensitive.

Because approximately 71% of our loans were variable rate loans at March 31, 2002, we are currently asset sensitive over the one-year time frame.

However, our gap analysis is not a precise indicator of our interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Net interest income may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities.

LIQUIDITY & INTEREST RATE SENSITIVITY

Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is fairly predictable and subject to a high degree of control at the time the investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control.

At March 31, 2002 and December 31, 2001, our liquid assets, consisting of cash, due from banks and federal funds sold, amounted to $8.4 million and $3.0 million, representing 6.25% and 2.51% of total assets, respectively. Investment securities at March 31, 2002 and December 31, 2001 amounted to $15.0 million and $18.5 million, representing 11.24% and 15.58% of total assets, respectively; these securities provide a secondary source of liquidity since they can be converted into cash in a timely manner. Our ability to maintain and expand our deposit base and borrowing capabilities also serves as a source of liquidity.

We plan to meet our future cash needs through the liquidation of temporary investments, maturities and sale of loans, maturity of investment securities, and generation of deposits. During the fourth quarter of 2001, as a result of historically low rates that were being earned on short-term liquidity investments, we chose to maintain a lower than normal level of short-term liquidity securities. During the first quarter of 2002, the bank has increased its net liquidity position by approximately $22 million. This resulted primarily from increases in deposits, sales of participations in loan originations, and identification of additional qualifying collateral that was pledged to the FHLB that allows for additional borrowing capacity. The bank is a member of the Federal Home Loan Bank of Atlanta from which applications for borrowings can be made for leverage purposes, if so desired. The FHLB requires securities, qualifying single family mortgage loans, and stock of the FHLB owned by the bank be pledged to secure any advances from the FHLB. The unused borrowing capacity at March 31, 2002 that is currently available from the FHLB based on the amount of collateral pledged is approximately $6.5 million. In addition, the bank maintains a federal funds purchased lines of credit with a correspondent bank in the amount of $2.8 million. We have also obtained a $10.0 million line of credit that is available from a broker firm that holds $10.0 million of investment securities as collateral. As of March 31, 2002, both of the lines of credit were unused.

We believe that our existing stable base of core deposits, borrowings from the FHLB, and short-term repurchase agreements will enable us to successfully meet our liquidity needs for the foreseeable future.

Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities to minimize potentially adverse impacts on earnings from changes in market interest rates. The bank's asset/liability management committee ("ALCO") monitors and considers methods of managing exposure to interest rate risk. The ALCO consists of members of the board of directors and senior management of the bank and meets at least quarterly. The ALCO is charged with the responsibility to maintain the level of interest rate sensitivity of the bank's interest sensitive assets and liabilities within Board-approved limits.

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The following table presents our rate sensitivity at each of the time intervals indicated as of March 31, 2002. The table may not be indicative of our rate sensitivity position at other points in time. In addition, the table's maturity distribution may differ from the contractual maturities of the earning assets and interest bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios in the application of the interest rate sensitivity methods described above.

	Within three months	After three but within twelve months	After one but within five years	After five years	T
			(Dollars in thousands)		
Interest-earning assets:					
Federal funds sold	$ 6,461	$ -	$ -	$ -	$
Investment securities	131	5,645	8,705	-	
Loans	78,250	3,011	27,722	1,080	
Total earning assets	$ 84,842	$ 8,656	$ 36,427	$ 1,080	$
Interest-bearing liabilities:					
Money market and NOW	$ 37,946	$ -	$ -	$ -	$
Regular savings	289	-	-	-	
Time deposits	10,382	42,263	20,325	-	
Federal funds purchased	-	-	-	-	
Repurchase Agreements	-	-	-	-	

FHLB advances	-	-	-	3,000	
Total interest-bearing liabilities	$ 48,617	$ 42,263	$ 20,325	$ 3,000	$
Period gap	$ 36,225	$ (33,607)	$ 16,102	$ (1,920)	$
Cumulative gap	$ 36,225	$ 2,618	$ 18,720	$ 16,800	$
Ratio of cumulative gap to total earning assets	27.7%	2.0%	14.3%	12.8%	

ACCOUNTING, REPORTING AND REGULATORY MATTERS

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS Nos. 141 and 142 will change the accounting for business combinations and goodwill in two significant ways. First, SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. Second, SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. The application of these statements is not expected to have a material impact on our financial statements.

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In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143). SFAS 143 requires that obligations associated with the retirement of tangible long-lived assets be recorded as a liability when those obligations are incurred, with the amount of liability initially measured at fair value. SFAS 143 will be effective for financial statements beginning after June 15, 2002, though early adoption is encouraged. The application of this statement is not expected to have a material impact on our financial statements.

In July 2001, the FASB issued SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS 144 applies to all long-lived assets including discontinued operations, and amends Accounting Principle Board of Opinion No. 30, Reporting the Effect of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book or fair value less cost to sell. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and its provisions are generally expected to be applied prospectively. The application of this statement is not expected to have a material impact on our financial statements.

In July 2001, the SEC issued Staff Accounting Bulletin (SAB) No. 102 Selected Loan Loss Allowance Methodology and Documentation Issues. This staff accounting bulletin clearly defines the required development, documentation, and application of a systematic methodology for determining allowances for loan and lease losses in accordance with accounting principles generally accepted in the

United States of America. Management believes it is in compliance with the provisions of SAB No. 102.

Other accounting standards that have been issued or proposed by the Financial Accounting Standards Board that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or of which any of its property is the subject.

Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREENVILLE FIRST BANCSHARES, INC.

Date: May 13, 2002

/s/ R. Arthur Seaver,Jr.

R. Arthur Seaver, Jr.
Chief Executive Officer

/s/ James M. Austin, III

James M. Austin, III
Chief Financial Officer