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GREENVILLE FIRST BANCSHARES INC
Form 10QSB
May 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2003

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

(State of Incorporation)

58-2459561

(I.R.S. Employer Identification No.)

112 Haywood Road
Greenville, S.C.

(Address of principal executive offices)

29607

(Zip Code)

864-679-9000

(Telephone Number)

Not Applicable

(Former name, former address
and former fiscal year,
if changed since last report)

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 May 9, 2003.

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.

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GREENVILLE FIRST BANCSHARES, INC. & SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | March 31, ----- 2003 ----- (Unaudited) | Decem ----- 2 ----- (A |
|---|--|------------------------------------|
| Assets | | |
| Cash and due from banks | \$ 4,315,961 | \$ |
| Federal funds sold | 8,237,469 | |
| Investment securities available for sale | 5,440,101 | 1 |
| Other investments, at cost | 1,705,000 | |
| Loans, net | 157,753,883 | 14 |
| Accrued interest | 565,367 | |
| Property and equipment | 773,667 | |
| Other real estate owned | 625,316 | |
| Other assets | 587,111 | |
| | ----- | ----- |
| Total assets | \$ 180,003,875 ===== | \$ 17 ===== |
| Liabilities and Shareholders' Equity | | |
| Liabilities | | |
| Deposits | \$137,097,154 | \$133 |
| Official checks outstanding | 1,265,670 | |
| Federal funds purchased and repurchase agreements | 1,953,000 | 9 |
| Federal Home Loan Bank advances | 25,500,000 | 13 |
| Note payable | 3,000,000 | 2 |
| Accrued interest payable | 608,124 | |

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| | | |
|---|----------------|----------------|
| Accounts payable and accrued expenses | 188,984 | ----- |
| | | ----- |
| Total liabilities | 169,612,932 | 160 ----- |
| | | ----- |
| 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 | 11,500 | |
| Additional paid-in capital | 10,635,200 | 10 |
| Accumulated other comprehensive income | 139,960 | |
| Retained deficit | (395,717) | |
| | | ----- |
| Total shareholders' equity | 10,390,943 | 10 ----- |
| | | ----- |
| Total liabilities and shareholders' equity | \$ 180,003,875 | \$ 17 ===== |
| | | ===== |

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

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

| | |
|--|----------|
| | For |
| | ----- |
| | 2003 |
| | ----- |
| Interest income | |
| Loans | \$ 2,087 |
| Investment securities | 136 |
| Federal funds sold | 6 |
| | ----- |
| Total interest income | 2,231 |
| Interest expense | |
| Deposits | 729 |
| Borrowings | 162 |
| | ----- |
| Total interest expense | 891 |
| | ----- |
| Net interest income before provision for loan losses | 1,339 |

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| | |
|---|--------|
| Provision for loan losses | 300 |
| | ----- |
| Net interest income after provision for loan losses | 1,039 |
| | ----- |
| Noninterest income | |
| Loan fee income | 44 |
| Service fees on deposit accounts | 59 |
| Other income | 43 |
| | ----- |
| Total noninterest income | 147 |
| | ----- |
| Noninterest expenses | |
| Salaries and benefits | 479 |
| Professional fees | 33 |
| Marketing | 35 |
| Insurance | 26 |
| Occupancy | 161 |
| Data processing and related costs | 133 |
| Telephone | 5 |
| Other | 42 |
| | ----- |
| Total noninterest expenses | 916 |
| | ----- |
| Income before income taxes | 269 |
| | ----- |
| Income tax expense | 102 |
| | ----- |
| Net income | \$ 166 |
| | ===== |
| Income per common share: | |
| Basic | \$ |
| | ===== |
| Diluted | \$ |
| | ===== |
| Weighted average common shares outstanding: | |
| Basic | 1,150 |
| | ===== |
| Diluted | 1,222 |
| | ===== |

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 | | Additional Additional paid-in capital | Accumu- lated other compre- hensive income | R d |
|--|--------------|-----------|--|---|--------|
| | Shares | Amount | | | |
| December 31, 2001 | 1,150,000 | \$ 11,500 | \$10,635,200 | \$ 127,779 | \$ |
| Net income | - | - | - | - | |
| Comprehensive income (loss), net of tax | | | | | |
| Unrealized holding gain on securities available for sale | - | - | - | (81,892) | |
| Comprehensive income | - | - | - | - | |
| March 31, 2002 | 1,150,000 | \$ 11,500 | \$10,635,200 | \$ 45,887 | \$ |
| December 31, 2002 | 1,150,000 | \$ 11,500 | \$10,635,200 | \$ 147,333 | \$ |
| Net income | - | - | - | - | |
| Comprehensive income, net of tax | | | | | |
| Change in unrealized holding gain on securities available for sale | - | - | - | (7,773) | |
| Comprehensive income | - | - | - | - | |
| March 31, 2003 | 1,150,000 | \$ 11,500 | \$10,635,200 | \$ 139,960 | \$ |

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

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

| | For the |
|---|------------------------|
| | ----- 2003 ----- |
| Operating activities | |
| Net income | \$ 166,92 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | |
| Provision for loan losses | 300,00 |
| Depreciation and other amortization | 34,98 |
| Accretion and amortization of securities discounts and premium, net | 26,19 |
| Decrease (increase) in other assets, net | (253,30) |
| Increase (decrease) in other liabilities, net | 111,18 |
| | ----- |
| Net cash provided by operating activities | 385,98 |
| | ----- |
| Investing activities | |
| Increase (decrease) in cash realized from: | |
| Origination of loans, net | (9,974,87) |
| Purchase of property and equipment | (22,70) |
| Purchase of securities available for sale | (800,00) |
| Payments and maturity of securities' available for sale | 9,114,11 |
| | ----- |
| Net cash used for investing activities | (1,683,46) |
| | ----- |
| Financing activities | |
| Increase in deposits, net | 3,533,88 |
| Decrease in short-term borrowings | (7,154,00) |
| Increase in other borrowings | 500,00 |
| Increase (decrease) in Federal Home Loan Bank advances | 12,500,00 |
| | ----- |
| Net cash provided by financing activities | 9,379,88 |
| | ----- |
| Net increase in cash and cash equivalents | 8,082,40 |
| Cash and cash equivalents at beginning of the year | 4,471,02 |
| | ----- |
| Cash and cash equivalents at end of the year | \$ 12,553,43 |
| | ===== |
| Supplemental information | |
| Cash paid for | |

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| | |
|--|-----------|
| Interest | \$ 889,89 |
| | ===== |
| Income taxes | \$ 382,30 |
| | ===== |
| Supplemental schedule of non-cash transaction | |
| Foreclosure of real estate | \$ |
| | ===== |
| Unrealized gain on securities, net of income taxes | \$ (7,77 |
| | ===== |

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

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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.

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, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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 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.

Note 2 - Note Payable

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At March 31, 2003, the company had a \$3.5 million revolving line of credit with another bank with a maturity of March 20, 2004. At March 31, 2003, the company had outstanding \$3.0 million. The company used \$2.5 million to repay a similar line of credit and \$500,000 to increase its investment in the bank. The line of credit bears interest at a rate of three-month libor plus 2.00%, which at March 31, 2003 was 3.30%. The company has pledged the stock of the bank as collateral for this line of credit. The line of credit agreement contains various covenants related to earnings and asset quality. As of March 31, 2003, the company was in compliance with all covenants.

Note 3 - Stock Based Compensation

The company has a stock-based employee compensation plan that is further described in Note 17. The company accounts for the plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all stock options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB"), SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

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| | For the Three Months ended March 31 | |
|---|-------------------------------------|------|
| | 2003 | 2002 |
| Net income, as reported | \$ 166,927 | \$ |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (19,613) | |
| Pro forma net income | \$ 141,927 | \$ |
| Earnings per common share: | | |
| Basic - as reported | \$.15 | \$ |
| Basic - pro forma | \$.12 | \$ |
| Diluted - as reported | \$.14 | \$ |
| Diluted - pro-forma | \$.11 | \$ |

The fair value of the option grant is estimated on the date of grant

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using the Black-Scholes option-pricing model. The following assumptions were used for grants: expected volatility of 10% for 2002 and 2001, risk-free interest rate of 3.00% for 2002 and 2001, respectively, and expected lives of the options 10 years and the assumed dividend rate was zero.

Note 4 - Earnings per Share

The following schedule reconciles the numerators and denominators of the basic and diluted earnings per share computations for the three months ended March 31, 2003 and 2002. Dilutive common shares arise from the potentially dilutive effect of Greenville First Bancshares, Inc.'s stock options and warrants that are outstanding. The assumed conversion of stock options and warrants can create a difference between basic and dilutive net income per common share.

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 |
|-----------------------------------|---|---|
| | ----- | ----- |
| Basic Earnings Per Share | | |
| Average common shares | 1,150,000 | 1,150,000 |
| Net income | \$ 166,927 | \$ 42,813 |
| Earnings per share | \$.15 | \$.04 |
| Diluted Earnings Per Share | | |
| Average common shares outstanding | 1,150,000 | 1,150,000 |
| Average dilutive common shares | 72,702 | - |
| | ----- | ----- |
| Adjusted average common shares | 1,222,702 | 1,150,000 |
| Net income | \$ 166,927 | \$ 42,813 |
| Earnings per share | \$.14 | \$.04 |

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Item 2. Management's Discussion and Analysis or Plan of Operation.

DISCUSSION OF FORWARD-LOOKING STATEMENTS

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," and "estimate," as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to:

- o significant increases in competitive pressure in the banking and financial services industries;

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- o changes in the interest rate environment which could reduce anticipated or actual margins;
- o changes in political conditions or the legislative or regulatory environment;
- o the level of allowance for loan loss;
- o the rate of delinquencies and amounts of charge-offs;
- o the rates of loan growth;
- o adverse changes in asset quality and resulting credit risk-related losses and expenses;
- o general economic conditions, either nationally or regionally and especially in primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- o changes occurring in business conditions and inflation;
- o changes in technology;
- o changes in monetary and tax policies;
- o changes in the securities markets; and
- o other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

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, 2002 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 carrying 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.

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GENERAL

The following is a discussion of our financial condition as of March 31, 2003 and the results of operations for the three months ended March 31, 2003. 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, the first quarter of 2003 and during most of 2002 and 2001, the United States experienced a slowing economy following ten years 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 fourth quarter of 2002, the Federal Reserve adjusted the Federal Funds rate down an additional 50 basis points. During the first quarter of 2003, the Federal Reserve left Federal Funds rates unchanged.

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. Many economists believe the Federal Reserve will begin increasing interest rates in 2004. 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.

INCOME STATEMENT REVIEW

Comparison of the three months ended March 31, 2003 and the three months ended March 31, 2002.

Net Interest Income

Net interest income, the largest component of our income, was \$1,339,079 for the three months ended March 31, 2003 compared to \$944,178 for the same period in 2002, or an increase of 41.8%. The level of net interest income is determined by the balances of earning assets and interest-bearing liabilities combined with the bank's management of the net interest margin. The following events affect the changes in net interest income: interest rates earned on assets and paid on liabilities, the rate of growth of the asset and liability base, the ratio of interest-earning assets to interest-bearing liabilities, and the management of the balance sheet's interest rate sensitivity.

Interest income for the first quarter of 2003 was \$2,231,029 and consisted of \$2,087,996 on loans, \$136,544 in investments and \$6,489 on federal funds sold. Interest income for the same period in 2002 was \$1,790,358 and included \$1,586,655 on loans, \$181,153 on investments and \$22,550 on federal funds sold.

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Interest expense for the first quarter of 2003 was \$891,950 and consisted of \$729,480 related to deposits and \$162,470 related to borrowings. Our interest expense of \$846,180 during the first quarter of 2002 consisted of \$769,597 related to deposits and \$76,583 related to borrowings. Our interest expense increased \$45,770, or 5.4%, while our average deposits and borrowings increased from \$115.0 million for the quarter ended March 31, 2002 to \$163.9 million for the quarter ended March 31, 2003, an increase of 42.5%. The increase in our interest expense was proportionately less than the increase in our deposits and borrowings because of the declining interest rate environment.

The following table sets forth, for the three months ended March 31, 2003 and 2002, information related to our average balance sheet and average yields on assets and average costs of liabilities. We derived these yields by dividing annualized 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, 2003 | | | | |
|---|--|-------------------|----------------|--------------------|-------------------|
| | Average Balance | Income Expense | Yield/ Rate | Average Balance | Income Expense |
| Federal funds sold | \$ 2,351 | \$ 7 | 1.21% | \$ 5,000 | \$ |
| Investment securities | 13,773 | 136 | 4.00% | 13,353 | 1 |
| Loans | 154,242 | 2,088 | 5.49% | 104,620 | 1,5 |
| Total earning-assets | 170,366 | 2,231 | 5.31% | 122,973 | 1,7 |
| Non-interest earning assets | 6,206 | | | 5,825 | |
| Total assets | \$176,572 | | | \$128,798 | |
| NOW accounts | \$ 27,584 | \$ 32 | .47% | \$ 19,870 | \$ |
| Savings & money market | 20,500 | 33 | .65% | 22,299 | |
| Time deposits | 84,764 | 664 | 3.18% | 62,534 | 6 |
| Total interest-bearing deposits | 132,848 | 729 | 2.23% | 104,703 | 7 |
| FHLB advances | 21,167 | 118 | 2.26% | 5,867 | |
| Other borrowings | 9,704 | 45 | 1.88% | 4,465 | |
| Total interest-bearing liabilities | 163,719 | 892 | 2.21% | 115,035 | 8 |
| Non-interest bearing liabilities | 2,354 | | | 4,311 | |
| Shareholders'equity | 10,499 | | | 9,452 | |
| Total liabilities and shareholders'equity | \$176,572 | | | \$128,798 | |
| Net interest spread | | | 3.10% | | |
| Net interest income/margin | | \$ 1,339 | 3.19% | | \$ 9 |

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Our net interest spread was 3.10% for the three months ended March 31, 2003 as compared to 2.92% for the three months ended March 31, 2002. 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 quarter ended March 31, 2003 was 3.19% as compared to 3.11% for the three months ended March 31, 2002. The net interest margin is calculated as the annualized net interest income divided by quarterly average earning assets.

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

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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.

| | Three months ended March 31, | | | | | | |
|-------------------------------|------------------------------|--------------|-----------------|------------|---------------------|--------------|-----------------|
| | 2003 vs 2002 | | | | 2002 vs 2001 | | |
| | Increase (Decrease) Due to | | | | Increase (Decrease) | | |
| | Volume | Rate | Rate/ Volume | Total | Volume | Rate | Rate/ Volume |
| Interest income | | | | | | | |
| Loans | \$ 753 | (171) | (81) | 501 | 1,193 | (359) | () |
| Investment securities | 6 | (49) | (2) | (45) | 10 | (46) | () |
| Federal funds sold | (12) | (7) | 4 | (15) | 6 | (42) | () |
| Total interest income | 747 | (227) | (79) | 441 | 1,209 | (447) | () |
| Interest expense | | | | | | | |
| Deposits | 207 | (195) | (53) | (41) | 604 | (361) | () |
| FHLB advances | 128 | (16) | (43) | 69 | 49 | - | () |
| Other borrowings | 32 | (6) | (8) | 18 | 27 | - | () |
| Total interest expense | 367 | (217) | (104) | 46 | 680 | (361) | () |
| Net interest income | \$ 380 | (10) | 25 | 395 | 529 | (86) | () |

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As the above table demonstrates, the change in our net interest income is primarily due to the increase in our assets and liabilities, reflecting the continued growth of the bank. This increase is partially offset by the decrease in the rates as a result of the significant reduction in market rates over the last two years.

Provision for Loan Losses

Included in the results of operations for the quarters ended March 31, 2003 and 2002 is a non-cash expense of \$300,000 and \$200,000, respectively, related to the provision for loan losses. The loan loss reserve was \$2,119,180 at March 31, 2003 and \$1,824,149 at December 31, 2002. The allowance for loan losses as a percentage of gross loans was 1.33% at March 31, 2003 and 1.22% at December 31, 2002. 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, 2003 and 2002, we reported net charge-offs of \$4,969 and \$4,121, respectively. These net charge-offs relate to consumer loans and credit lines associated with customer checking accounts.

Noninterest Income and Expenses

Noninterest income in the first quarter of 2003 was \$147,153, an increase of 42.9% over noninterest income of \$102,950 in the first quarter of 2002. 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.

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We incurred general and administrative expenses of \$916,998 for the three months ended March 31, 2003 compared to \$804,315 for the same period in 2002. The \$112,683 increase in general and administrative expenses resulted primarily from additional data processing costs and the additional staff hired to handle the increases in both loans and deposits. Salaries and benefits in first quarter 2003 were \$479,278, or an increase of \$47,755. Salaries and benefits represented 52.3% of the total noninterest expense. Salaries and benefits in first quarter 2002 were \$431,523. All other expenses increased only \$64,928. This increase relates primarily to \$39,158 additional data processing and related costs, \$10,951 increase in marketing cost and \$15,372 of additional occupancy expenses.

BALANCE SHEET REVIEW

General

At March 31, 2003, we had total assets of \$180.0 million, consisting principally of \$157.8 million in loans, \$15.4 million in investments and \$4.3 million in cash and due from banks. Liabilities at March 31, 2003 totaled \$169.6 million, consisting principally of \$137.1 million in deposits, \$25.5 million in FHLB advances and \$5.0 million in other borrowings. At March 31, 2003, shareholders' equity was \$10.4 million.

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Investments

At March 31, 2003, the \$5.4 million of investment securities portfolio available for sale represented approximately 3.0% of our total assets. We invested in U.S. Government agency securities and mortgage-backed securities with a fair value of \$5.4 million and an amortized cost of \$15.2 for an unrealized gain of \$212,060.

Contractual maturities and yields on our investments (all available for sale) at March 31, 2003 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.

| | Within one year | Yield | After one but Within five Years | Yield | Over Five years | Yield | Total |
|----------------------------|--------------------|-------|---------------------------------------|-------|--------------------|-------|----------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| U.S. Government agencies | \$ - | - | \$ 1,126 | 5.29% | \$ - | - | \$ 1,126 |
| Mortgage-backed securities | - | - | - | - | 4,314 | 4.71% | 4,314 |
| Total | - | - | \$ 1,126 | 5.29% | \$ 4,314 | 4.71% | \$ 5,440 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

At March 31, 2003, the \$8.2 million of short-term investments in federal funds sold on an overnight basis comprised 4.58% of total assets at March 31, 2003, as compared to \$41,736, or .02%, of total assets at December 31, 2002. As a result of a \$6.0 million investment security being called at the end of March 2003, the bank had a lower than normal level of investment securities at March 31, 2003 and a higher than normal level of federal funds sold.

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, 2003 and 2002 were \$154.2 million and \$104.6 million, respectively. Total loans outstanding at March 31, 2003 and December 31, 2002 were \$159.9 million and \$149.9 million, respectively, before allowance for loan losses.

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The following table summarizes the composition of the loan portfolio:

| | March 31, 2003 | | December 31, 2002 | |
|--|----------------|------------|-------------------|------------|
| | Amount | Percentage | Amount | Percentage |

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Real estate:

| | | | | |
|-----------------------------------|----------------|---------|----------------|--|
| Commercial | | | | |
| Owner occupied | \$ 30,885,899 | 19.32% | \$ 22,653,311 | |
| Non-owner occupied | 42,344,576 | 26.49% | 43,076,993 | |
| Construction | 3,352,359 | 2.09% | 4,007,650 | |
| | ----- | ----- | ----- | |
| | 76,584,834 | 47.90% | 69,737,954 | |
| | ----- | ----- | ----- | |
| Consumer | | | | |
| Residential | 24,113,906 | 15.08% | 25,499,625 | |
| Home Equity | 19,548,679 | 12.23% | 18,069,407 | |
| Construction | 4,044,378 | 2.53% | 4,199,848 | |
| | ----- | ----- | ----- | |
| | 47,706,963 | 29.84% | 47,768,880 | |
| | ----- | ----- | ----- | |
| Total real-estate | 124,291,797 | 77.74% | 117,506,834 | |
| Commercial business | 31,035,880 | 19.41% | 28,192,407 | |
| Consumer-other | 4,949,566 | 3.10% | 4,590,552 | |
| Deferred origination fees, net | (404,180) | (.25%) | (386,632) | |
| | ----- | ----- | ----- | |
| | 159,883,063 | 100.00% | 149,903,161 | |
| | ===== | ===== | ===== | |
| Less allowance for loan Losses | (2,119,180) | | (1,824,149) | |
| | ----- | | ----- | |
| Total loans, net | \$ 157,753,883 | | \$ 148,079,012 | |
| | ===== | | ===== | |

The principal component of our loan portfolio at March 31, 2003 and at December 31, 2002 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 by expensing a provision for loan losses 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 increase the allowance periodically by additional provisions 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 addition, regulatory agencies periodically review our allowance for loan losses as part of their examination

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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.

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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, 2003 and at December 31, 2002, the allowance for loan losses was \$2.1 million and \$1.8 million, respectively, or 1.33% of outstanding loans at March 31, 2003 and 1.22% at December 31, 2002, respectively. During the three months ended March 31, 2003 and 2002, we charged off loans of \$4,969 and \$4,121, respectively.

At March 31, 2003, nonaccrual loans totaled \$284,078, which represented .18% of total loans. Included in the \$284,078 are nonaccrual commercial loans of \$268,814 and consumer loans of \$15,264. During the first quarter of 2002, the bank obtained ownership through foreclosure procedures on the residential construction loan that was on nonaccrual status at December 31, 2001. At March 31, 2003, the bank carried this asset as real estate owned with a carrying value of approximately \$625,316. 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.

The following table summarizes the loan maturity distribution, by type, and related interest rate characteristics at March 31, 2003 (dollars in thousands):

| | One year or less | After one but Within five Years | After five years | Total |
|--|---------------------|---------------------------------------|---------------------|-------|
|--|---------------------|---------------------------------------|---------------------|-------|

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| | | | | |
|----------------------------|-----------|------------|----------|------------|
| Commercial | \$ 16,955 | \$ 14,004 | \$ 55 | \$ 31,014 |
| Real estate - construction | 3,842 | 2,367 | 1,188 | 7,397 |
| Real estate- mortgage | 15,789 | 98,036 | 2,683 | 116,508 |
| Consumer and other | 2,319 | 2,326 | 309 | 4,954 |
| | ----- | ----- | ----- | ----- |
| Total loans | \$ 38,905 | \$ 116,733 | \$ 4,235 | \$ 159,873 |
| | ===== | ===== | ===== | ===== |

Loans maturing after one year with:

| | |
|-------------------------|-----------|
| Fixed interest rates | \$ 29,032 |
| Floating interest rates | \$ 91,936 |

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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. We believe that conditions in 2003 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 2003.

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

| | March 31, 2003 | | December 31, 2002 |
|------------------------------------|----------------|---------|-------------------|
| | ----- | ----- | ----- |
| Demand deposit accounts | \$ 15,126 | 11.03% | \$ 13,809 |
| NOW accounts | 15,063 | 10.99% | 15,378 |
| Money market accounts | 18,296 | 13.35% | 19,727 |
| Savings accounts | 2,139 | 1.56% | 1,774 |
| Time deposits less than \$100,000 | 32,165 | 25.70% | 32,024 |
| Time deposits of \$100,000 or more | 54,308 | 37.37% | 50,851 |
| | ----- | ----- | ----- |
| Total deposits | \$ 137,097 | 100.00% | \$ 133,563 |
| | ===== | ===== | ===== |

Core deposits, which traditionally 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 \$85.9 million and \$82.7 million at March 31, 2003 and December 31, 2002, respectively. Our loan-to-deposit ratio was 115.07% and 110.87% at March 31, 2003 and December 31, 2002, respectively.

A significant portion of the time deposits over \$100,000 relate to deposits that were obtained outside of our local market. The maturities 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.

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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. Generally, we do not plan to renew these short-term deposits.

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

| | March 31, 2003 | December 31, 2002 |
|--------------------------------|------------------------|-------------------|
| | ----- | ----- |
| | (Dollars in thousands) | |
| | ----- | ----- |
| Three months or less | \$ 8,448 | \$ 13,226 |
| Over three through six months | 13,304 | 9,155 |
| Over six through twelve months | 15,101 | 10,391 |
| Over twelve months | 17,455 | 18,079 |
| | ----- | ----- |
| Total | \$ 54,308 | \$ 50,851 |
| | ===== | ===== |

Borrowings

At March 31, 2003, the bank had \$1,953,000 sales of securities under an agreement to repurchase with brokers with a weighted rate of 1.33% that mature in less than 30 days. This agreement is secured with approximately \$2,000,000 of investment securities.

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At March 31, 2003, the bank had two unused federal funds purchased line of credit totaling \$6,700,000. These lines of credit are unsecured and bears interest at the daily rate of federal funds plus 25 basis points (1.50% at March 31, 2003).

At March 31, 2003, the bank had \$25,500,000 of advances from the FHLB. These advances are secured with approximately \$37,000,000 of first mortgage loans and the bank's stock in the FHLB. The bank had collateral available to borrow an additional \$11,500,000 advances at March 31, 2003. Listed below is a summary of the term and maturities of the advances:

- o The maturity on \$5,000,000 of the advances with a weighted rate of 1.63% is July 16, 2004. The FHLB has the option to re-price this advance as of April 16, 2003.
- o The maturity on \$7,500,000 of the advances with a weighted rate of 1.21% is March 10, 2006. The FHLB has the option to re-price this advance as of March 10, 2004.
- o The maturity on \$5,000,000 of the advances with a weighted rate of 1.56% is October 15, 2007. The FHLB has the option to re-price this advance as of October 15, 2003.
- o The maturity on \$3,000,000 of the advances with a weighted rate of 4.86% is August 24, 2011. The FHLB has the option to re-price this advance as of August 24, 2006.
- o The maturity on \$5,000,000 of the advances with a weighted rate of 3.36% is January 30, 2013. The FHLB has the option to re-price this advance as of

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January 30, 2008.

At March 31, 2003, the company had a \$3,500,000 revolving line of credit with another bank with a maturity of June 20, 2004. At March 31, 2003, the company had \$3,000,000 outstanding on this line of credit. The company used \$2,500,000 of the proceeds to repay a line of credit with another bank and \$500,000 to increase its investment in the bank. The line of credit bears interest at a rate of the three-month libor rate plus 200 basis points, which at March 31, 2003 was 3.30%. The company has pledged all of the stock of the bank as collateral for this line of credit. The line of credit agreement contains various covenants related to net income and asset quality. As of March 31, 2003, the company believes it is in compliance with all covenants.

CAPITAL RESOURCES

Total shareholders' equity amounted to \$10.4 million at March 31, 2003 and \$10.2 million at December 31, 2002. The increase during the three months ended March 31, 2003 resulted from \$166,927 of net income partly offset by \$7,773 decrease in the unrealized gains on investment securities.

The following table shows the annualized return on average assets (annualized net income divided by average total assets), return on average equity (annualized 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 any cash dividends.

| | March 31, ----- 2003 ---- | December 31, ----- 2002 ---- |
|--------------------------|------------------------------------|---------------------------------------|
| Return on average assets | .38% | .5% |
| Return on average equity | 6.45% | 7.7% |
| Equity to assets ratio | 5.85% | 8.0% |

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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%.

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.

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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, 2003 and December 31, 2002. At March 31, 2003 and December 31, 2002, both the company and the bank were in compliance with each of the applicable regulatory capital requirements and the bank was considered to be "well capitalized."

| | March 31, 2003 | | December 31, 2002 | |
|---------------------------|----------------|-------|-------------------|-------|
| | Company | Bank | Company | Bank |
| Total risk-based capital | 8.3% | 10.3% | 8.6% | 10.3% |
| Tier 1 risk-based capital | 7.0% | 9.0% | 7.4% | 9.1% |
| Leverage capital | 6.8% | 7.4% | 6.1% | 7.5% |

Our objective is to maintain the capital levels such that the bank will continue to be considered well capitalized. Depending on the timing of when additional capital is obtained, we may be required to limit the level of the bank's growth that has been experienced in the past three years. In April of 2003, we committed to participate in a pooled trust preferred debt offering. We anticipate receiving \$6.0 million in additional capital for the bank in June of 2003 if the offering is successful. We anticipate that the significant portion of the \$6.0 million will qualify as regulatory capital. We can give no assurance that the offering will be completed, nor that the capital will qualify as regulatory capital.

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

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contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At March 31, 2003, unfunded commitments to extend credit were \$36.2 million, of which approximately \$9.0 million is at fixed rates and \$27.2 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, 2003, there was a \$757,000 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 result in liquidity needs or other commitments that we believe are likely to 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 76% of our loans are variable rate loans at March 31, 2003, 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, 2003 and December 31, 2002, our liquid assets, consisting of cash, due from banks and federal funds sold, amounted to \$12.6 million and \$4.5 million, representing 7.0% and 2.6% of total assets, respectively. Investment securities at March 31, 2003 and December 31, 2002 amounted to \$7.1 million and \$15.5 million, representing 4.0% and 9.1% 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 2003, we have utilized proceeds from the short-term advances from the FHLB and short-term repurchase agreements from brokerage firms, proceeds from sales of participations in loans originated, and an increase in deposits to fund the significant portion of the 2003 loan production. By utilizing the various short-term sources of funding, we have been able to reduce the bank's level of interest sensitivity while obtaining low cost funds. 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 and commercial mortgage loans, and stock of the FHLB owned by the bank is pledged to secure any advances from the FHLB. The unused borrowing capacity at March 31, 2003 that is currently available from the FHLB based on the amount of collateral pledged is approximately \$11.5 million. In addition, the bank maintains two federal funds purchased line of credit with a correspondent bank, totaling \$6.7 million. At March 31, 2003, the unused portion of the lines was \$6.7 million. We have also obtained a \$10.0 million line of credit that is available from a brokerage firm based on the amount of collateral held by the firm. At March 31, 2003, the firm held \$4.0 million of investment securities as collateral. As of March 31, 2003, the bank had utilized approximately \$2.0 million of the brokerage firm's line of credit.

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")

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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, 2003. 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 ----- |
|--|------------------------------------|---|--|---------------------------------|
| (Dollars in thousands) | | | | |
| Interest-earning assets: | | | | |
| Federal funds sold | \$ 8,237 | \$ - | \$ - | \$ - |
| Investment securities | 450 | 1,340 | 2,856 | 794 |
| Loans | 121,596 | 6,363 | 31,556 | 358 |
| | ----- | ----- | ----- | ----- |
| Total earning assets | \$ 130,283 | \$ 7,703 | \$ 34,412 | \$ 1,152 |
| | ----- | ----- | ----- | ----- |
| Interest-bearing liabilities: | | | | |
| Money market and NOW | \$ 33,859 | \$ - | \$ - | \$ - |
| Regular savings | 2,139 | - | - | - |
| Time deposit | 16,325 | 41,634 | 28,015 | - |
| Other borrowings | 3,000 | - | - | - |
| Repurchase Agreements | 1,953 | - | - | - |
| FHLB advances | 5,000 | 12,500 | 8,000 | - |
| | ----- | ----- | ----- | ----- |
| Total interest-bearing liabilities | \$ 62,276 | \$ 54,134 | \$ 36,015 | \$ - |
| | ----- | ----- | ----- | ----- |
| Period gap | \$ 68,007 | \$ (46,431) | \$ (1,603) | \$ 1,152 |
| Cumulative gap | \$ 68,007 | \$ 21,576 | \$ 19,973 | \$ 21,125 |
| Ratio of cumulative gap to total earning assets | 39.2% | 12.4% | 11.5% | 12.2% |

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ACCOUNTING, REPORTING AND REGULATORY MATTERS

Accounting standards have been issued or proposed by the Financial Accounting Standards Board and are not required to be adopted until a future date and are not expected to have a material impact on the consolidated financial statements upon adoption.

Item 3. Controls and Procedures

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

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: See Exhibit Index attached hereto.

| Exhibit | Description |
|---------|-------------|
| ----- | ----- |

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99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The following reports were filed on Form 8-K during the first quarter ended March 31, 2003.

The company filed a Form 8-K on March 28, 2003 to disclose that the Chief Executive Officer, R. Arthur Seaver, Jr. and the Chief Financial Officer, James M. Austin, III, each furnished to the SEC the certification required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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 12, 2003

/s/ R. Arther Seaver, Jr.

R. Arthur Seaver, Jr.
Chief Executive Officer

/s/ James M. Austin, III

James M. Austin, III
Chief Financial Officer

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CEO Certification

I, R. Arthur Seaver, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Greenville First Bancshares, Inc.;

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2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

By: /s/ R. Arthur Seaver, Jr.

R. Arthur Seaver, Jr. President and
Chief Executive Officer

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CFO Certification

I, James M. Austin, III, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Greenville First Bancshares, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

By: /s/ James M. Austin, III

James M. Austin, III
Chief Financial Officer

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INDEX TO EXHIBITS

| Exhibit Number | Description |
|-------------------|---|
| 99.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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