GREENE COUNTY BANCSHARES INC
Form 10-Q
May 11, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For Quarter ended March 31, 2001

Commission File Number
0-14289

GREENE COUNTY BANCSHARES, INC.
(Exact name of Registrant as specified in its charter)

Tennessee	62-1222567
(State or other jurisdiction of incorporated or organization)	(IRS Employer Identification Number)
Main & Depot Street Greeneville, Tennessee	37743
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 423-639-5111

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate the number or shares outstanding of each of the Issuers classes of common stock as of the latest practicable date: 1,363,778.

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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements of the Registrant and its wholly owned subsidiaries are as follows:

Condensed Consolidated Balance Sheets - March 31, 2001 and December 31, 2000.

Condensed Consolidated Statements of Income - For the three months ended March 31, 2001 and 2000.

Condensed Consolidated Statement of Stockholders' Equity - For the three months ended March 31, 2001.

Condensed Consolidated Statements of Cash Flows - For the three months ended March 31, 2001 and 2000.

Notes to Condensed Consolidated Financial Statements.

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GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	(UNAUDITED) MARCH 31, 2001	DECEMBER 31, 2000*
ASSETS		
Cash and due from banks	$ 22,996	$ 24,038
Federal funds sold	12,928	8,130
Securities available-for-sale ("AFS")	18,341	46,658
Securities held-to-maturity (with a market value of $1,774 on March 31, 2001 and $1,869 on December 31, 2000)	1,767	1,866
FHLB and Bankers Bank stock, at cost	4,327	4,254
Loans held for sale	3,724	1,725
Loans	683,900	667,068
Less: allowance for loan losses	12,271	11,728
NET LOANS	671,629	655,340
Bank premises and equipment, net of accumulated depreciation	24,986	23,934
Other assets	20,849	23,172
TOTAL ASSETS	$781,547	$789,117
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$631,329	$648,641
Federal funds purchased and repurchase agreements	4,634	4,713

Notes payable	68,836	59,949
Accrued interest payable and other liabilities	11,582	12,804
TOTAL LIABILITIES	716,381	726,107
SHAREHOLDERS' EQUITY		
Common Stock, par value $10, authorized 5,000,000 shares; issued and outstanding 1,363,778 shares at March 31, 2001 and December 31, 2000	13,638	13,638
Paid in Capital	4,854	4,854
Retained Earnings	46,557	44,467
Accumulated Other Comprehensive Income (Loss)	117	51
TOTAL SHAREHOLDERS' EQUITY	65,166	63,010
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$781,547	$789,117

* Condensed from Audited Financial Statements.
See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31, 2001	2000
INTEREST INCOME:		
Interest and Fees on Loans	$ 17,484	$ 14,
Interest on Investment Securities	469	
Interest on Federal Funds Sold and Other Interest-earning Deposits	229	
TOTAL INTEREST INCOME	18,182	15,
INTEREST EXPENSE:		
Interest on Deposits	7,081	5,
Interest on Borrowings	841	
TOTAL INTEREST EXPENSE	7,922	6,
NET INTEREST INCOME	10,260	9,

Provision for Loan Losses	1,439	1,
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,821	7,
NONINTEREST INCOME:		
Service Charges, Commissions and Fees	1,730	1,
Other Income	586	
TOTAL NONINTEREST INCOME	2,316	1,
NONINTEREST EXPENSE:		
Salaries and Benefits	4,124	3,
Occupancy and Furniture and Equipment Expense	954	
Other Expenses	1,457	1,
TOTAL NONINTEREST EXPENSE	6,535	6,
INCOME BEFORE INCOME TAXES	4,602	3,
Income Taxes	1,694	
NET INCOME	$ 2,908	$ 2,
PER SHARE OF COMMON STOCK:		
Net Income, Basic	$2.13	$1
Net Income, Assuming Dilution	$2.11	$1
Dividends	$0.60	$0

See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	COMMON STOCK	PAID IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	T
JANUARY 1, 2001	$ 13,638	$ 4,854	$ 44,467	$ 51	$ 6
Net income	--	--	2,908	--	

Change in unrealized gain on AFS securities, net of tax:	--	--	--	66	---
Comprehensive income	2,974				
Dividends paid	--	--	(818)	--	
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MARCH 31, 2001	$ 13,638	$ 4,854	$ 46,557	$ 117	$ 6
	========	========	========	========	===

See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

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GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	MARCH 31, 2001
NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Net Income	$ 2,908
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	1,439
Depreciation and amortization	372
Amortization of premiums on securities, net of accretion	38
FHLB stock dividends	(73)
Loans originated for sale	(14,655)
Proceeds from loans originated for sale	12,730
Net realized (gain) loss on sale of loans originated for sale	(74)
Loss on other real estate owned	56
Net Changes:	
Accrued interest receivable and other assets, net of intangibles	2,383
Accrued interest payable and other liabilities	(1,251)

NET CASH PROVIDED BY OPERATING ACTIVITIES	3,873

CASH FLOWS FROM INVESTING ACTIVITIES:	
Net decrease (increase) in securities and other interest-earning investments	28,485
Net originations of loans held-to-maturity	(19,011)
Improvements in other real estate owned and proceeds from sales of other real estate owned, net	1,125
Fixed asset additions and proceeds from sales of fixed asset, net	(1,424)

NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	9,175

CASH FLOWS FROM FINANCING ACTIVITIES:	
Net (decrease) increase in deposits	(17,311)

Decrease in federal funds purchased	0
(Decrease) increase in securities sold under repurchase agreements	(80)
Increase in notes payable, net	8,917
Proceeds from issuance of common stock	0
Cash dividends paid	(818)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(9,292)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,756
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	32,168
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 35,924

See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

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GREENE COUNTY BANCSHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1-PRINCIPLES OF CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements of Greene County Bancshares, Inc. (the "Company") and its wholly owned subsidiary, Greene County Bank (the "Bank"), have been prepared in accordance with generally accepted accounting principles for interim information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. 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. All interim amounts are subject to year-end audit and the results of operations for the interim period herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Certain amounts from prior period financial statements have been reclassified to conform to the current year's presentation.

2-ALLOWANCE FOR LOAN LOSSES

Transactions in the Allowance for Loan Losses for the three months ended March 31, 2001 and twelve months ended December 31, 2000 were as follows:

	March 31, 2001	December 31, 2000
	(in thousands)	
Balance at beginning of year	$ 11,728	$ 10,332
Add (Deduct):		
Charge-offs	(1,276)	(7,788)
Recoveries	380	1,175
Provisions	1,439	8,009

Ending Balance	$ 12,271	$ 11,728

	March 31, 2001	December 31, 2000
	(in thousands)	
Loans past due 90 days still on accrual	$ 791	$ 475
Nonaccrual Loans	5,218	4,813
Total	$ 6,009	$ 5,288

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3-EARNINGS PER SHARE OF COMMON STOCK

Basic earnings per share (EPS) of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares and common stock equivalents outstanding during the period. Stock options are regarded as common stock equivalents. Common stock equivalents are computed using the treasury stock method.

The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three months ended March 31, 2001 and 2000:

(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)
THREE MONTHS ENDED MARCH 31,

	2001		2000	
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	INCOME (NUMERATOR)	SHAR (DENOMIN
BASIC EPS				
Income available to common shareholders	$2,908	1,363,778	$2,157	1,360,
EFFECT OF DILUTIVE SECURITIES				
Stock options outstanding	--	12,055	--	11,
DILUTED EPS				
Income available to common shareholders plus assumed conversions	$2,908	1,375,833	$2,157	1,371,

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4-SEGMENT INFORMATION

The Company's operating segments include banking, mortgage banking, consumer finance, subprime automobile lending and title insurance. The reportable segments are determined by the products and services offered, and internal reporting. Loans, investments, and deposits provide the revenues in the banking operation, loans and fees provide the revenues in consumer finance, mortgage banking, and subprime lending and insurance commissions provide revenues for the title insurance company. Mortgage banking, consumer finance, subprime automobile lending and title insurance do not meet the quantitative threshold on an individual basis, and are therefore shown below in "other". All operations are domestic.

Segment performance is evaluated using net interest income and noninterest income. Income taxes are allocated based on income before income taxes and indirect expenses (includes management fees) are allocated based on time spent for each segment. Transactions among segments are made at fair value. Information reported internally for performance assessment follows.

(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

SEGMENT INFORMATION:

THREE MONTHS ENDED MARCH 31, 2001	BANK	OTHER	TOTAL
Net interest income	$ 8,658	$ 1,602	$ 10,260
Provision for loan losses	(87)	1,526	1,439
Noninterest income	1,645	671	2,316
Noninterest expense	5,350	1,185	6,535
Income tax expense	1,945	(251)	1,694
SEGMENT PROFIT	$ 3,095	$ (187)	$ 2,908
SEGMENT ASSETS	$ 740,196	$ 41,351	$ 781,547

THREE MONTHS ENDED MARCH 31, 2000	BANK	OTHER	TOTAL
Net interest income	$ 7,809	$ 1,643	$ 9,452
Provision for loan losses	300	1,417	1,717
Noninterest income	998	559	1,557
Noninterest expense	4,816	1,468	6,284
Income tax expense	1,156	(305)	851
SEGMENT PROFIT	$ 2,535	$ (378)	$ 2,157
SEGMENT ASSETS	$ 747,805	$ 41,312	$ 789,117

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING ALL DOCUMENTS INCORPORATED HEREIN BY REFERENCE, CONTAINS FORWARD-LOOKING STATEMENTS. ADDITIONAL WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS MAY BE MADE BY THE COMPANY FROM TIME TO TIME IN FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION OR OTHERWISE. THE WORDS "BELIEVE", "EXPECT", "SEEK", AND "INTEND" AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE THE STATEMENT IS MADE. SUCH FORWARD-LOOKING STATEMENTS ARE WITHIN THE MEANING OF THAT TERM IN SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INCLUDE, BUT ARE NOT LIMITED TO, PROJECTIONS OF INCOME OR LOSS, EXPENDITURES, ACQUISITIONS, PLANS FOR FUTURE OPERATIONS, FINANCING NEEDS OR PLANS RELATING TO SERVICES OF THE COMPANY, AS WELL AS ASSUMPTIONS RELATING TO THE FOREGOING. FORWARD-LOOKING STATEMENTS ARE INHERENTLY SUBJECT TO RISKS AND UNCERTAINTIES, SOME OF WHICH CANNOT BE PREDICTED OR QUANTIFIED. FUTURE EVENTS AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN, CONTEMPLATED BY OR UNDERLYING THE FORWARD-LOOKING STATEMENTS.

ALL DOLLAR AMOUNTS SET FORTH BELOW, OTHER THAN PER-SHARE AMOUNTS AND PERCENTAGES, ARE IN THOUSANDS UNLESS OTHERWISE NOTED.

GENERAL

Greene County Bancshares, Inc. (the "Company") is the bank holding company for Greene County Bank ("the Bank"), a Tennessee-chartered commercial bank that conducts the principal business of the Company. In addition to its commercial banking operations, the Bank conducts separate businesses through its three wholly-owned subsidiaries: Superior Financial Services, Inc. ("Superior Financial"), a consumer finance company; GCB Acceptance Corporation ("GCB Acceptance"), a subprime automobile lending company; and Fairway Title Co., a title company formed in 1998. The Bank also operates a mortgage banking operation through its main office in Knox County, Tennessee and it also has representatives located through out the Company's branch system.

BRANCH PURCHASE AND SALE

On March 8, 2001, the Bank acquired a bank branch located in Hot Springs, North Carolina (the "North Carolina Branch") from Wachovia Bank, N.A. ("Wachovia") and sold its bank branch located in Farragut, Tennessee (the "Farragut Branch") to Wachovia. As a result of the acquisition of the North Carolina Branch and the attendant sale of the Farragut Branch, the Company's deposits decreased by approximately $7,600. Other than the reduction in deposits referenced above, the effect of this transaction on the Company's financial condition and results of operations was not material.

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LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company's primary source of liquidity is dividends paid by the Bank. Applicable Tennessee statutes and regulations impose restrictions on the amount of dividends that may be declared by the Bank. Further, any dividend payments are subject to the continuing ability of the Bank to maintain its compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a "well-capitalized" institution. In addition, the Company maintains lines of credit totaling $40 million with the Federal Home Loan Bank of Cincinnati ("FHLB") , of which $25 million was available at March 31, 2001. The Company also maintains federal funds lines of credit totaling $80.9 million at eight correspondent banks.

The Company's liquid assets include investment securities, federal funds sold and other interest-earning deposits, and cash and due from banks. Including securities pledged to collateralize municipal deposits, these assets represented 8.6% of the total liquidity base at March 31, 2001, as compared to 11.9% at December 31, 2000. The liquidity base is generally defined to include deposits, securities sold under repurchase agreements and short-term borrowed funds and other borrowings.

For the three months ended March 31, 2001, operating activities of the Company provided $3,873 of cash flows. Net income of $2,908 adjusted for non-cash operating activities, including $1,439 in provision for loan losses and depreciation of $410 provided the majority of the cash generated from operations. These cash flows were offset, in part, by the $1,925 in funds received from loans originated for sale, net of proceeds from the sale of such loans

The Company's decrease in investment securities and other interest-earning deposits provided $28,485 in cash flows, while the net increase in held-to-maturity loans originated, net of principle collected, used $19,011 in cash flows.

The net reduction in deposits and cash dividends paid to shareholders used $17,311 and $818 in cash flows, respectively. These uses of cash flows were offset, in part, by the $8,917 increase in notes payable, net.

CAPITAL RESOURCES. The Company's capital position is reflected in its shareholders' equity, subject to certain adjustments for regulatory purposes. Shareholders' equity, or capital, is a measure of the Company's net worth, soundness and viability. The Company continues to exhibit a strong capital position while consistently paying dividends to its stockholders. Further, the capital base of the Company allows it to take advantage of business opportunities while maintaining the level of resources deemed appropriate by management of the Company to address business risks inherent in the Company's daily

operations. At the Company's annual shareholder meeting on April 25, 2001, shareholders approved an increase in the number of authorized shares of common stock from five million shares to fifteen million shares. Also, on April 25, 2001, the Company declared a 5-for-1 stock split, effected as a dividend, payable on May 29, 2001 to shareholders of record as of the close of business on May 15, 2001.

Shareholders' equity on March 31, 2001 was $65,166, an increase of $2,156, or 3.42%, from $63,010 on December 31, 2000. The increase in shareholders' equity primarily reflects net income for the three months ended March 31, 2001 of $2,908 ($2.11 per share, assuming dilution). This increase was offset by a quarterly dividend payment during the three months ended March 31, 2001 totaling $818 ($.60 per share).

Risk-based capital regulations adopted by the Board of Governors of the Federal Reserve Board (the "FRB") and the Federal Deposit Insurance Corporation require bank holding companies and banks, respectively, to achieve and maintain specified ratios of capital to risk-weighted assets. The risk-based capital rules are designed to measure Tier 1 Capital and Total Capital in relation to the credit risk of both on- and off-balance sheet items. Under the guidelines, one of four risk weights is applied to the different on-balance sheet items. Off-balance sheet items, such as loan commitments, are also subject to risk-weighting after conversion to balance sheet equivalent amounts. All bank holding companies and banks must maintain a minimum total capital to total risk-weighted assets ratio of 8.00%, at least half of which must be in the form of core, or Tier 1, capital (consisting of stockholders' equity, less goodwill). At March 31, 2001, the Company and the Bank each satisfied their respective minimum regulatory capital requirements, and the Bank was "well-capitalized" within the meaning of federal regulatory requirements.

Capital Ratios at March 31, 2001

	Required Minimum Ratio	Company	Bank
Tier 1 risk-based capital	4.00%	9.99%	10.11%
Total risk-based capital	8.00%	11.25%	11.37%
Leverage Ratio	4.00%	8.20%	8.28%

CHANGES IN RESULTS OF OPERATIONS

NET INCOME. Net income for the three months ended March 31, 2001 was $2,908, an increase of $751, or 34.8%, as compared to net income of $2,157, for the same period in 2000. The increase for the three months ended March 31, 2001 resulted primarily from an increase in non-interest income of $759 or 48.7%, to $2,316 for the three months ended March 31, 2001 from $1,557 for the same period in 2000. This increase primarily reflects growth in service charges associated with the Company's new checking account programs, as well as additional fees generated by the Company's mortgage banking operation. Further contributing to the increase in net income was the $808, or 8.5%, increase in net interest

income to $10,260 for the three months ended March 31, 2001 from $9,452 for the same period in 2000. The increase in net interest income primarily reflects the Company's continued growth in loan production for the three months ended March 31, 2001, as compared to the same period in 2000, through its expanded branch network, primarily through increases in commercial and residential real estate loans.

Income taxes increased $843, or 99.1%, to $1,694 for the three months ended March 31, 2001 from $851 for the same period in 2000. The difference in tax expense from 2000 to 2001 reflects the Company's revision during the first quarter of 2000 of its estimate of corporate income tax liability for 2000, primarily from its then-current analysis of loan charge-offs and tax examination results.

NET INTEREST INCOME. The largest source of earnings for the Company is net interest income, which is the difference between interest income on interest-earning assets and interest paid on deposits and other interest-bearing liabilities. The primary factors which affect net interest income are changes in volume and yields of interest-earning assets and interest-bearing liabilities, which are affected in part by management's responses to changes in interest rates through asset/liability management. During the three months ended March 31, 2001, net interest income was $10,260, as compared to $9,452 for the same period in 2000, representing an increase of 8.5%. This increase was due primarily to an increase in volume of average interest-earning assets, including an increase in loan originations, primarily in the Bank.

PROVISION FOR LOAN LOSSES. During the three month period ended March 31, 2001, loan charge-offs were $1,276 and recoveries of charged-off loans were $380. The Company's provision for loan losses decreased by $278, or 16.2%, to $1,439 for the three months ended March 31, 2001, from $1,717 for the same period in 2000. The decrease is primarily reflective of lower provisions in the Bank based on management's assessment of the risk of collection inherent in its existing loan portfolio. Offsetting, in part, these lower provisions in the Bank were slightly higher provisions in Superior Financial and GCB Acceptance, indicative of both higher loan balances in both subsidiaries, as compared to the same quarter in 2000, and also management's evaluation of the loan quality in both portfolios. Despite this decrease in provisions, the Company's allowance for loan losses increased by $543 to $12,271 at March 31, 2001 from $11,728 at December 31, 2000, with the ratio of the allowance for loan losses to total loans remaining essentially constant from period to period. The ratio of allowance for loan losses to nonperforming assets was 146.14% and 154.83% at March 31, 2001 and December 31, 2000, respectively, and the ratio of nonperforming assets to total assets was 1.07% and .96% at March 31, 2001 and December 31, 2000, respectively. The ratio of nonperforming loans to total loans was .86% and .78% at March 31, 2001 and December 31, 2000, respectively.

Annualized net charge-offs in Superior Financial for the quarter ended March 31, 2001 were $1,817 versus $1,182 in the Bank. This compares with $3,210 and $2,625, respectively, for 2000.

NON-INTEREST INCOME. Income that is not related to interest-earning assets, consisting primarily of service charges, commissions and fees, has become an important supplement to the traditional method of earning income through interest rate spreads.

Total non-interest income for the three months ended March 31, 2001 was $2,316, as compared to $1,557 for the same period in 2000. The largest component of non-interest income, i.e., service charges, commissions and fees totaled $1,730 for the three months ended March 31, 2001, as compared to $1,112 for the same period in 2000. This increase of $618, or 55.6%, primarily reflects growth in service charges associated with the Company's new checking account programs, as well as additional fees generated by the Company's mortgage banking operation. Other income also increased by $141, or 31.7%, to $586 for the three months ended March 31, 2001 from $445 for the same period in 2000. Most of this increase resulted from fees and commissions generated from insurance products and from the Bank's trust operation.

Primarily as a result of this increase in non-interest income along with the increase in net interest income and minimal increase in non-interest expense, as discussed below, the Company's efficiency ratio was positively affected, as the ratio decreased from 57.01% at March 31, 2000 to 51.96% at March 31, 2001. The efficiency ratio illustrates how much it cost the Company to generate revenue; for example, it cost the Company 51.96 cents to generate one dollar of revenue for the three months ended March 31, 2001.

NON-INTEREST EXPENSE. Control of non-interest expense also is an important aspect in enhancing income. Non-interest expense includes personnel, occupancy, and other expenses such as data processing, printing and supplies, legal and professional fees, postage, Federal Deposit Insurance Corporation assessment, etc. Total non-interest expense was $6,535 for the three months ended March 31, 2001 compared to $6,284 for the same period in 2000.

Personnel costs are the primary element of the Company's non-interest expenses. For the three months ended March 31, 2001, salaries and benefits represented $4,124, or 63.1%, of total non-interest expense. This was an increase of $254, or 6.6%, over the $3,870 for the three months ended March 31, 2000. While the Company decreased its size to 44 branches at March 31, 2001 from 47 branches at March 31, 2000, the number of full-time equivalent employees was 394 versus 378 at March 31, 2000, representing an increase of 4.2%. This increase in employees was primarily due to strengthening certain operational areas, which required increased staff at varying experience and compensation levels. Further, the reduction in the number of the Company's branches did not create a proportional decline in the number of employees, as some of the related employees were consolidated into other areas of the Company.

Occupancy and furniture and equipment expense increased by $96, or 11.2%, to $954 for the three months ended March 31, 2001, as compared to $858 for the some period in 2000. Although the actual number of Company branches declined, increased depreciation expense associated with technology expenditures and branches previously placed in service

during early 2000, as well as higher utility costs associated with increased energy prices, put upward pressure on these expenses.

Income taxes increased $843, or 99.1%, to $1,694 for the three months ended March 31, 2001 from $851 for the same period in 2000. The difference in tax expense from 2000 to 2001 reflects the Company's revision during the first quarter of 2000 of its estimate of corporate income tax liability for 2000, primarily from its then-current analysis of loan charge-offs and tax examination results.

CHANGES IN FINANCIAL CONDITION

Total assets at March 31, 2001 were $781,547, a decrease of $7,570, or 1.0%, from 2000's year-end total assets of $789,117. The decrease in assets was reflective of the substantial reduction in securities available-for-sale, offset, in part, by the increase in loans.

At March 31, 2001, loans, net of unearned income and allowance for loan losses, were $671,629 compared to $655,340 at December 31, 2000, an increase of $16,289, or 2.5%, from December 31, 2000. The increase in loans during the first three months of 2001 is primarily due to an increase in commercial and residential real estate loans resulting primarily from increased loan demand. Non-performing loans include non-accrual and classified loans. The Company has a policy of placing loans 90 days delinquent in non-accrual status and charging them off at 120 days past due. Other loans past due that are well secured and in the process of collection continue to be carried on the Company's balance sheet. The Company has aggressive collection practices in which senior management is heavily involved. Nonaccrual loans and loans past due 90 days and still accruing increased by $405 and $316, respectively, during the three months ended March 31, 2001 to $5,218 and $791, respectively. The increase in nonaccrual loans consisted primarily of one commercial real estate and one consumer loan. The increase in loans past due 90 days and still accruing consisted primarily of two commercial real estate loans and one consumer loan. Management believes they have adequately provided for any potential losses related to these loans as of March 31, 2001. At March 31, 2001, the ratio of the Company's allowance for loan losses to non-performing assets (which include non-accrual loans) was 146.14%.

The Company maintains an investment portfolio to provide liquidity and earnings. Investments at March 31, 2001 with an amortized cost of $19,920 had a market value of $20,115. At year-end 2000, investments with an amortized cost of $48,441 had a market value of $48,527. This decrease resulted primarily from the calling, at par, of a $25,000 security as interest rates began to decline in the first part of 2000.

Deposits declined $17,312, or 2.7%, to $631,329 at March 31, 2001 from $648,641 at December 31, 2000. As the Company downsized its balance sheet slightly in order to effectively manage its capital position, it sought to do so in the most cost-effective manner possible. Accordingly, most of the decrease in deposits was in higher-costing certificates of deposits. The Company also increased its notes payable, consisting primarily of borrowings from the FHLB, by $8,887 in order to offset some of the deposit reduction and to partially fund the increase in loans.

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EFFECT OF NEW ACCOUNTING STANDARDS

Effective January 1, 2001, a new accounting standard required all derivatives to be recorded at fair value. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. Adoption of this statement on January 1, 2001 did not have a material effect.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is incorporated herein by reference to the "Interest Rate Sensitivity" and "Asset/Liability Management" Subsections of the Management's Discussion and Analysis section contained in the Company's 2000 Annual Report to shareholders.

Management believes there has been no material change in either interest rate risk or market risk since December 31, 2000.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are involved in various claims and legal actions arising in the ordinary course of business. Management currently is not aware of any material legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their property is subject.

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

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

The Company filed two Reports on Form 8-K during the quarter ended March 31, 2001. The first Form 8-K was filed on February 28, 2001 to report that the Bank had amended its branch purchase agreement with Wachovia Bank, N.A., on February 7, 2001 to acquire only the Hot Springs, North Carolina bank branch from Wachovia and not Wachovia's Abingdon, Virginia branch. The second Form 8-K was filed on March 27, 2001 to report that it had issued a press release that

day announcing its engagement of Morgan Keegan and Company, Inc. to enhance the ability of the Company's stockholders to identify potential purchasers or sellers of the Company's common stock. No financial statements were filed with either Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: 05/11/01	Greene County Bancshares, Inc.
	Registrant
Date: 05/11/01	/s/ R. Stan Puckett
	R. Stan Puckett President and CEO (Duly authorized officer)

Date: 05/11/01 /s/ William F. Richmond

William F. Richmond
Sr. Vice President and Chief Financial Officer (Principal financial and accounting officer)