GREENE COUNTY BANCSHARES INC
Form 10-Q
November 08, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For Quarter ended September 30, 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: 6,818,890.

1

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 - September 30, 2001 and December 31, 2000.

Condensed Consolidated Statements of Income and Comprehensive Income - For the three and nine months ended September 30, 2001 and 2000.

Condensed Consolidated Statement of Stockholders' Equity - For the nine months ended September 30, 2001.

Condensed Consolidated Statements of Cash Flows - For the nine months ended September 30, 2001 and 2000.

Notes to Condensed Consolidated Financial Statements.

2

GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

		(UNAUDITED) SEPTEMBER 30, 2001	
ASSETS			
Cash and due from banks	$	20,187	$
Federal funds sold		22,512	
Certificates of deposit		2,100	
Securities available-for-sale ("AFS")		12,858	
Securities held-to-maturity (with a market value of $1,254 on September 30, 2001 and $1,869 on December 31, 2000)		1,243	
FHLB and Bankers Bank stock, at cost		4,478	
Loans held for sale		2,930	
Loans		697,743	
Less: allowance for loan losses		12,134	
NET LOANS		685,609	
Bank premises and equipment, net of accumulated depreciation		25,362	
Other assets		22,668	
TOTAL ASSETS	$	799,947	$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	$	639,843	$
Repurchase agreements		10,289	
Notes payable		68,697	
Accrued interest payable and other liabilities		12,873	
TOTAL LIABILITIES		731,702	

SHAREHOLDERS' EQUITY

Common Stock, authorized 15,000,000 shares; issued and outstanding 6,818,890 shares at September 30, 2001 and and December 31, 2000		13,638	
Paid in Capital		4,854	
Retained Earnings		49,696	
Accumulated Other Comprehensive Income (Loss)		57	
TOTAL SHAREHOLDERS' EQUITY		68,245	
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$	799,947	$

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

3

GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
INTEREST INCOME:				
Interest and Fees on Loans	$16,352	$15,934	$50,542	$45,836
Interest on Investment Securities	277	917	1,135	2,655
Interest on Federal Funds Sold and Other Interest-earning Deposits	154	333	438	760
TOTAL INTEREST INCOME	16,783	17,184	52,115	49,251
INTEREST EXPENSE:				
Interest on Deposits	6,065	6,679	19,506	17,842
Interest on Borrowings	991	960	2,828	2,814
TOTAL INTEREST EXPENSE	7,056	7,639	22,334	20,656
NET INTEREST INCOME	9,727	9,545	29,781	28,595
Provision for Loan Losses	1,493	1,122	4,100	3,916
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,234	8,423	25,681	24,679
NONINTEREST INCOME:				

Service Charges, Commissions and Fees	1,872	1,497	5,593	3,870
Other Income	494	297	1,480	1,036
TOTAL NONINTEREST INCOME	2,366	1,794	7,073	4,906
NONINTEREST EXPENSE:				
Salaries and Benefits	3,999	4,277	12,323	12,319
Occupancy and Furniture and Equipment Expense	992	904	2,926	2,686
Other Expenses	1,931	1,848	5,160	5,265
TOTAL NONINTEREST EXPENSE	6,922	7,029	20,409	20,270
INCOME BEFORE INCOME TAXES	3,678	3,188	12,345	9,315
Income Taxes	1,343	1,262	4,661	3,338
NET INCOME	$ 2,335	$ 1,926	$ 7,684	$ 5,977
PER SHARE OF COMMON STOCK:				
Net Income, Basic	$ 0.34	$ 0.28	$ 1.13	$ 0.88
Net Income, Assuming Dilution	$ 0.33	$ 0.28	$ 1.12	$ 0.87
Dividends	$ 0.12	$ 0.12	$ 0.36	$ 0.36
COMPREHENSIVE INCOME	$ 2,337	$ 1,930	$ 7,690	$ 6,018

See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

4

GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	COMMON STOCK	PAID IN CAPITAL	RETAINED EARNINGS	AC COMP
JANUARY 1, 2001	$ 13,638	$ 4,854	$ 44,467	$
Net income	-	-	7,684	
Change in unrealized gain on AFS securities, net of tax:	-	-	-	
Comprehensive income				

Dividends paid	-	-	(2,455)	
SEPTEMBER 30, 2001	$ 13,638	$ 4,854	$ 49,696	$

See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

GREENE COUNTY BANCSHARES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)
(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	SEPTEMBER 30, 2001	
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	$ 7,684	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,100	
Depreciation and amortization	1,189	
Amortization of premiums on securities, net of accretion	107	
FHLB stock dividends	(224)	
Loans originated for sale	(51,472)	
Proceeds from loans originated for sale	50,527	
Net realized (gain) on sale of loans originated for sale	(259)	
Loss on other real estate owned	183	
Net Changes:		
Accrued interest receivable and other assets, net of intangibles	852	
Accrued interest payable and other liabilities	70	
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,757	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (increase) in interest-bearing deposits with banks	(2,100)	
Net decrease (increase) in securities and other interest-earning investments	34,346	
Net originations of loans held-to-maturity	(38,147)	
Improvements in other real estate owned and proceeds from sales of other real estate owned, net	3,224	
Fixed asset additions and proceeds from sales of fixed assets, net	(2,619)	
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(5,296)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(8,798)	
Decrease in federal funds purchased	0	
Increase in securities sold under repurchase agreements	5,576	
Increase in notes payable, net	8,747	
Proceeds from issuance of common stock	0	
Cash dividends paid	(2,455)	
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	3,070	

NET INCREASE IN CASH AND CASH EQUIVALENTS	10,531	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	32,168	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 42,699	$

See accompanying notes to Condensed Consolidated Financial Statements(Unaudited)

6

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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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.

7

2-ALLOWANCE FOR LOAN LOSSES

Transactions in the Allowance for Loan Losses for the nine months ended September 30, 2001 and twelve months ended December 31, 2000 were as follows:

	September 30, 2001	December 31, 2000
	(in thousands)	
Balance at beginning of year	$ 11,728	$ 10,332
Add (Deduct):		
Charge-offs	(4,748)	(7,788)
Recoveries	1,054	1,175
Provisions	4,100	8,009
Ending Balance	$ 12,134	$ 11,728

September 30, December 31,

	2001	2000
	(in thousands)	
Loans past due 90 days still on accrual	$ 1,716	$ 475
Nonaccrual Loans	9,443	4,813
Total	$ 11,159	$ 5,288

8

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. 97,732 options are excluded from the effect of dilutive securities because they are anti-dilutive.

The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2001 and 2000:

	(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER		
	THREE MONTHS ENDED SEPTEMBER 30		
	2001		20
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	INCOME (NUMERATOR)
BASIC EPS			
Income available to common shareholders	$2,335	6,818,890	$1,926
EFFECT OF DILUTIVE SECURITIES			
Stock options outstanding	-	32,889	-
DILUTED EPS			
Income available to common shareholders plus assumed conversions	$2,335	6,851,779	$1,926

	(DOLLARS IN THOUSANDS EXCEPT SHARE AND PER		
	NINE MONTHS ENDED SEPTEMBER 30,		
	2001		20
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	INCOME (NUMERATOR)
BASIC EPS			

Income available to common shareholders	$7,684	6,818,890	$5,977
EFFECT OF DILUTIVE SECURITIES			
Stock options outstanding	-	32,889	-
DILUTED EPS			
Income available to common shareholders plus assumed conversions	$7,684	6,851,779	$5,977

9

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 SEPTEMBER 30, 2001	BANK	OTHER	TOTAL
Net interest income	$ 8,243	$ 1,484	$ 9,727
Provision for loan losses	637	856	1,493
Noninterest income	2,117	249	2,366
Noninterest expense	5,719	1,203	6,922
Income tax expense	1,419	(76)	1,343
SEGMENT PROFIT	$ 2,585	$ (250)	$ 2,335
SEGMENT ASSETS AT SEPTEMBER 30, 2001	$ 760,982	$ 38,965	$ 799,947

THREE MONTHS ENDED SEPTEMBER 30, 2000	BANK	OTHER	TOTAL
Net interest income	$ 8,221	$ 1,324	$ 9,545
Provision for loan losses	300	822	1,122
Noninterest income	1,455	339	1,794
Noninterest expense	5,706	1,323	7,029

Income tax expense	1,381	(119)	1,262
SEGMENT PROFIT	$ 2,289	$ (363)	$ 1,926
SEGMENT ASSETS AT SEPTEMBER 30, 2000	$ 720,828	$ 41,762	$ 762,590

NINE MONTHS ENDED SEPTEMBER 30, 2001	BANK	OTHER	TOTAL
Net interest income	$ 25,270	$ 4,511	$ 29,781
Provision for loan losses	497	3,603	4,100
Noninterest income	5,735	1,338	7,073
Noninterest expense	16,793	3,616	20,409
Income tax expense	5,170	(509)	4,661
SEGMENT PROFIT	$ 8,545	$ (861)	$ 7,684
SEGMENT ASSETS AT SEPTEMBER 30, 2001	$ 760,982	$ 38,965	$ 799,947

NINE MONTHS ENDED SEPTEMBER 30, 2000	BANK	OTHER	TOTAL
Net interest income	$ 24,223	$ 4,372	$ 28,595
Provision for loan losses	900	3,016	3,916
Noninterest income	3,453	1,453	4,906
Noninterest expense	15,961	4,309	20,270
Income tax expense	3,932	(594)	3,338
SEGMENT PROFIT	$ 6,883	$ (906)	$ 5,977
SEGMENT ASSETS AT SEPTEMBER 30, 2000	$ 720,828	$ 41,762	$ 762,590

10

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 September 26, 2001, the Bank and SunTrust Bank, a Georgia banking corporation ("SunTrust"), entered into a Branch Purchase Agreement (the "Agreement") providing for the assumption by the Bank of the deposits, approximating $34 million as of June 30, 2001, and its purchase of certain assets of three SunTrust branch offices located in Hawkins County, Tennessee. The transaction is pending regulatory approval.

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.

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 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 8.8% of the total liquidity base at September 30, 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. In addition, the Company maintains lines of credit totaling $40 million with the Federal Home Loan Bank of Cincinnati ("FHLB"), of which $19 million was available at September 30, 2001. The Company also maintains federal funds lines of credit totaling $70.9 million at seven correspondent banks. The Company believes it has sufficient liquidity to satisfy its current operating needs.

For the nine months ended September 30, 2001, operating activities of the Company provided $12,757 of cash flows. Net income of $7,684 adjusted for non-cash operating activities, including $4,100 in provision for loan losses and depreciation and amortization of $1,189 provided the majority of the cash generated from operations. These cash flows were offset, in part, by the $945 in funds used for loans originated for sale, net of proceeds from the sale of such loans.

The Company's decrease in investment securities and other interest-earning investments provided $34,346 in cash flows, while the net increase in held-to-maturity loans originated, net of principal collected, used $38,147 in cash flows.

The net reduction in deposits and cash dividends paid to shareholders used $8,798 and $2,455 in cash flows, respectively. These uses of cash flows were offset, in part, by the $8,747 increase in notes payable, net and by the $5,576 increase in securities sold under repurchase agreements.

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. All share and per share data have been retroactively restated.

Shareholders' equity on September 30, 2001 was $68,245, an increase of $5,235, or 8.31%, from $63,010 on December 31, 2000. The increase in shareholders' equity primarily reflects net income for the nine months ended September 30, 2001 of $7,684 ($1.13 per share, assuming dilution). This increase was offset by quarterly dividend payments during the nine months ended September 30, 2001 totaling $2,455 ($0.36 per share).

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.

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 September 30, 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. The capital ratios of the Bank contained within the table below do not differ materially from those of the Company.

Capital Ratios at September 30, 2001		
	Required Minimum Ratio	Bank
Tier 1 risk-based capital	4.00%	10.18%
Total risk-based capital	8.00%	11.44%
Leverage Ratio	4.00%	8.60%

13

CHANGES IN RESULTS OF OPERATIONS

NET INCOME. Net income for the three and nine months ended September 30, 2001 was $2,335 and $7,684, respectively, an increase of $409, or 21.2% and $1,707, or 28.6%, as compared to net income of $1,926 and $5,977, respectively, for the same periods in 2000. The increase for the three months ended September 30, 2001 resulted primarily from an increase in non-interest income of $572, or 31.9%, to $2,366 for the three months ended September 30, 2001 from $1,794 for the same period in 2000. This increase primarily reflects growth in service charges associated with the Company's new checking account programs as a result of both increases in rates and volume, as well as additional fees generated by the Company's mortgage banking operation.

The increase for the nine months ended September 30, 2001 resulted primarily from an increase in non-interest income of $2,167 or 44.2%, to $7,073 for the nine months ended September 30, 2001 from $4,906 for the same period in 2000. This increase in non-interest income for the nine months ended September 30, 2001 is primarily reflective of the same factors discussed above related to the three months ended September 30, 2001. Further contributing to the increase in net income for the nine months ended September 30, 2001 compared to the same period in the prior year was an increase in net interest income of $1,186, or 4.1%, to $29,781 for the nine months ended September 30, 2001 from $28,595 for the same period in 2000. 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.

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 and nine months ended September 30, 2001, net interest income was $9,727 and $29,781, respectively, as compared to $9,545 and $28,595, respectively, for the same periods in 2000, representing an increase of 1.9% and 4.1%, respectively. The increase for the three months ended September 30, 2001, compared to the same period in 2000, resulted primarily from a decrease in interest expense due principally to a reduction in the cost of interest-bearing liabilities. While the Company's net interest margin continued a sequential calendar year decline during the three months ended September 30, 2001, due to its asset sensitive interest rate risk posture in a declining interest rate environment, the Company's ability to reprice a significant portion of its interest-bearing liabilities allowed it to reduce interest expense in the three months ended September 30, 2001, compared to the same period in 2000, despite an increase in the balance of its average interest-bearing liabilities. With respect to the increase in net interest income for the nine months ended September 30, 2001 compared to the same period in the prior year, such increase was primarily the result of a significant increase in average balances of interest-earning assets which offset the decline in the yield earned on these assets.

PROVISION FOR LOAN LOSSES. During the three and nine month periods ended September 30, 2001, loan charge-offs were $1,566 and $4,748, and recoveries of charged-off

loans were $331 and $1,054, respectively. The Company's provision for loan losses increased by $371, or 33.1%, to $1,493 for the three months ended September 30, 2001 from $1,122 for the same period in 2000. Most of the increase occurred in the Bank, which was reflective of management's assessment of the risk of collection inherent in its existing loan portfolio. Despite lower provisions in the Bank for the nine months ended September 30, 2001, compared to the same period in 2000, the Company's provision for loan losses increased by $184, or 4.7%, to $4,100 from $3,916 for the same period in 2000. The decrease in the Bank reflected management's risk assessment in its existing loan portfolio during the period. Offsetting, in part, these lower provisions in the Bank were higher provisions in Superior Financial and GCB Acceptance indicative of both higher loan balances in GCB Acceptance, as compared to the same period in 2000, and also management's evaluation of the loan quality in both portfolios. However, as noted in the above discussion related to the three months ended September 30, 2001, management, upon further analyses of the loan portfolio in each of its operating entities, began to increase the provisions in the Bank. The Company's allowance for loan losses increased by $406 to $12,134 at September 30, 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 87.95% and 154.83% at September 30, 2001 and December 31, 2000, respectively, and the ratio of nonperforming assets to total assets was 1.71% and .96% at September 30, 2001 and December 31, 2000, respectively. The ratio of nonperforming loans to total loans was 1.57% and .78% at September 30, 2001 and December 31, 2000, respectively.

The Company's annualized net charge-offs for the nine months ended September 30, 2001 were $4,925 compared to actual net charge-offs of $6,613 for the year ended December 31, 2000. Annualized net charge-offs in Superior Financial for the nine months ended September 30, 2001 were $2,901 compared to actual net charge-offs of $3,210 for the year ended December 31, 2000. Annualized net charge-offs in the Bank for the nine months ended September 30, 2001 were $1,245 compared to actual net charge-offs of $2,625 for the year ended December 31, 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 and nine months ended September 30, 2001 was $2,366 and $7,073, as compared to $1,794 and $4,906 for the same period in 2000. The largest component of non-interest income, i.e., service charges, commissions and fees totaled $1,872 and $5,593 for the three and nine months ended September 30, 2001, as compared to $1,497 and $3,870 for the same periods in 2000. This increase of $375, or 25.1%, and $1,723, or 44.5%, primarily reflects growth in service charges associated with the Company's new checking account programs as a result of both increases in rates and volume, as well as additional fees generated by the Company's mortgage banking operation. Other income also increased by $197, or 66.3%, and $444, or 42.9%, to $494 and $1,480 for the three and nine months ended September 30, 2001 from $297 and $1,036 for the same periods

in 2000. Most of this increase resulted from fees and commissions generated from insurance and annuity 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 essentially no change in non-interest expense, as discussed below, the Company's efficiency ratio was positively affected, as the ratio decreased from 60.44% at September 30, 2000 to 55.38% at September 30, 2001. The efficiency ratio illustrates how much it cost the Company to generate revenue; for example, it cost the Company 55.38 cents to generate one dollar of revenue for the three months ended September 30, 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 $6,922 and $20,409 for the three and nine months ended September 30, 2001 compared to $7,029 and $20,270 for the same periods in 2000.

Personnel costs are the primary element of the Company's non-interest expenses. For the three and nine months ended September 30, 2001, salaries and benefits represented $3,999, or 57.8%, and $12,323, or 60.4%, of total non-interest expense, respectively. This was a decrease of $278, or 6.5%, and an increase of $4, or essentially no percentage increase, over the $4,277 and $12,319 for the three and nine months ended September 30, 2000. As the Company decreased its size to 41 branches at September 30, 2001 from 44 branches at September 30, 2000, the number of full-time equivalent employees declined 2.1% from 374 at September 30, 2000 to 366 at September 30, 2001. This decrease in employees was primarily the result of consolidating certain Superior Financial offices into other, more centrally-located branches for the purpose of achieving greater operating efficiencies as well as certain position eliminations in the Bank. Because some of the related employees were consolidated into other areas of the Company, the reduction in the number of the Company's branches did not create a proportional decline in the number of employees.

Occupancy and furniture and equipment expense increased by $88, or 9.7%, and $240, or 8.9%, to $992 and $2,926 for the three and nine months ended September 30, 2001, as compared to $904 and $2,686 for the same periods 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 and other operating costs, put upward pressure on these expenses.

CHANGES IN FINANCIAL CONDITION

Total assets at September 30, 2001 were $799,947, an increase of $10,830, or 1.4%, from 2000's year-end total assets of $789,117. The increase in assets was primarily reflective of the $30,269 increase in net loans and the $16,482 increase in federal funds sold and certificates of deposit, offset, in part, by the $34,423 decline in overall securities.

At September 30, 2001, loans, net of unearned income and allowance for loan losses, were $685,609 compared to $655,340 at December 31, 2000, an increase of $30,269, or 4.6%, from December 31, 2000. The increase in loans during the first nine 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 $4,630 and $1,241, respectively, during the nine months ended September 30, 2001 to $9,443 and $1,716, respectively. In general, management attributes the increase in loans past due 90 days and still accruing, as well as the increase in nonperforming assets and the downward trend in related credit quality ratios, to additional bankruptcy filings by borrowers and also the slowing economy in certain market areas. Specifically, the increase in the Bank's nonaccrual loans during the nine months ended September 30, 2001 consisted principally of one commercial relationship headquartered in Sullivan County, Tennessee in the approximate amount of $3,500. Management believes that this commercial credit relationship is adequately secured and that the Company will not incur any material loss. At September 30, 2001, the ratio of the Company's allowance for loan losses to non-performing assets (which include non-accrual loans) was 87.95%.

The Company maintains an investment portfolio to provide liquidity and earnings. Investments at September 30, 2001 with an amortized cost of $14,009 had a market value of $14,112. 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 securities as interest rates began to decline in the first part of 2001.

Deposits declined $8,798, or 1.4%, to $639,843 at September 30, 2001 from $648,641 at December 31, 2000. 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 $8,748 in order to offset most of the deposit reduction and to partially fund the increase in loans.

EFFECT OF NEW ACCOUNTING STANDARDS

In 2001, new accounting guidance was issued that will, beginning in 2002, revise the accounting for goodwill and intangible assets. Intangible assets with indefinite lives and goodwill will no longer be amortized, but will periodically be reviewed for impairment and written down if impaired. Additional disclosures about intangible assets and goodwill may be required. An initial goodwill impairment test is required during the first six months of 2002. However, management does not expect this new guideline to have a material effect on the financial statements.

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.

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 a Form 8-K on August 29, 2001 and another Form 8-K on October 1, 2001. The Form 8-K filed on August 29, 2001 was to report that the Company had entered into a non-binding letter of intent with SunTrust to acquire three SunTrust branches in Hawkins County, Tennessee. The second form 8-K filed on October 1, 2001 was to report that the Company had entered into an Agreement with SunTrust for the Bank's assumption of deposits and purchase of certain

assets of three branch offices of SunTrust located at 210 West Main Street, Rogersville, Tennessee, 410 Park Boulevard, Rogersville, Tennessee and 290 Bellamy Avenue, Surgoinsville, Tennessee. 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: 11/08/01 Greene County Bancshares, Inc.
Registrant

Date: 11/08/01 /s/ R. Stan Puckett
R. Stan Puckett
President and CEO
(Duly authorized officer)

Date: 11/08/01 /s/ William F. Richmond
William F. Richmond
Sr. Vice President and Chief Financial Officer (Principal financial and accounting officer)