GREENVILLE FIRST BANCSHARES INC
Form SB-2
August 16, 2004

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As filed with the Securities and Exchange Commission on August 16, 2004

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

GREENVILLE FIRST BANCSHARES, INC.

(Name of small business issuer in its charter)

South Carolina	**6021**	**58-2459561**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

112 Haywood Road, Greenville, South Carolina 29607
864-679-9000
(Address and telephone number of principal executive offices)

R. Arthur Seaver, Jr.
President
112 Haywood Road
Greenville, South Carolina 29607
864-679-9000
(Name, address, and telephone number of agent for service)
Copies of all communications to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Common Stock	862,500	$17.25	$14,878,125	$1,885

(1) Includes 112,500 shares that the underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(c) under the Securities Act, based on the average of the bid and asked price on August 13, 2004.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 16, 2004

PRELIMINARY PROSPECTUS

750,000 Shares

Bancshares, Inc.

Common Stock

Greenville First Bancshares, Inc. is the holding company for Greenville First Bank, N.A., a commercial bank headquartered in Greenville, South Carolina.

We are offering 750,000 shares of our common stock. Our common stock is currently quoted on the OTC Bulletin Board under the symbol "GVBK.OB." The last reported sale price of our common stock on August 11, 2004 was $17.25. We have applied to have our common stock listed for quotation on the Nasdaq National Market under the symbol "GVBK."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7 to read about factors you should consider before you make your investment decision.

	Per share	Total
Price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Greenville First Bancshares	$	$

We have granted the underwriters a 30-day option to purchase up to 112,500 additional shares of common stock at the same price, and on the same terms, solely to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits, or other obligations of any bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

The underwriters expect to deliver the common stock to purchasers against payment in New York, New York on or about , 2004, subject to customary closing conditions.

Sandler O'Neill & Partners, L.P.

The date of this prospectus is , 2004

GREENVILLE FIRST BANCSHARES, INC.

[Insert map here]

[Insert building here]

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. We are not, and the underwriters are not, making an offer to sell our common stock in any jurisdiction in which the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover page of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock. Unless otherwise indicated, all information in this prospectus assumes that the underwriters will not exercise their option to purchase additional shares of common stock to cover over-allotments.

Unless the context indicates otherwise, all references in this prospectus to "we," "us," and "our" refer to Greenville First Bancshares, Inc. and its subsidiary, Greenville First Bank, N.A., on a consolidated basis.

SUMMARY

This summary highlights specific information contained elsewhere in this prospectus. Because this is a summary, it may not contain all of the information that is important to you. Therefore, you should read carefully the more detailed information set forth in this prospectus and our financial statements before making a decision to invest in our common stock. All financial information, operating statistics, and ratios in this prospectus are based on generally accepted accounting principles as applied in the United States, which we also refer to as GAAP, unless otherwise noted.

Greenville First Bancshares, Inc.

We are a South Carolina corporation organized in 1999 to serve as the holding company for Greenville First Bank, N.A., a national banking association chartered under the laws of the United States. Greenville First Bank commenced operations in January 2000 and at that time was the first community bank organized in the city of Greenville, South Carolina in over 10 years. We have grown rapidly since our inception. As of June 30, 2004, we had total assets of approximately $273.4 million, total deposits of approximately $178.0 million, and total shareholders' equity of approximately $11.9 million.

Since we opened in January 2000, we have accomplished the following:

- assembled a management team consisting of five bankers from our local market who have an average of 21 years of banking experience in the Greenville market;
- grown to more than $270 million in total assets at June 30, 2004 while operating from one location;
- maintained strong credit quality, with a nonperforming asset ratio of 0.30% at June 30, 2004 and a net charge-offs to average loans ratio of 0.08% for the six months ended June 30, 2004;
- generated strong earnings momentum, including earnings of $801,801 for the first six months of 2004, an increase of more than 100% compared to the same period in 2003; and
- developed a high level of brand awareness in the greater Greenville market.

Our Strategy

We have achieved our success to date from a single office by focusing on the professional market in Greenville, including doctors, dentists, and small business owners. By focusing on this upscale client base and by serving each client with a consistent relationship team of bankers, we have generated a loan portfolio with larger average loan amounts than we believe is typical for a community bank, while maintaining low overhead. Our model has also enabled us to generate strong earnings, with diluted earnings per share of $0.40 for the six months ended June 30, 2004 and $0.53 for the year ended December 31, 2003.

We plan to continue to focus on our core operating strength of relationship banking, while taking advantage of our competitive position to grow assets and liabilities. At the same time, we intend to develop our existing client relationships and expand our market presence by opening additional offices in order to continue to increase our market share. Specifically, we plan to focus on the following core operating and growth strategies:

- **Client-Focused Operating Model**. We believe in the importance of delivering a consistent and superior level of professional service to our clients. To achieve this objective, we operate under an internal structure we call "relationship teams." This structure provides each of our clients with a specific banker contact and a consistent support team responsible for all of the client's banking needs. The cornerstone of our service initiative is a culture we have named "Client

FIRST." By utilizing focus groups, surveys, and benchmarking, and by providing our employees with extensive training, we have incorporated this "Client FIRST" culture into our entire strategic process. We believe our operating model distinguishes Greenville First from other financial institutions in our market, providing us with a competitive advantage.

Experienced Management Team. We have assembled an experienced team of bankers, combining extensive market knowledge with an energetic and entrepreneurial culture. The members of our management team have resided in the Greenville area for an average of 27 years and are recognized in the Greenville market for their vast experience and active participation in community service. The diversity of our bankers' professional experience and age, coupled with their strong ties to the Greenville area, has enabled us to capture what we believe is a significant percentage of Greenville's professional market, and we expect our market share to increase as other professionals recognize the appeal of our bank. Our management team consists of the following individuals:

Art Seaver (40 years old) is the president and chief executive officer for both our holding company and our bank. He has lived in Greenville for over 30 years and has over 18 years of banking experience in the Greenville market.

Jim Austin (47 years old) is executive vice president and chief financial officer for both our holding company and our bank. He has lived in Greenville for over 26 years and has over 25 years of experience in the financial services industry in the Greenville market.

Fred Gilmer, III (40 years old) is executive vice president and the senior lending officer for our bank. He is a Greenville native and has over 17 years of banking experience, primarily in the Greenville market.

Eddie Terrell (42 years old) is executive vice president of our bank primarily responsible for marketing, client service, and deposit strategies. He has over 19 years of business and entrepreneurial experience in the Greenville market, with a direct focus on customer service and business development.

Fred Gilmer, Jr. (68 years old) is senior vice president for both our holding company and our bank. He has over 45 years of banking experience in the Greenville market.

By combining the energy, entrepreneurial spirit, and experience of our management team with the leadership of our board of directors, we believe we have created a solid infrastructure for future growth.

Strategic Expansion. We have achieved significant asset and earnings growth in recent years and believe that we can capitalize on this momentum to generate future growth. To enhance existing relationships and create future opportunities, we intend to build two additional offices. The first office will be located on The Parkway near Thornblade Country Club in Greenville and is expected to open in the fourth quarter of 2004. The area within two miles of this location has more than $220 million in deposits as of June 30, 2003 according to FDIC data. In addition, we will soon begin construction of a new office to be located in the mature and historic Augusta Road area of Greenville. We expect to open this office in the second quarter of 2005. The area within two miles of this location has over $280 million in deposits as of June 30, 2003 according to FDIC data. We believe that the demographics and growth characteristics of these locations will provide us with significant opportunities to further develop existing client relationships and expand our client base.

Asset Quality. Since our inception, we have placed an emphasis on maintaining strong asset quality. In addition to our use of traditional credit measures, we rely upon our professional and personal relationships and experience in the Greenville area to evaluate subjective aspects of the market which we believe are more difficult to quantify. In late 2003, we hired a chief credit officer who has over 35 years of banking and credit management experience to assist us in further strengthening our credit review processes and setting performance benchmarks in the areas of nonperforming assets, charge-offs, past dues, and loan documentation. The results of our continued focus on asset quality are evidenced by a nonperforming asset ratio of 0.30% as of June 30, 2004.

Our Market Area and Competitive Position

Our primary market is Greenville County, which is located in the upstate region of South Carolina, approximately midway between Atlanta and Charlotte on the heavily traveled I-85 business corridor. It is South Carolina's most populous county with over 390,000 residents. In the past decade, Greenville County has attracted more than $6 billion in new business investments and 43,000 new jobs and is now considered the "economic engine of South Carolina." During the same period, Greenville County was rated first in the United States by Site Selection Magazine for both new and expanding international firms and, in 2002, was ranked fifth out of America's top 50 cities for European business expansion. Today, BMW, Michelin, General Electric, Hitachi, and nearly 100 other companies have national or regional headquarters located in the Greenville metropolitan area. In addition, in November 2003, Clemson University, BMW, and the Governor of South Carolina, among other dignitaries and nationally-renowned companies, participated in the ground-breaking ceremonies for the Clemson University International Center for Automotive Research. Situated on 400 acres of prime property adjacent to I-85 in Greenville, the campus, when completed in 2007, will be the home of a new graduate engineering center, an information technology building, state-of-the-art research and testing facilities, and private research and development operations that will support the region's growing automotive industry. This collaboration among the State of South Carolina, Clemson University, BMW, IBM, Microsoft, and other companies has already generated more than $90 million in public and private support. We believe that this dynamic economic environment will continue to support the county and our business in the future.

Greenville County is also the largest deposit market in the state of South Carolina according to FDIC data as of June 30, 2003, with total deposits of $6.6 billion and an average growth of 6.1% per year over the past five years. However, as of June 30, 2003, over 65% of the deposits in Greenville County were held by financial institutions with headquarters located outside Greenville County. We believe that our focus on providing personal, relationship banking to our clients will enable us to significantly expand our market share, which according to FDIC data, represented less than 2.5% of the deposit market as of June 30, 2003.

Corporate Information

Our principal executive offices are located at 112 Haywood Road, Greenville, South Carolina 29607. Our telephone number is (864) 679-9000. Our website is www.greenvillefirst.com. Information on our website is not incorporated herein by reference and is not part of this prospectus.

The Offering

Common stock offered by us	750,000 shares(1)
Common stock outstanding after the offering	2,477,994 shares(2)
Net proceeds	The net proceeds of this offering will be approximately $ million without giving effect to any exercise of the underwriters' over-allotment option.
Use of proceeds	We plan to use the net proceeds from the offering to reduce the outstanding balance on our line of credit with First Tennessee Bank and for general corporate purposes, including increasing Greenville First Bank's capital to support our asset growth. See "Use of Proceeds" on page 14.
Dividends on common stock	We have not paid any cash dividends on our common stock since our inception, electing to retain earnings to fund future growth. We do not anticipate declaring cash dividends on shares of our common stock for the foreseeable future. See "Dividend Policy" on page 17.
OTC Bulletin Board symbol	GVBK.OB. We have applied to have our common stock listed for quotation on the Nasdaq National Market under the symbol "GVBK."

(1) The number of shares offered assumes that the underwriters' over-allotment option is not exercised. If the over-allotment option is exercised in full, we will issue and sell 862,500 shares.

(2) The number of shares outstanding after the offering is based on the number of shares outstanding as of July 9, 2004 and assumes that the underwriters' over-allotment option is not exercised. It excludes an aggregate of 258,750 shares reserved for issuance under our stock option plan, of which options to purchase 249,750 shares at a weighted average exercise price of $6.67 had been granted and remained outstanding as of July 9, 2004. It also excludes an aggregate of 194,175 shares reserved for issuance under warrant agreements, of which rights to purchase 191,175 shares at a weighted average exercise price of $6.67 had been granted and remained outstanding as of July 9, 2004.

Risk Factors

Before investing, you should carefully consider the information set forth under "Risk Factors," beginning on page 7, for a discussion of the risks related to an investment in our common stock.

SUMMARY CONSOLIDATED FINANCIAL DATA

Our summary consolidated financial data presented below as of and for the years ended December 31, 1999 through 2003 are derived from our audited consolidated financial statements. Our audited consolidated financial statements as of December 31, 2002 and 2003 and for each of the years in the three year period ended December 31, 2003 are included elsewhere in this prospectus. Our summary consolidated financial data as of and for the six months ended June 30, 2004 and 2003 have not been audited but, in the opinion of our management, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our financial position and results of operations for such periods in accordance with generally accepted accounting principles. Our results for the six months ended June 30, 2004 are not necessarily indicative of our results of operations that may be expected for the year ended December 31, 2004. The following summary consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis" included elsewhere in this prospectus.

	At and for the Six Months Ended June 30,		At and for the Years Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(In thousands, except per share amounts)						
Summary Balance Sheet Data:							
Assets	$ 273,393	$ 191,734	$ 230,841	$ 170,358	$ 118,565	$ 61,428	$ 10,142
Investment securities	20,885	6,501	15,759	15,497	18,468	9,345	8,318
Loans (net)(1)	244,407	173,584	206,077	148,079	95,340	46,025	
Allowance for loan losses	3,176	2,313	2,705	1,824	1,192	600	
Deposits	177,987	144,546	168,964	133,563	92,700	49,994	
Securities sold under agreement to repurchase and federal funds purchased	13,565		9,297	9,107	8,483		
Other borrowed funds	61,400	25,500	32,500	15,500	6,000		
Junior subordinated debentures	6,186	6,186	6,186				
Shareholders' equity	11,941	10,601	11,187	10,232	9,459	9,475	10,112
Summary Results of Operations Data:							
Interest income	$ 6,143	$ 4,519	$ 9,722	$ 8,153	$ 6,310	$ 3,148	$ 93
Interest expense	2,250	1,753	3,618	3,492	3,353	1,523	12
Net interest income	3,893	2,766	6,104	4,661	2,957	1,625	81
Provision for loan losses	650	500	1,050	1,050	600	600	
Net interest income after provision for loan losses	3,243	2,266	5,054	3,611	2,357	1,025	81
Noninterest income	363	231	422	520	284	58	
Noninterest expense	2,313	1,857	3,853	3,379	2,782	1,783	615
Income (loss) before taxes	1,293	640	1,623	752	(141)	(700)	(534)
Income tax expense (benefit)	491	243	617		(22)	(38)	
Net income (loss)	$ 802	$ 397	$ 1,006	$ 752	$ (119)	$ (662)	$ (534)
Per Share Data:(2)							
Net income (loss), basic	$ 0.46	$ 0.23	$ 0.58	$ 0.44	$ (0.07)	$ (0.39)	$ (0.31)
Net income (loss), diluted	$ 0.40	$ 0.21	$ 0.53	$ 0.43	$ (0.07)	$ (0.39)	$ (0.31)

	At and for the Six Months Ended June 30,		At and for the Years Ended December 31,				
Book value	$ 6.92	$ 6.15	$ 6.49	$ 5.93	$ 5.48	$ 5.49	$ 5.86
Weighted average number of shares outstanding:							
Basic	1,725	1,725	1,725	1,725	1,725	1,725	1,725
Diluted	1,998	1,860	1,881	1,754	1,725	1,725	1,725
Performance Ratios:							
Return (loss) on average assets(3)	0.65%	0.45%	0.52%	0.51%	(0.13)%	(1.61)%	n/m
Return (loss) on average equity(3)	13.95%	7.53%	9.28%	7.72%	(1.26)%	(6.84)%	n/m
Net interest margin(3)	3.15%	3.24%	3.24%	3.30%	3.43%	4.41%	n/m
Efficiency ratio(4)	54.35%	61.96%	59.04%	65.22%	85.84%	105.94%	759.26%
Loan to deposit ratio(1)	139.10%	121.69%	123.57%	112.23%	104.13%	93.26%	n/m

	At and for the Six Months Ended June 30,		At and for the Years Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
Asset Quality Ratios:							
Nonperforming assets, past due and restructured loans to total loans(1)	0.30%	0.48%	0.21%	0.43%	0.37%	%	%
Nonperforming assets, past due and restructured loans to total assets	0.27%	0.44%	0.19%	0.37%	0.30%	%	%
Net charge-offs to average total loans(1)	0.08%	0.01%	0.10%	0.34%	0.01%	%	%
Allowance for loan losses to nonperforming loans	731.01%	953.64%	609.35%	1,612.79%	331.19%	n/m	%
Allowance for loan losses to total loans(1)	1.28%	1.32%	1.30%	1.22%	1.24%	1.29%	%
Capital Ratios:							
Average equity to average assets	4.53%	5.96%	5.57%	6.71%	10.32%	23.62%	n/m
Leverage ratio	6.00%	7.15%	6.09%	6.08%	8.24%	16.86%	99.70%
Tier 1 risk-based capital ratio	7.05%	8.75%	7.78%	7.38%	9.25%	19.28%	47.76%
Total risk-based capital ratio	9.20%	11.57%	10.24%	8.63%	10.43%	20.50%	49.01%
Growth Ratios and Other Data:							
Percentage change in net income	102.02%	141.79%	33.78%	n/m	n/m	n/m	n/m
Percentage change in diluted net income per share	90.48%	128.57%	23.26%	n/m	n/m	n/m	n/m
Percentage change in assets	42.59%	32.25%	35.50%	43.68%	93.01%	505.68%	n/m
Percentage change in loans(1)	40.80%	40.28%	39.17%	55.32%	107.15%	n/m	n/m
Percentage change in deposits	23.14%	16.82%	26.51%	44.08%	85.42%	n/m	n/m
Percentage change in equity	12.64%	10.03%	9.33%	8.17%	(0.17)%	(6.30)%	n/m

(1) Includes nonperforming loans.

(2) Adjusted for all years presented giving retroactive effect to a three-for-two common stock split in November 2003.

(3) Annualized for the six month periods.

(4) Computed by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income, net of securities gains or losses. This is a non-GAAP financial measure, which we believe provides investors with important information regarding our operational efficiency. Comparison of our efficiency ratio with those of other companies may not be possible, because other companies may calculate the efficiency ratio differently.

As used in the table above, "n/m" means not a meaningful measurement.

RISK FACTORS

An investment in shares of our common stock involves various risks, and you should not invest in our common stock unless you can afford to lose some or all of your investment. Before deciding to invest in our common stock, you should carefully consider the risks described below in conjunction with other information contained in this prospectus, including our consolidated financial statements and related notes and the section entitled "Management's Discussion and Analysis." Our business, financial condition, and results of operations could be harmed by any of the following risks, or other risks which have not been identified or which we believe are immaterial or unlikely.

Risks Related to our Business

Opening new offices may not result in increased assets or revenues for us.

We intend to use the proceeds of this offering to increase our capital position and support our proposed growth and expansion, including the establishment of two new offices over the next 12 months. There is a risk that we will be unable to manage our growth, as the process of opening new offices may divert our time and resources. There is also risk that we may fail to open any additional offices, and a risk that, if we do open these offices, they may not be profitable.

Our recent operating results may not be indicative of our future operating results.

We may not be able to sustain our historical rate of growth and may not even be able to grow our business at all. Because of our relatively small size and short operating history, it will be difficult for us to generate similar earnings growth as we continue to expand, and consequently our historical results of operations will not necessarily be indicative of our future operations. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected because a high percentage of our operating costs are fixed expenses.

Our decisions regarding credit risk and reserves for loan losses may materially and adversely affect our business.

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

- the duration of the credit;
- credit risks of a particular customer;
- changes in economic and industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

While we generally underwrite the loans in our portfolio in accordance with our own internal underwriting guidelines and regulatory supervisory limits, in certain circumstances we have made loans which exceed either our internal underwriting guidelines, supervisory limits, or both. As of June 30, 2004, approximately $21.6 million, or 8.7%, of our loans had loan-to-value ratios which exceeded regulatory supervisory limits, of which nine loans totaling approximately $3.9 million had loan-to-value ratios of 100% or more. The number of loans in our portfolio with loan-to-value ratios in excess of supervisory limits, our internal guidelines, or both could increase the risk of delinquencies and defaults in our portfolio. Any such delinquencies or defaults could have an adverse effect on our results of operations and financial condition.

We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors, including:

- an ongoing review of the quality, mix, and size of our overall loan portfolio;
- our historical loan loss experience;
- evaluation of economic conditions;
- regular reviews of loan delinquencies and loan portfolio quality; and
- the amount and quality of collateral, including guarantees, securing the loans.

There is no precise method of predicting credit losses; therefore, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would result in a decrease of our net income, and possibly our capital.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Due to the rapid growth of our bank over the past several years and our short operating history, a large portion of the loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

An economic downturn, especially one affecting the Greenville County area, could reduce our customer base, our level of deposits, and demand for financial products such as loans.

Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our market of Greenville County. If the community in which we operate does not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn would likely contribute to the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt our business. Interest received on loans represented approximately 94.0% of our interest income for the year ended December 31, 2003. If an economic downturn occurs in the economy as a whole, or in the Greenville County area, borrowers may be less likely to repay their loans as scheduled. Moreover, the value of real estate or other collateral that may secure our loans could be adversely affected. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

Changes in interest rates may reduce our profitability.

Our results of operations depend in large part upon the level of our net interest income, which is the difference between interest income from interest-earning assets, such as loans and mortgage-backed securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of our assets and liabilities, a significant change in interest rates could have a material adverse effect on our profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While we intend to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of our assets and liabilities, our efforts may not be effective and our financial condition and results of operations could suffer.

Our loan portfolio includes a substantial amount of commercial loans which include risks that may be greater than the risks related to residential or consumer loans.

Our commercial loan portfolio was $164.9 million at June 30, 2004, comprising 66.6% of total loans. Our portfolio included $122.6 million, or 49.5% of total loans, in commercial loans secured by real estate, as we generally obtain a security interest in real estate whenever possible, in addition to any other available collateral. Commercial loans generally carry larger loan balances and involve a greater degree of financial and credit risk than home equity, residential mortgage, or consumer loans. The increased financial and credit risk associated with these types of loans is a result of several factors, including the concentration of principal in a limited number of loans and to borrowers in similar lines of business, the size of loan balances, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate in some cases is dependent upon the successful operation, development, or sale of the related real estate or commercial project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In these cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor than residential mortgage loans, home equity loans, or consumer loans. As a result, repayment of these loans may, to a greater extent than other types of loans, be subject to adverse conditions in the real estate market or economy.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the teamwork and increased productivity fostered by our culture, which could harm our business.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters teamwork and increased productivity. As our organization grows, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

We are dependent on key individuals, and the loss of one or more of these key individuals could curtail our growth and adversely affect our prospects.

R. Arthur Seaver, Jr., our president and chief executive officer, has extensive and long-standing ties within our primary market area and substantial experience with our operations, and he has contributed significantly to our growth. If we lose the services of Mr. Seaver, he would be difficult to replace and our business and development could be materially and adversely affected.

Our success also depends, in part, on our continued ability to attract and retain experienced loan originators, as well as other management personnel, including Jim Austin, Fred Gilmer, III, Eddie Terrell, and Fred Gilmer, Jr. The loss of the services of several of such key personnel could adversely affect our growth strategy and prospects to the extent we are unable to replace such personnel.

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission that are now applicable to us, have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. To comply with the Sarbanes-Oxley Act, beginning in July 2002 we ceased using our independent auditors for internal audit and internal control functions. Instead, we have hired an outside consultant to assist with these services. We have experienced, and we expect to continue to experience, greater compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources following this offering will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

We face strong competition for clients, which could prevent us from obtaining clients and may cause us to pay higher interest rates to attract clients.

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in our primary market areas and elsewhere.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our client base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions, such as BB&T, Bank of America, Wachovia, and Carolina First Bank. These institutions offer some services, such as extensive and established branch networks and trust services, that we do not provide. There is a risk that we will not be able to compete successfully with other financial institutions in our market, and that we may have to pay higher interest rates to attract deposits, resulting in reduced profitability. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

Our directors and executive officers own a significant portion of our common stock.

Our directors and executive officers, as a group, beneficially owned approximately 32.1% of our outstanding common stock as of July 31, 2004. As a result of their ownership, the directors and executive officers will have the ability, by voting their shares in concert, to significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors.

We will face risks with respect to future expansion and acquisitions or mergers.

Although we do not have any current plans to do so, we may seek to acquire other financial institutions or parts of those institutions. We may also expand into new markets or lines of business or offer new products or services. These activities would involve a number of risks, including:

- taking additional time and creating expense associated with identifying and evaluating potential acquisitions and merger partners;
- using possibly inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- diluting our existing shareholders in the acquisition;
- taking additional time and creating expense associated with evaluating new markets for expansion, hiring experienced local management, and opening new offices, as there may be a substantial time lag between these activities before we generate sufficient assets and deposits to support the costs of the expansion;
- taking a significant amount of time negotiating a transaction or working on expansion plans, resulting in management's attention being diverted from the operation of our existing business;
- taking time and creating expense integrating the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and clients as a result of an acquisition that is poorly received.

We have never acquired another institution before, so we lack experience in handling any of these risks. There is also a risk that any expansion effort will not be successful.

Risks Related to an Investment in our Common Stock

We cannot be sure that a public trading market for our common stock will develop or be maintained.

Our stock is currently quoted on the OTC Bulletin Board. The transactions on the OTC Bulletin Board may lack the depth, liquidity, and orderliness necessary to maintain a liquid market. Although we have applied to list our common stock for quotation on the Nasdaq National Market under the symbol "GVBK," there can be no assurance that an established and liquid trading market will develop, that it will continue if it does develop, or that, after completion of the offering, our common stock will trade at or above the offering price set forth on the cover of this prospectus. Sandler O'Neill & Partners, L.P., the representative of the underwriters, has advised us that it intends to make a market in our common stock and to assist us in obtaining at least two other market makers for our common stock as required by the Nasdaq National Market. However, neither the representative of the underwriters nor any other market maker is obligated to make a market in our shares, and any such market making may be discontinued at any time in the sole discretion of the party making such market. Accordingly, investors should consider the potential lack of liquidity and the long-term nature of an investment in our common stock prior to investing.

11

Our stock price may fluctuate and be volatile.

The prices at which our common stock has traded may not be indicative of future market prices. As a result, the trading price of our common stock could fluctuate significantly. Volatility in our stock price could also result from the following factors, among others:

- variations in quarterly operating results;
- changes in financial estimates by securities analysts;
- the operating and stock price performance of other companies in the banking industry; and
- general stock market or economic conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of affected companies. We cannot guarantee that investors will be able to sell their shares at or above our offering price or at all.

We have implemented anti-takeover devices that could make it more difficult for another company to purchase us, even though such a purchase may increase shareholder value.

In many cases, shareholders would receive a premium for their shares if we were purchased by another company. However, state and federal law and our articles of incorporation and bylaws make it difficult for anyone to purchase us without approval of our board of directors. For example, our articles of incorporation divide the board of directors into three classes of directors serving staggered three-year terms with approximately one-third of the board of directors elected at each annual meeting of shareholders. The classification of directors makes it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders would be required for the shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe that such a change would be desirable. Consequently, a takeover attempt may prove difficult, and shareholders may not realize the highest possible price for their securities. See "Description of Capital Stock Anti-takeover Effects" on page 68.

We have broad discretion in allocating the net proceeds from this offering.

We intend to use the net proceeds from this offering to repay certain short-term debt and for general corporate purposes, which may include, among other things, providing additional capital to our bank to support our asset growth. We will have significant flexibility in applying the net proceeds of this offering. Our failure to apply these funds effectively could have a material adverse effect on our business.

Our ability to pay dividends is limited, and we may be unable to pay future dividends if we decide to do so.

Since our inception, we have not paid any dividends on our common stock, and we do not intend to pay dividends in the foreseeable future. Even if we decide to pay dividends in the future, our ability to do so will be limited by regulatory restrictions, by the bank's ability to pay dividends to us based on its capital position and profitability, and by our need to maintain sufficient capital to support the bank's operations. The ability of the bank to pay dividends to us is limited by its obligations to maintain sufficient capital and by other restrictions on its dividends that are applicable to national banks and banks that are regulated by the FDIC. If we do not satisfy these regulatory requirements, we will be unable to pay dividends on our common stock.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 relating to, without limitation, our future economic performance, plans and objectives for future operations, and projections of revenues and other financial items that are based on our beliefs, as well as assumptions made by and information currently available to us. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "could," "project," "predict," "expect," "estimate," "continue," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results, performance, or achievements may differ materially from the results expressed or implied by our forward-looking statements.

The cautionary statements in the "Risk Factors" section and elsewhere in this prospectus also identify important factors and possible events which involve risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. If you are interested in purchasing shares of our common stock, you should consider these risk factors carefully, as well as factors discussed elsewhere in this prospectus, before making a decision to invest. All forward-looking statements in this prospectus are based on information available to us on the date of this prospectus. We do not intend to, and assume no responsibility for, updating any forward-looking statements that may be made by us or on our behalf in this prospectus or otherwise.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of our common stock in this offering will be approximately $ million, or approximately $ million if the underwriters' over-allotment option is exercised in full. In each case, this assumes a public offering price of $ per share (based on the last sale price on , 2004) and deductions of estimated offering expenses of $ and underwriting discounts. We plan to use approximately $3.0 million of the net proceeds to reduce the outstanding balance on our line of credit with First Tennessee Bank and the balance of the net proceeds for general corporate purposes, which may include, among other things, providing additional capital to our bank to support our asset growth.

Our line of credit with First Tennessee Bank allows us to draw down a maximum of $4.5 million, has an interest rate equal to the 3-month LIBOR rate plus 2.0%, and matures on March 20, 2005. The debt was used to provide capital to the bank to support growth.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004. Our capitalization is presented on a historical basis and on an as-adjusted basis to give effect to the sale of 750,000 shares of common stock, based on an assumed public offering price of $ per share (based on the closing price on , 2004), as if the offering had been completed as of June 30, 2004 and assuming:

- the net proceeds of the offering are $ million, after deducting the estimated underwriting discount and estimated offering expenses of $; and
- the underwriters' over-allotment option is not exercised.

The following data should be read together with our consolidated financial statements and the related notes included elsewhere in this prospectus.

	June 30, 2004	
	Actual	**As Adjusted**
	(In thousands)	
Short Term Borrowings(1):	$ 16,565	
Long Term Borrowings:		
Junior subordinated debentures(2)	6,186	
Shareholders' equity(3):		
Preferred stock, par value $.01 per share, 10,000,000 shares authorized, no shares issued or outstanding		
Common stock, par value $.00667 per share, 10,000,000 shares authorized, 1,727,994 shares issued and outstanding actual; shares issued and outstanding as adjusted	12	
Additional paid-in capital	10,655	
Retained earnings	1,245	
Accumulated other comprehensive income, net of tax	29	
Total shareholders' equity	$ 11,941	
Total capitalization(4)	$ 34,692	
Capital Ratios:		
Tier 1 risk-based capital ratio	7.05%	
Total risk-based capital ratio	9.20%	
Leverage ratio	6.00%	

(1) Includes outstanding debt in the amount of $3.0 million under a line of credit with First Tennessee Bank and $13.6 million in sales of securities under agreements to repurchase with brokers. At June 30, 2004, the securities under agreements to repurchase had a weighted interest rate of 1.23% and matured in less than 90 days. Such securities averaged $13.8 million during the first two quarters of 2004, with $14.6 million being the maximum amount outstanding at any month-end.

(2)

Debt associated with trust preferred securities.

(3) As of July 9, 2004, there were 1,727,994 shares of common stock outstanding, and we had 249,750 shares of common stock subject to the issuance of outstanding options with a weighted average exercise price of $6.67 per share. We also had 191,175 shares of common stock subject to the issuance of outstanding warrants with a weighted average exercise price of $6.67 per share.

(4) Includes short-term and long-term borrowings and total shareholders' equity.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering.

The net tangible book value of our common stock as of June 30, 2004 was approximately $11.9 million, or $6.92 per share, based on the number of shares of common stock outstanding as of June 30, 2004. Net tangible book value per share is equal to the amount of our shareholders' equity less intangible assets, divided by the number of shares of common stock outstanding as of June 30, 2004.

After (i) giving effect to the sale of the 750,000 shares of common stock in this offering, at the assumed public offering price of $ per share (based on the closing price on , 2004), assuming that the underwriters' over-allotment option is not exercised, and (ii) deducting the underwriting discount and estimated offering expenses, our pro forma net tangible book value as of June 30, 2004 would be approximately $ million, or $ per share. This offering will result in an immediate increase in net tangible book value of $ per share to existing shareholders and an immediate dilution of $ per share to new investors, or approximately % of the assumed public offering price of $ per share. Dilution is determined by subtracting pro forma net tangible book value per share after this offering from the assumed public offering price of $ per share. The following table illustrates this per share dilution:

Assumed offering price per share		$
Net tangible book value per share at June 30, 2004	6.92	
Increase in net tangible book value per share attributable to new investors		
Pro forma net tangible book value per share at June 30, 2004		
Dilution per share to new investors		$

PRICE RANGE OF OUR COMMON STOCK

Our common stock is currently quoted on the OTC Bulletin Board under the trading symbol "GVBK.OB." We have applied to have our common stock listed for quotation on the Nasdaq National Market under the symbol "GVBK." As of June 30, 2004, there were approximately 150 holders of record of our common stock. The following table shows the reported high and low bid information (adjusted for stock splits) for the periods indicated. The prices listed below are quotations, which reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

2004	**High**	**Low**
First Quarter	$ 24.00	$ 17.91
Second Quarter	21.65	18.40
Third Quarter (through August 11, 2004)	19.75	17.01
2003	**High**	**Low**
First Quarter	$ 14.50	$ 12.35
Second Quarter	19.00	13.75
Third Quarter	18.75	16.25
Fourth Quarter	27.00	15.50
2002	**High**	**Low**
First Quarter	$ 11.50	$ 10.50
Second Quarter	19.00	10.70
Third Quarter	12.00	10.25
Fourth Quarter	13.50	11.00

DIVIDEND POLICY

We have not declared or paid any cash dividends on our common stock since our inception. For the foreseeable future we do not intend to declare cash dividends. We intend to retain earnings to grow our business and strengthen our capital base. Our ability to pay dividends depends on the ability of our subsidiary, Greenville First Bank, to pay dividends to us. As a national bank, Greenville First Bank may only pay dividends out of its net profits, after deducting expenses, including losses and bad debts. In addition, the bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the Office of the Comptroller of the Currency (the "OCC") will be required if the total of all dividends declared in any calendar year by the bank exceeds the bank's net profits to date for that year combined with its retained net profits for the preceding two years less any required transfers to surplus. At June 30, 2004, the bank had approximately $1.2 million in unrestricted dividend capacity. The OCC also has the authority under federal law to enjoin a national bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances.

BUSINESS

General

We are a South Carolina corporation organized in 1999 to serve as the holding company for Greenville First Bank, N.A., a national banking association chartered under the laws of the United States. Greenville First Bank commenced operations in January 2000 and at that time was the first community bank organized in the city of Greenville, South Carolina in over 10 years. We have grown rapidly since our inception. As of June 30, 2004, we had total assets of approximately $273.4 million, total deposits of approximately $178.0 million, and total shareholders' equity of approximately $11.9 million. We are 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.

During the 1990s, several community banks operating in the Greenville market were acquired by larger regional financial institutions. We formed Greenville First to take advantage of market opportunities resulting from this continued consolidation of the financial services industry. Responding to this opportunity, we created a marketing plan focusing on the professional market in Greenville, including doctors, dentists, and small business owners. We serve this market with a client-focused structure called relationship teams, which provides each client with a specific banker contact and support team responsible for all of the client's banking needs. The purpose of this structure is to provide a consistent and superior level of professional service, and we believe it provides us with a distinct competitive advantage. We consider exceptional client service to be a critical part of our culture, which we refer to as "Client FIRST." We emphasize this Client FIRST culture in the training that we provide our employees, and we strive to reflect this Client FIRST culture in all aspects of our business.

We have achieved our success to date from a single office and, as of June 30, 2004, with only 30 employees. We have assembled an experienced team of bankers, combining extensive market knowledge with an energetic and entrepreneurial culture. The officers of Greenville First have resided in Greenville for an average of 27 years and are recognized in the Greenville market for their vast experience and active participation in community service. The diversity of our bankers' professional experience and age, coupled with their strong ties to the Greenville area, has enabled us to capture what we believe is a significant percentage of Greenville's professional market, and we expect our market share to increase as other professionals recognize the appeal of our bank. We have also assembled a board of directors with extensive market knowledge and a strong reputation in the community. We believe this combination of leadership creates a solid infrastructure for future growth.

Since our inception, we have placed an emphasis on maintaining strong asset quality. In addition to our use of traditional credit measures, we rely upon our professional and personal relationships and experience in the Greenville area to evaluate subjective aspects of the market which we believe are more difficult to quantify. In late 2003, we hired a chief credit officer who has over 35 years of banking and credit management experience. In addition, we have established performance benchmarks in the areas of nonperforming assets, charge-offs, past dues, and loan documentation. The results of our continued focus on asset quality are evidenced by a non-performing asset ratio of 0.30% as of June 30, 2004.

We intend to open two additional offices in the near future. The first office will be located on The Parkway near Thornblade Country Club in Greenville and is expected to open in the fourth quarter of 2004. The other office will be located in the mature and historic Augusta Road area of Greenville. We expect to open this office in the second quarter of 2005. We believe that the demographics and growth characteristics of these locations will provide us with significant opportunities to further develop existing client relationships and expand our client base.

Our banking model has produced efficient results during our short history. As of December 31, 2003, our asset-per-employee ratio was $7.7 million, which we believe was the highest ratio of any bank headquartered in the state of South Carolina based on publicly available information filed with the SEC. As of June 30, 2004, our asset-per-employee ratio had risen to over $9.1 million, providing further evidence of the efficiency of our model. For the first six months of 2004, we recorded pre-tax earnings per full-time employee of $43,000, which we believe places us in the top 10% of all banks headquartered in the state of South Carolina.

We plan to continue our focus on our core operating strength of relationship banking, while taking advantage of our competitive position to grow assets and liabilities. We believe we can continue to grow our market share in the Greenville market, and we expect to strengthen our market presence by developing our existing client relationships and by opening additional offices in key strategic locations.

Our Market Area

Our primary market is Greenville County, which is located in the upstate region of South Carolina, approximately midway between Atlanta and Charlotte on the heavily traveled I-85 business corridor. It is South Carolina's most populous county with over 390,000 residents. Greenville is also one of the state's wealthiest counties, with average household income of $61,023 in 2004. In the past decade, Greenville County has attracted more than $6 billion in new business investments and 43,000 new jobs and is now considered the "economic engine of South Carolina." During the same period, Greenville County was rated first in the United States by Site Selection Magazine for both new and expanding international firms and, in 2002, was ranked fifth out of America's top 50 cities for European business expansion. Greenville was also recognized by Expansion Management Magazine in December 2000 for having the best worker training program in the United States.

BMW, Michelin, General Electric, Hitachi, and nearly 100 other companies have national or regional headquarters located in the Greenville metropolitan area. As of 2001, 43 Fortune 500 companies had operations in Greenville County, 13 of which are also in the Fortune 100. According to the Greenville Area Development Corporation, foreign investment per capita is higher in Greenville County than anywhere else in the United States. Currently, 73 international companies representing 15 foreign countries employ more than 12,400 Greenville County residents. In addition, in November 2003, Clemson University, BMW, and the Governor of South Carolina, among other dignitaries and nationally-renowned companies, participated in the ground-breaking ceremonies for the Clemson University International Center for Automotive Research. Situated on 400 acres of prime property adjacent to I-85 in Greenville, the campus, when completed in 2007, will be the home of a new graduate engineering center, an information technology building, state-of-the-art research and testing facilities, and private research and development operations that will support the region's growing automotive industry. This collaboration among the State of South Carolina, Clemson University, BMW, IBM, Microsoft, and other companies has already generated more than $90 million in public and private support. We believe that this dynamic economic environment will continue to support the county and our business in the future.

Greenville County is the largest deposit market in the state of South Carolina according to FDIC data as of June 30, 2003, with total deposits of $6.6 billion and an average growth of 6.1% per year over the past five years. However, as of June 30, 2003, over 65% of the deposits in Greenville County were held by financial institutions with headquarters located outside Greenville County. We believe that our focus on providing personal, relationship banking to our clients will enable us to significantly expand our market share, which represented less than 2.5% of the deposit market as of June 30, 2003.

Lending Activities

General. We emphasize a range of lending services, including real estate, commercial, and equity-line consumer loans to individuals and small- to medium-sized businesses and professional firms that are located in or conduct a substantial portion of their business in our market area. Our underwriting standards vary for each type of loan, as described below. While we generally underwrite the loans in our portfolio in accordance with our own internal underwriting guidelines and regulatory supervisory limits, in certain circumstances we have made loans which exceed either our internal underwriting guidelines, supervisory limits, or both. As of June 30, 2004, approximately $21.6 million, or 8.7%, of our loans had loan-to-value ratios which exceeded regulatory supervisory limits, of which nine loans totaling approximately $3.9 million had loan-to-value ratios of 100% or more. Since loans typically provide higher interest yields than other types of interest-earning assets, we invest a substantial percentage of our earning assets in our loan portfolio. At June 30, 2004, we had total loans of $247.6 million, representing 91.7% of our total earning assets.

We have focused our lending activities primarily on the professional market in Greenville, including doctors, dentists, and small business owners. By focusing on this client base and by serving each client with a consistent relationship team of bankers, we have generated a loan portfolio with larger average loan amounts than we believe is typical for a community bank. For example, as of June 30, 2004 our average loan size was approximately $138,000. Excluding home equity lines of credit, the average loan size was approximately $182,000. At the same time, we have strived to maintain a diversified loan portfolio and limit the amount of our loans to any single client. As of June 30, 2004, our 10 largest client loan relationships represented approximately $16.8 million, or 6.8% of our loan portfolio.

Real Estate Mortgage Loans. The principal component of our loan portfolio is loans secured by real estate mortgages. We obtain a security interest in real estate whenever possible, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. At each of December 31, 2003 and June 30, 2004, loans secured by first or second mortgages on real estate made up approximately 80% of our loan portfolio.

These loans will generally fall into one of four categories: commercial real estate loans, construction and development loans, residential real estate loans, or home equity loans. Most of our real estate loans are secured by residential or commercial property. Interest rates for all categories may be fixed or adjustable, and will more likely be fixed for shorter-term loans. We generally charge an origination fee for each loan. Other loan fees consist primarily of late charge fees. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Fluctuations in the value of real estate, as well as other factors arising after a loan has been made, could negatively affect a borrower's cash flow, creditworthiness, and ability to repay the loan.

Commercial Real Estate Loans. At June 30, 2004, our individual commercial real estate loans ranged in size from $12,750 to $2.2 million, with an average loan size of approximately $263,000. These loans generally have terms of five years or less, although payments may be structured on a longer amortization basis. We evaluate each borrower on an individual basis and attempt to determine the business risks and credit profile of each borrower. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio, established by independent appraisals, does not exceed 85%. We also generally require that a borrower's cash flow exceeds 115% of monthly debt service obligations. In order to ensure secondary sources of payment and liquidity to support a loan request, we typically review all of the personal financial statements of the principal owners and require their personal guarantees. At June 30, 2004, commercial real estate loans (other than construction loans) amounted to $104.8 million, or approximately 42.3% of our loan portfolio. Of our commercial real estate loan portfolio, $64.9 million in loans were not owner-occupied properties, representing 61.9% of our commercial real estate portfolio and 26.2% of our total loan portfolio. The remainder of our commercial real estate loan portfolio, $39.9 million in loans or 38.9% of the commercial loan portfolio, were owner-occupied. Loans for owner-occupied properties represented 16.1% of our total loan portfolio.

Construction and Development Real Estate Loans. We offer adjustable and fixed rate residential and commercial construction loans to builders and developers and to consumers who wish to build their own homes. At June 30, 2004, our commercial construction and development real estate loans ranged in size from approximately $69,500 to $1.7 million, with an average loan size of approximately $500,000. At June 30, 2004, our individual residential construction and development real estate loans ranged in size from approximately $50,000 to $519,000, with an average loan size of approximately $227,000. The duration of our construction and development loans generally is limited to 18 months, although payments may be structured on a longer amortization basis. Construction and development loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and usually on the sale of the property. Specific risks include:

- cost overruns;
- mismanaged construction;
- inferior or improper construction techniques;
- economic changes or downturns during construction;
- a downturn in the real estate market;
- rising interest rates which may prevent sale of the property; and
- failure to sell completed projects in a timely manner.

We attempt to reduce the risk associated with construction and development loans by obtaining personal guarantees where possible and by keeping the loan-to-value ratio of the completed project at or below 80%. At June 30, 2004, total construction loans amounted to $23.4 million, or 9.4% of our loan portfolio. Included in the $23.4 million was $17.8 million, or 7.2% of our loan portfolio, that were commercial construction, and $5.5 million, or 2.2% of our loan portfolio, that were consumer construction loans.

Residential Real Estate Loans and Home Equity Loans. We do not generally originate traditional long term residential mortgages, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. At June 30, 2004, our individual residential real estate loans ranged in size from $8,500 to $1.2 million, with an average loan size of approximately $226,000. Generally, we limit the loan-to-value ratio on our residential real estate loans to 80%. We offer fixed and adjustable rate residential real estate loans with terms of up to 30 years. We typically offer these fixed rate loans through a third party rather than originating and retaining these loans ourselves. We typically originate and retain residential real estate loans only if they have adjustable rates. We also offer home equity lines of credit. At June 30, 2004, our individual home equity lines of credit ranged in size from $3,000 to $670,000, with an average of approximately $85,000. Our underwriting criteria for, and the risks associated with, home equity loans and lines of credit are generally the same as those for first mortgage loans. Home equity lines of credit typically have terms of five years or less. We generally limit the extension of credit to 90% of the available equity of each property, although we may extend up to 100% of the available equity. At June 30, 2004, residential real estate loans (other than construction loans) amounted to $72.1 million, or 29.1% of our loan portfolio. Included in the residential real estate loans was $41.2 million, or 16.6% of our loan portfolio, in first and second mortgages on individuals' homes, and $30.9 million, or 12.5% of our loan portfolio, in home equity loans.

Commercial Business Loans. We make loans for commercial purposes in various lines of businesses, including the manufacturing, service industry, and professional service areas. At June 30, 2004, our individual commercial business loans ranged in size from approximately $500 to $1.2 million, with an average loan size of approximately $104,000. Commercial loans are generally considered to have greater risk than first or second mortgages on real estate because commercial loans may be unsecured, or if they are secured, the value of the collateral may be difficult to assess and more likely

to decrease than real estate. At June 30, 2004, commercial business loans amounted to $42.3 million, or 17.1% of our loan portfolio.

We are eligible to offer small business loans utilizing government enhancements such as the Small Business Administration's ("SBA") 7(a) program and SBA's 504 programs. These loans typically are partially guaranteed by the government, which helps to reduce their risk. Government guarantees of SBA loans do not exceed, and are generally less than, 80% of the loan. As of June 30, 2004, we had not originated any small business loans utilizing government enhancements.

Consumer Loans. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. Consumer loans are underwritten based on the borrower's income, current debt level, past credit history, and the availability and value of collateral. Consumer rates are both fixed and variable, with terms negotiable. At June 30, 2004, our individual consumer loans ranged in size from $500 to $145,000, with an average loan size of approximately $20,000. Our installment loans typically amortize over periods up to 60 months. We will offer consumer loans with a single maturity date when a specific source of repayment is available. We typically require monthly payments of interest and a portion of the principal on our revolving loan products. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate. At June 30, 2004, consumer loans amounted to $5.7 million, or 2.3% of our loan portfolio.

Loan Approval. Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. We attempt to mitigate repayment risks by adhering to internal credit policies and procedures. These policies and procedures include officer and client lending limits, a multi-layered approval process for larger loans, documentation examination, and follow-up procedures for any exceptions to credit policies. Our loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds an individual officer's lending authority, the loan request will be considered by an officer with a higher lending limit or by the officers' loan committee, which is comprised of our three most senior lenders and our chief credit officer. The officers' loan committee has pre-determined lending limits, and any loans in excess of this lending limit will be submitted for approval by the finance committee of our board or by the full board. We do not make any loans to any director, officer, or employee of the bank unless the loan is approved by the board of directors of the bank and is on terms not more favorable to such person than would be available to a person not affiliated with the bank.

Credit Administration and Loan Review. We maintain a continuous loan review system. We also apply a credit grading system to each loan, and we use an independent consultant to review the loan files on a test basis to confirm the grading of each loan. In addition, in late 2003 we hired a chief credit officer who has over 35 years of banking and credit management experience to assist us in strengthening our credit review processes and establishing performance benchmarks in the areas of nonperforming assets, charge-offs, past dues, and loan documentation. Each loan officer is responsible for each loan he or she makes, regardless of whether other individuals or committees joined in the approval. This responsibility continues until the loan is repaid or until the loan is officially assigned to another officer. In addition, we emphasize the responsibility our officers have to their clients through incentive-based compensation arrangements. For example, for the year ended December 31, 2003, approximately 33.4% of the total compensation for our seven highest compensated officers was incentive compensation. This compensation is based not only on an officer's origination of loans, but also on the continued performance of these loans.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by federal law. In general, the bank is subject to a legal limit on loans to a single borrower equal to 15% of the bank's capital and unimpaired surplus. This limit will increase or decrease as the bank's capital increases or decreases. Based upon the capitalization of the bank at December 31, 2003, we self-imposed a loan limit of $2.2 million per borrower, which represented approximately 87% of our legal lending limit at December 31, 2003 and 71% at June 30, 2004. These limits will increase or decrease in response to increases or decreases in the bank's level of capital. We are able to sell participations in our larger loans to other financial institutions, which allows us to manage the risk involved in these loans and to meet the lending needs of our clients requiring extensions of credit in excess of these limits.

Deposit Services

Our principal source of funds is core deposits. We offer a full range of deposit services, including checking accounts, commercial accounts, savings accounts, and other time deposits of various types, ranging from daily money market accounts to long-term certificates of deposit. Because of the historically low interest rate environment in the last three years, we have chosen to obtain a portion of our deposits from outside our local market. Our out-of-market, or wholesale, certificates of deposits represented 39.9% of total deposits at June 30, 2004. The deposits obtained outside of our market area generally have lower rates than rates being offered for certificates of deposits in our local market. This funding strategy has allowed us to continue to operate in one location, maintain a smaller staff, and not incur significant marketing costs to advertise deposit rates, which in turn has allowed us to maintain our focus on growing our loan portfolio. In anticipation of rising interest rates and our continued growth, we have recently begun to focus on expanding our retail deposit program. We are planning to open two new retail deposit offices, one in the fourth quarter of 2004 and the other in the second quarter of 2005, which we believe will assist us in obtaining low cost transaction accounts that are less affected by rising rates. Deposit rates are reviewed regularly by senior management of the bank. We believe that the rates we offer are competitive with those offered by other financial institutions in our area. We focus on customer service and our ClientFIRST culture to attract and retain deposits.

Other Banking Services

We offer other bank services including safe deposit boxes, traveler's checks, direct deposit, United States Savings Bonds, and banking by mail. We earn fees for most of these services, including debit and credit card transactions, sales of checks, and wire transfers. We also receive ATM transaction fees from transactions performed by our clients. We are associated with the Honor, Cirrus, and Master-Money ATM networks, which are available to our clients throughout the country. Since we outsource our ATM services, we are charged related transaction fees from our ATM service provider. We have contracted with Intercept Inc., an outside computer service company, to provide our core data processing services and our ATM processing. By outsourcing these services, we believe we are able to reduce our overhead by matching the expense in each period to the transaction volume that occurs during the period, as a significant portion of the fee charged is directly related to the number of loan and deposit accounts and the related number of transactions we have during the period. We believe that by being associated with a shared network of ATMs, we are better able to serve our clients and are able to attract clients who are accustomed to the convenience of using ATMs, although we do not believe that maintaining this association is critical to our success. We also offer Internet banking services, bill payment services, and cash management services. We do not expect to exercise trust powers during our next few years of operation.

Competition

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services rendered, the convenience of banking facilities, and, in the case of loans to commercial borrowers, relative lending limits. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in Greenville County and elsewhere.

As of June 30, 2003, there were 25 financial institutions other than us in Greenville County. We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions with substantially greater resources and lending limits, such as BB&T, Bank of America, Wachovia, and Carolina First Bank. These institutions offer some services, such as extensive and established branch networks and trust services, that we do not provide. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks.

We believe our commitment to quality and personalized banking services through our Client FIRST culture is a factor that contributes to our competitiveness.

Employees

As of June 30, 2004, we had 30 employees.

Properties

Our main office facility is located at the corner of Haywood Road and Halton Road in downtown Greenville, South Carolina. The building is a full service banking facility with three drive-through banking stations and an automatic teller machine. We lease this building from Halton Properties, LLC, which is 50% owned by our director Mark A. Cothran, for approximately $342,000 per year. See "Certain Relationships and Related Transactions" on page 65. Rental payments are subject to increase in accordance with a formula based on the Consumer Price Index. The lease has an initial term of 20 years, expiring in 2021, with options for three additional five-year renewal periods. We have the option to purchase the building at any time at a price based on a fair market value calculation.

On March 5, 2004, we received permission from the OCC to open two additional offices. We expect to open one office during the fourth quarter of this year, which will be located in the Thornblade area of Greenville, South Carolina on The Parkway, near the intersection of I-85 and Pelham Road. We purchased the site for approximately $422,000, and as of June 30, 2004, had committed approximately $1.2 million to construct the office.

We plan to open the other office, which will be located at 2125 Augusta Road in Greenville, South Carolina, during the first half of 2005. We lease the land for this office from Augusta Road Holdings, LLC, which is owned by one of our directors, Mark A. Cothran, for approximately $57,000 per year. See "Certain Relationships and Related Transactions" on page 65. Rental payments are subject to increase in accordance with a formula based on the Consumer Price Index. The term of the lease is 99 years. By the end of the third quarter of this year, we expect to enter into a commitment to construct this office for approximately $1.1 million.

We believe that all of our properties are adequately covered by insurance.

Legal Proceedings

In the ordinary course of operations, we may be a party to various legal proceedings from time to time. We do not believe that there is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion reviews our results of operations and assesses our financial condition. You should read the following discussion and analysis in conjunction with our "Summary Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. Our discussion and analysis for the periods ending June 30, 2004 and 2003 is based on unaudited financial statements for such periods.

Overview

We were incorporated in March 1999 to organize and serve as the holding company for Greenville First Bank, N.A. Since we opened our bank in January 2000, we have experienced consistent growth in total assets, loans, deposits, and shareholders' equity, which has continued during the first six months of 2004. We experienced our first quarterly profit in the third quarter of 2001, and we have been profitable in each subsequent quarter that has ended prior to the date of this prospectus. We became cumulatively profitable in the third quarter of 2003.

The following table sets forth selected measures of our financial performance for the periods indicated.

	Six Months Ended June 30,			Years Ended December 31,			
	2004	2003	2002	2003	2002	2001	2000
	(In thousands)						
Total revenues(1)	$ 4,256	$ 2,997	$ 2,221	$ 6,526	$ 5,181	$ 3,241	$ 1,683
Net income (loss)	802	397	164	1,006	752	(119)	(662)
Total assets	273,393	191,734	144,980	230,841	170,358	118,565	61,428
Total net loans	244,407	173,584	122,238	206,077	148,079	95,340	46,025
Total deposits	177,987	144,546	123,735	168,964	133,563	92,700	49,994

(1) Total revenue equals net interest income plus total noninterest income.

Like most community banks, we derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We maintain this allowance by charging a provision for loan losses against our operating earnings for each period. We have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses.

In addition to earning interest on our loans and investments, we earn income through fees and other charges to our clients. We have also included a discussion of the various components of this noninterest income, as well as of our noninterest expense.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with our financial statements and the other statistical information included in this prospectus.

Effect of Economic Trends

During the three years ended December 31, 2003 and the six months ended June 30, 2004, our rates on both short-term or variable rate earning assets and short-term or variable rate interest-bearing liabilities declined primarily as a result of the actions taken by the Federal Reserve.

During most of 2001 and during 2002, the United States experienced an economic decline. During this period, the economy was affected by lower returns of the stock markets. Economic data led the Federal Reserve to begin an aggressive program of reducing rates that moved the Federal Funds rate down 11 times during 2001 for a total reduction of 475 basis points. During the fourth quarter of 2002 and the first quarter of 2003, the Federal Reserve reduced the Federal Funds rate down an additional 75 basis points, bringing the Federal Funds rate to its lowest level in 40 years.

Despite sharply lower short-term rates, stimulus to the economy during 2003 was muted and consumer demand and business investment activity remained weak. During all of 2003 and substantially all of the six months ended June 30, 2004, the financial markets operated under historically low interest rates. As a result of these unusual conditions, Congress passed an economic stimulus plan in 2003. During the first six months of 2004, many economists believed the economy began to show signs of strengthening and at the end of the second quarter the Federal Reserve increased the short-term interest rate by 25 basis points. The Federal Reserve increased the short-term interest rate by an additional 25 basis points in August 2004. Many economists believe that the Federal Reserve will continue to increase rates during the remainder of 2004 and during most of 2005. The following discussion includes our analysis of the effect we anticipate these rising interest rates will have on our financial condition. However, no assurance can be given that the Federal Reserve will actually continue to raise interest rates or that the results we anticipate will actually occur.

Critical Accounting Policies

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our audited consolidated financial statements as of December 31, 2003, beginning on page F-7 of this prospectus.

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 the carrying values of our assets and liabilities and our results of operations.

We believe the allowance for loan losses is the critical accounting policy that requires the most significant judgment and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the credit worthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management's estimates provided in our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a more complete discussion of our processes and methodology for determining our allowance for loan losses.

Results of Operations

Income Statement Review

Summary

Years ended December 31, 2003 and 2002

Our net income was $1.0 million and $752,416 for the years ended December 31, 2003 and 2002, respectively. During 2003, our income was fully taxable, while in 2002, all of our income tax expense was offset by the utilization of net operating losses from the three years ended December 31, 2001. Net income before income tax expense was $1.6 million for the year ended December 31, 2003, an increase of $870,033, or 115.6%, compared to $752,416 for the year ended December 31, 2002.

The $870,033 increase in net income resulted from a $1.4 million increase in net interest income, offset by a $98,567 decrease in other income and a $474,367 increase in noninterest expense. Our efficiency ratio was 59.04% and 65.22% for the years ended December 31, 2003 and 2002, respectively. Our efficiency ratio is a non-GAAP financial measure, which we believe provides investors with important information regarding our operational efficiency. We compute our efficiency ratio by dividing noninterest expense by the sum of net interest income and noninterest income. The efficiency ratio represents the percentage of one dollar of expense required to be incurred to earn a full dollar of revenue. For the year ended December 31, 2003, we spent on average $0.59 to earn each $1.00 of revenue.

The $98,567 decrease in other income for the year ended December 31, 2003 compared to the year ended December 31, 2002 related to a $253,699 write-down on real estate owned. Excluding the $253,699 write-down on real estate owned, noninterest income would have increased from $520,251 for the year ended December 31, 2002 to $675,383 for the year ended December 31, 2003, an increase of 29.8%. We also recorded a provision for loan losses of $1.1 million for each of the years ended December 31, 2003 and 2002.

Six months ended June 30, 2004 and 2003

Our net income was $801,801 and $396,381 for the six months ended June 30, 2004 and 2003, respectively, an increase of $405,420, or 102.3%. Our income was fully taxable in both six month periods. The $405,420 increase in net income resulted primarily from increases of $1.1 million in net interest income and $131,793 in noninterest income. These increases were partly offset by $455,651 of additional noninterest expense, a $150,000 increase in provisions for loan losses, and a $248,491 increase in income tax expense. Our efficiency ratio continues to improve because we are earning more income without substantially increasing our overhead expenses. Our efficiency ratio was 54.35% and 61.96% for the six months ended June 30, 2004 and 2003, respectively.

Net Interest Income

Our level of net interest income is determined by the level of earning assets and the management of our net interest margin. The continuous growth in our loan portfolio is the primary driver of the increase in net interest income. During the three years ended December 31, 2003, our loan portfolio had increased an average of $53.4 million per year. The growth in the first six months of 2004 was $38.3 million. We anticipate the growth in loans will continue to drive the growth in assets and the growth in net interest income. However, no assurance can be given that we will be able to continue to increase loans at the same levels we have experienced in the past.

Our decision to grow the loan portfolio at the current pace created the need for a higher level of capital and the need to increase deposits and borrowings. This loan growth strategy also resulted in a significant portion of our assets being in higher earning loans than in lower yielding investments. At

June 30, 2004, loans represented 89.4% of total assets, while investments and federal funds sold represented 8.1% of total assets. While we plan to continue our focus on increasing the loan portfolio, as rates on investment securities begin to rise and additional capital and deposits are obtained, we also anticipate increasing the size of the investment portfolio.

The historically low interest rate environment in the last three years allowed us to obtain short-term borrowings and wholesale certificates of deposit at rates that were lower than certificate of deposit rates being offered in our local market. Therefore, we decided not to begin our retail deposit expansion program until the end of 2004. This funding strategy allowed us to continue to operate in one location, maintain a smaller staff, and not incur marketing costs to advertise deposit rates, which in turn allowed us to focus on the fast growing loan portfolio. At June 30, 2004, retail deposits represented $106.9 million, or 39.1% of total assets, borrowings represented $81.2 million, or 29.7% of total assets, and wholesale out-of-market deposits represented $71.1 million, or 26.0% of total assets.

In anticipation of rising interest rates, we are planning to open two retail deposit offices, one in the fourth quarter of 2004 and the other in the second quarter of 2005. We plan to focus our efforts at these two locations on obtaining low cost transaction accounts that are less affected by rising rates. Also, in anticipation of rising rates, during the first six months of 2004, we offered aggressive promotional rates on new checking accounts and new money market accounts. The promotional rates offered are 2.00% on checking accounts and 2.25% on money market accounts and are guaranteed until January 31, 2005. Based on prior experience, we anticipate the majority of these funds to be retained at the end of the promotion. Our goal is to increase both the percentage of assets being funded by "in market" retail deposits and to increase the percentage of low-cost transaction accounts to total deposits. No assurance can be given that these objectives will be achieved; however, we anticipate that the two additional retail deposit offices will assist us in meeting these objectives. We also anticipate the current deposit promotion and the opening of the two new offices will have a negative impact on earnings in the years ending 2004 and 2005. However, we believe that these two strategies will provide additional clients in our local market and will provide a lower alternative cost of funding in a higher or rising interest rate environment, which we believe will increase earnings in future periods.

As more fully discussed in the " Market Risk" and " Liquidity and Interest Rate Sensitivity" sections below, at June 30, 2004, 68.0% of our loans had variable rates. Given our high percentage of rate-sensitive loans, our primary focus during the three years ended December 31, 2003 and for first six months of 2004 has been to obtain short-term liabilities to fund our asset growth. This strategy allows us to manage the impact on our earnings resulting from changes in market interest rates. At December 31, 2003, 83.4% of interest-bearing liabilities had a maturity of less than one year.

Also in anticipation of rising rates, in May 2004 we converted a total of $25.0 million of short-term deposits and borrowings with a term of less than three months into $25.0 million of deposits and borrowings with a weighted average life of five years. As of June 30, 2004, 80.2% of interest-bearing liabilities had a maturity of less than one year. We believe that we are positioned to benefit from future increases in short-term rates. At June 30, 2004, we had $23.5 million more assets than liabilities that reprice within the next three months.

We intend to maintain a capital level for the bank that exceeds the OCC requirements to be classified as a "well capitalized" bank. To provide the additional capital needed to support our bank's growth in assets, we issued $6.2 million in junior subordinated debentures in connection with our trust preferred securities offering, and we have borrowed $3.0 million under a short-term holding company line of credit.

In addition to the growth in both assets and liabilities, and the timing of repricing of our assets and liabilities, net interest income is also affected by the ratio of interest-earning assets to interest-bearing liabilities and the changes in interest rates earned on our assets and interest rates paid on our liabilities.

Our net interest income for the three years ended December 31, 2003 and the six months ended June 30, 2004 increased because we had more interest-earning assets than interest-bearing liabilities. For the six months ended June 30, 2004 and year ended December 31, 2003, interest-earning assets exceeded interest-bearing liabilities by $7.0 million and $6.9 million, respectively. The estimated $2.5 million cost of the two additional retail offices will reduce the amount by which interest-earning assets exceed interest-bearing liabilities, but this will be more than offset by the net proceeds raised from this offering of common stock.

During the three years ended December 31, 2003, and the six months ended June 30, 2004, our rates on both short-term or variable rate earning-assets and short-term or variable rate interest-bearing liabilities declined primarily as a result of the actions taken by the Federal Reserve to lower short-term rates.

The impact of the Federal Reserve's actions resulted in a decline in both the yields on our variable rate assets and the rates that we paid for our short-term deposits and borrowings. Our net interest spread and net interest margins also declined since more of our rate sensitive assets repriced sooner than our rate sensitive liabilities during the three and one-half year period ending June 30, 2004. Our net interest margin for the years ended December 31, 2001, 2002, and 2003 was 3.43%, 3.30%, and 3.24%, respectively. Our net interest margin continued to decline in the first six months of 2004 to 3.15%.

We anticipate that the 25 basis point increase in short-term rates at the end of the second quarter of 2004 will result in an increase in loan yields, while our $25.0 million of longer-term, higher interest deposits and borrowings will result in a higher cost of funds to us. Accordingly, we believe that our net interest margin may continue to decline until further action is taken by the Federal Reserve to increase short-term rates.

We have included a number of unaudited tables to assist in our description of various measures of our financial performance. For example, the "Average Balances" tables show the average balance of each category of our assets and liabilities as well as the yield we earned or the rate we paid with respect to each category during 2003, 2002, and 2001 and during the first six months of 2004 and 2003. A review of these tables shows that our loans typically provide higher interest yields than do other types of interest-earning assets, which is why we direct a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Rate/Volume Analysis" tables help demonstrate the effect of changing interest rates and changing volume of assets and liabilities on our financial condition during the periods shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included tables to illustrate our interest rate sensitivity with respect to interest-earning accounts and interest-bearing accounts. Finally, we have included various tables that provide detail about our investment securities, our loans, our deposits, and other borrowings.

Years Ended December 31, 2003, 2002, and 2001

The following tables set forth information related to our average balance sheet, average yields on assets, and average costs of liabilities. We derived these yields by dividing income or expense by the average balance of the corresponding assets or liabilities. We derived average balances from the daily balances throughout the periods indicated. During the three years ended December 31, 2003, all investments were taxable. During the same period, we had no interest-bearing deposits in other banks or any securities purchased with agreements to resell. All investments were owned at an original maturity of over one year. Nonaccrual loans are included in the following tables. Loan yields have been reduced to reflect the negative impact on our earnings of loans on nonaccrual status. The net of capitalized loan costs and fees are amortized into interest income on loans.

Average Balances, Income and Expenses, and Rates
For the Years Ended December 31,

	2003			2002			2001		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
				(In thousands)					
Earning assets:									
Federal funds sold	$ 1,676	$ 18	1.07%	$ 2,879	$ 50	1.74%	$ 3,716	$ 160	4.31%
Investment securities	12,498	517	4.14%	14,913	713	4.78%	15,456	963	6.23%
Loans	174,289	9,187	5.27%	123,261	7,390	6.00%	67,046	5,187	7.74%
Total earning-assets	188,463	9,722	5.16%	141,053	8,153	5.78%	86,218	6,310	7.32%
Nonearning assets	6,295			7,112			5,364		
Total assets	$ 194,758			$ 148,165			$ 91,582		
Interest-bearing liabilities:									
NOW accounts	$ 30,105	$ 127	0.42%	$ 27,367	$ 261	0.95%	$ 12,559	$ 164	1.31%
Savings & money market	22,822	129	0.57%	22,811	316	1.39%	19,588	675	3.45%
Time deposits	90,585	2,511	2.77%	71,846	2,584	3.60%	42,982	2,405	5.60%
Total interest-bearing deposits	143,512	2,767	1.93%	122,024	3,161	2.59%	75,129	3,244	4.32%
FHLB advances	27,569	591	2.14%	7,090	216	3.05%	1,858	74	3.98%
Other borrowings	10,478	260	2.48%	5,293	115	2.17%	1,333	35	2.63%
Total interest-bearing liabilities	181,559	3,618	1.99%	134,407	3,492	2.60%	78,320	3,353	4.28%
Noninterest bearing liabilities	2,356			4,023			3,813		
Shareholders' equity	10,843			9,735			9,449		
Total liabilities and shareholders' equity	$ 194,758			$ 148,165			$ 91,582		
Net interest spread			3.17%			3.18%			3.04%
Net interest income/margin		$ 6,104	3.24%		$ 4,661	3.30%		$ 2,957	3.43%

Our net interest spread was 3.17% for the year ended December 31, 2003, compared to 3.18% for the year ended December 31, 2002 and 3.04% for the year ended December 31, 2001. The net interest spread is the difference between the yield we earn on our interest-earning assets and the rate we pay on our interest-bearing liabilities.

The net interest margin is calculated as net interest income divided by average interest-earning assets. Our net interest margin for the period ended December 31, 2003 was 3.24%, compared to 3.30% for the year ended December 31, 2002 and 3.43% for the year ended December 31, 2001. During 2003, interest-earning assets averaged $188.5 million, compared to $141.1 million in 2002 and $86.2 million in 2001.

The net interest spread and net interest margin declined during the three years ended December 31, 2003 as a result of the bank having more interest-earning assets than interest-bearing liabilities that repriced as market rates declined over the three year period.

Net interest income, the largest component of our income, was $6.1 million, $4.7 million, and $3.0 million, for the years ended December 31, 2003, 2002, and 2001, respectively. The significant increase in both 2003 and 2002 related to the net effect of higher levels of both average earning assets and interest-bearing liabilities, offset by a slightly lower net interest margin. In 2003 and 2002, average earning assets increased $47.4 million and $54.8 million, respectively. During the same periods, average interest-bearing liabilities increased $47.2 million and $56.1 million, respectively.

As previously discussed, our net interest margin for the years ended December 31, 2001, 2002, and 2003, was 3.43%, 3.30%, and 3.24%, respectively.

The $1.4 million increase in net interest income for the year ended December 31, 2003 compared to the same period in 2002 resulted from a $1.6 million increase in net interest income offset by a $151,000 decrease in net interest income. The $1.7 million increase in net interest income for the year ended December 31, 2002 compared to the same period in 2001 resulted from a $1.9 million increase in net interest income offset by a $166,000 decrease in net interest income. The increases in net income were caused by higher average earning assets and interest-bearing liabilities. The decreases in net interest income were caused by the lower net interest margin.

Interest income for the year ended December 31, 2003 was $9.7 million, consisting of $9.2 million on loans, $517,005 on investments, and $18,171 on federal funds sold. Interest income for 2002 was $8.2 million, consisting of $7.4 million on loans, $712,699 on investments, and $49,929 on federal funds sold. Interest on loans for the years ended December 31, 2003 and 2002 represented 94.5% and 90.6%, respectively, of total interest income, while income from investments and federal funds sold represented 5.5% and 9.4% of total interest income for the years ended December 31, 2003 and 2002, respectively. The high percentage of interest income from loans related to our strategy to maintain a significant portion of our assets in higher earning loans compared to lower yielding investments. Average loans represented 92.5% and 87.4% of average interest-earning assets for the years ended December 31, 2003 and 2002, respectively. Included in interest income on loans for the years ended December 31, 2003 and 2002 was $349,887 and $294,744, respectively, related to the net amortization of loan fees and capitalized loan origination costs.

Interest expense for the year ended December 31, 2003 was $3.6 million, consisting of $2.8 million related to deposits and $850,989 related to borrowings. Interest expense for the year ended December 31, 2002 was $3.5 million, consisting of $3.2 million related to deposits and $331,620 related to borrowings. Interest expense on deposits for the years ended December 31, 2003 and 2002 represented 76.5% and 90.5%, respectively, of total interest expense, while interest expense on borrowings represented 23.5% and 9.5%, respectively, of total interest expense. The decrease in interest expense on deposits and the increase in interest on borrowings during the year ended December 31, 2003 resulted from our decision to delay our retail deposit office expansion program and instead utilize additional borrowings from both the FHLB, and from the sale of securities under agreements to repurchase with brokers. During the year ended December 31, 2003, average deposits were higher by $21.5 million than for the same period 2002, while other borrowings during the year ended December 31, 2003 were $25.7 million higher than for the same period in 2002.

During the year ended December 31, 2003, we were able to pledge additional collateral to the FHLB, allowing us the ability to increase our FHLB borrowings. Both the short-term borrowings related to the sale of securities under agreements to repurchase and the FHLB advances provide us with the opportunity to obtain low cost funding with various maturities similar to the maturities on our loans and investments.

Six months ended June 30, 2004 and 2003

The following tables set forth information related to our average balance sheets, average yields on assets, and average costs of liabilities. We derived these yields by dividing income or expense by the average balance of the corresponding assets or liabilities. We derived average balances from the daily balances throughout the periods indicated. During the six months ended June 30, 2004 and 2003, all investments were taxable. During the same period, we had no interest-bearing deposits in other banks or any securities purchased with agreements to resell. All investments were owned at an original maturity of over one year. Nonaccrual loans are included in the following tables. Loan yields have been reduced to reflect the negative impact on our earnings of loans on nonaccrual status. The net of capitalized loan costs and fees are amortized into interest income on loans.

Average Balances, Income and Expenses, and Rates

	For the Six Months Ended June 30,					
	2004			2003		
	Average Balance	Income/ Expense	Yield/ Rate(1)	Average Balance	Income Expense	Yield/ Rate(1)
	(In thousands)					
Earning assets:						
Federal funds sold	$ 2,032	$ 9	0.89%	$ 1,953	$ 12	1.24%
Investment securities	20,824	445	4.30%	10,274	199	3.91%
Loans	225,469	5,688	5.07%	159,722	4,308	5.44%
Total earning-assets	248,325	6,142	4.97%	171,949	4,519	5.30%
Non-earning assets	6,981			6,306		
Total assets	$ 255,306			$ 178,255		
Interest-bearing liabilities:						
NOW accounts	$ 35,980	$ 122	0.68%	$ 28,248	$ 59	0.42%
Savings & money market	33,486	202	1.21%	20,712	62	0.60%
Time deposits	103,489	1,244	2.42%	85,908	1,291	3.03%
Total interest-bearing deposits	172,955	1,568	1.82%	134,868	1,412	2.11%
FHLB advances	46,988	446	1.91%	23,646	266	2.27%
Other borrowings	21,430	235	2.21%	6,739	75	2.24%
Total interest-bearing liabilities	241,373	2,249	1.87%	165,253	1,753	2.17%
Non-interest bearing liabilities	2,369			2,375		
Shareholders' equity	11,564			10,627		
Total liabilities and shareholders' equity	$ 255,306			$ 178,255		
Net interest spread			3.10%			3.13%
Net interest income/margin		$ 3,893	3.15%		$ 2,766	3.24%

(1) Annualized for the six-month period.

Our net interest spread was 3.10% for the six months ended June 30, 2004, compared to 3.13% for the six months ended June 30, 2003.

Our net interest margin for the period ended June 30, 2004 was 3.15%, compared to 3.24% for the six months ended June 30, 2003. During the first six months of 2004, earning assets averaged $248.3 million, compared to $171.9 million in the first six months of 2003.

The lower rate on loans for the six months ended June 30, 2004 compared to the six months ended June 30, 2003 resulted primarily from a reduction of 25 basis points in the second quarter of 2003. The deposit and borrowing cost did not decline as much as the reduction in the rates earned on interest-earning assets because of our decision to aggressively market interest-bearing transaction accounts by paying an above market rate. Also, we extended the maturity dates on various jumbo time deposits and FHLB advances. These decisions were intended to compensate for anticipated higher rates in the future.

Net interest income, the largest component of our income, was $3.9 million and $2.8 million for the six months ended June 30, 2004 and 2003, respectively. The significant increase in 2004 related to higher levels of both average earning assets and interest-bearing liabilities, offset by a slightly lower net interest margin. Average earning assets increased $76.4 million during the six months ended June 30, 2004 compared to the same period in 2003.

As previously discussed, our net interest margin for the six months ended June 30, 2004 and 2003, was 3.15% and 3.24%, respectively.

The $1.1 million increase in net interest income for the six months ended June 30, 2004 compared to the same period in 2003 resulted from a $1.2 million increase in net income offset by a $37,000 decrease in net interest income. The increase in net income related to higher average earning assets and interest-bearing liabilities. The decrease in net interest income was related to the lower net interest margin.

Interest income for the six months ended June 30, 2004 was $6.1 million, consisting of $5.7 million on loans, $445,178 on investments, and $9,293 on federal funds sold. Interest income for the six months ended June 30, 2003 was $4.5 million, consisting of $4.3 million on loans, $199,113 on investments, and $11,668 on federal funds sold. Interest on loans for the six months ended June 30, 2004 and 2003 represented 92.6% and 95.3%, respectively, of total interest income, while income from investments and federal funds sold represented only 7.4% and 4.7% of total interest income. The high percentage of interest income from loans was related to our strategy to maintain a significant portion of our assets in higher earning loans compared to lower yielding investments. Average loans represented 90.8% and 92.9% of average interest-earning assets for the six months ended June 30, 2004 and 2003, respectively. Included in interest income on loans for the six months ended June 30, 2004 and 2003, was $232,319 and $179,933, respectively, related to the net amortization of loan fees and capitalized loan origination costs.

Interest expense for the six months ended June 30, 2004 was $2.2 million, consisting of $1.6 million related to deposits and $681,219 related to borrowings. Interest expense for the six months ended June 30, 2003 was $1.8 million, consisting of $1.4 million related to deposits and $340,394 related to borrowings. Interest expense on deposits for the six months ended June 30, 2004 and 2003 represented 69.7% and 80.6%, respectively, of total interest expense, while interest expense on borrowings represented 30.3% and 19.4%, respectively, of total interest expense for the six months ended June 30, 2004 and 2003. The lower percentage of interest expense on deposits and the higher percentage of interest on borrowings for the six months ended June 30, 2004 compared to the six months ended June 30, 2003 resulted from our decisions to delay our retail deposit office expansion program and instead utilize additional borrowings from the FHLB, and from the sale of securities under agreements to repurchase with brokers. During the six months ended June 30, 2004, average interest-bearing deposits increased by $38.1 million over the same period in 2003, while other borrowing during the six months ended June 30, 2004 increased $38.0 million over the same period in 2003.

During the six months ended June 30, 2004, we were able to pledge additional collateral to the FHLB, allowing us the ability to increase our FHLB borrowings.

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following tables set forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

	Years Ended								
	December 31, 2003 vs. 2002				December 31, 2002 vs. 2001				
	Increase (Decrease) Due to				Increase (Decrease) Due to				
		Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
	(In thousands)								
Interest income									
Loans	$	3,059	(893)	(370)	1,796	4,349	(1,167)	(979)	2,203
Investment securities		(115)	(96)	16	(195)	(34)	(224)	8	(250)
Federal funds sold		(21)	(19)	8	(32)	(36)	(96)	22	(110)
Total interest income		2,923	(1,008)	(346)	1,569	4,279	(1,487)	(949)	1,843
Interest expense									
Deposits		557	(808)	(142)	(393)	2,025	(1,298)	(810)	(83)
FHLB advances		624	(64)	(185)	375	208	(17)	(49)	142
Other borrowings		114	15	15	144	104	(6)	(17)	81
Total interest expense		1,295	(857)	(312)	126	2,337	(1,321)	(876)	140
Net interest income	$	1,628	(151)	(34)	1,443	1,942	(166)	(73)	1,703

	Six Months Ended								
	June 30, 2004 vs. 2003				June 30, 2003 vs. 2002				
	Increase (Decrease) Due to				Increase (Decrease) Due to				
		Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
	(In thousands)								
Interest income									
Loans	$	1,783	(291)	(112)	1,380	1,515	(363)	(166)	986
Investment securities		205	20	21	246	(106)	(90)	26	(170)
Federal funds sold			(3)		(3)	(19)	(11)	6	(24)
Total interest income		1,988	(274)	(91)	1,623	1,390	(464)	(134)	792
Interest expense									

	Years Ended							
Deposits	401	(194)	(51)	156	270	(402)	(67)	(199)
FHLB advances	264	(42)	(42)	180	374	(36)	(157)	181
Other borrowings	164	(1)	(3)	160	45	(2)	(2)	41
Total interest expense	829	(237)	(96)	496	689	(440)	(226)	23
Net interest income	$ 1,159	(37)	5	1,127	701	(24)	92	769

Provision for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged as an expense on our statement of income. We review our loan portfolio periodically to evaluate our outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. Please see the discussion below under " Balance Sheet Review Provision and Allowance for Loan Losses" for a description of the factors we consider in determining the amount of the provision we expense each period to maintain this allowance.

Years ended December 31, 2003 and 2002

Included in the statement of income for the years ended December 31, 2003 and 2002 is a noncash expense related to the provision for loan losses of $1.1 million in each year. The additional $1.1 million provision added to our allowance for loan losses in each of 2003 and in 2002 resulted in a net increase in the allowance for loan losses of $881,001 for the year ended December 31, 2003 and $631,902 for the year ended December 31, 2002. The allowance for loan losses did not increase by the entire $1.1 million provision expense for loan losses because we reported net charge-offs of $168,999 and $418,098 for the years ended December 31, 2003 and 2002, respectively. The $168,999 net charge-offs during 2003 represented 0.10% of the average outstanding loans portfolio for the year ended December 31, 2003. The $418,098 net charge-offs during 2002 represented 0.34% of the average outstanding loan portfolio for the year ended December 31, 2002. The $881,001 and the $631,902 increases in the allowance for the years ended December 31, 2003 and 2002, respectively, related to our decision to increase the allowance in response to the $58.9 million and the $53.4 million growth in loans for the years ended December 31, 2003 and 2002, respectively. The loan loss reserve was $2.7 million and $1.8 million as of December 31, 2003 and 2002, respectively. The allowance for loan losses as a percentage of gross loans was 1.30% at December 31, 2003 and 1.22% at December 31, 2002, while the percentage of nonperforming loans to gross loans was 0.21% and 0.08% at December 31, 2003 and 2002, respectively.

Six months ended June 30, 2004 and 2003

For the six months ended June 30, 2004 and 2003, there was a noncash expense related to the provision for loan losses of $650,000 and $500,000, respectively. The additional provisions added to our allowance for loan losses in the six months ended June 30, 2004 and 2003 resulted in a net increase in the allowance for loan losses of $470,480 in the six months ended June 30, 2004 and $489,225 in the six months ended June 30, 2003. The allowance for loan losses did not increase by the entire amount of the provisions for loan losses because we reported net charge-offs of $179,520 and $10,775 for the six months ended June 30, 2004 and 2003, respectively. The $179,520 net charge-offs during the first six months of 2004, represented 0.08% of the average outstanding loans portfolio for the six months ended June 30, 2004. The $10,775 net charge-offs during the first six months of 2003 represented 0.01% of the average outstanding loan portfolio for the six months ended June 30, 2003. The $470,480 and the $489,225 increases in the allowance for the six months ended June 30, 2004 and 2003, respectively, related to our decision to increase the allowance in response to the $38.8 million and the $26.0 million growth in loans for the six months ended June 30, 2004 and 2003, respectively. The loan loss reserve was $3.2 million and $2.3 million as of June 30, 2004 and 2003, respectively. The allowance for loan losses as a percentage of gross loans was 1.28% at June 30, 2004 and 1.32% at June 30, 2003, while the percentage of nonperforming loans to gross loans was 0.18% and 0.14% at June 30, 2004 and 2003, respectively.

We expect that our net income will continue to be negatively affected by larger than normal provisions for loan losses as we continue to focus on growing our loan portfolio. During the years ended December 31, 2003 and 2002 and the six months ended June 30, 2004, 83.9%, 60.2%, and 72.5%, respectively, of the provision for loan losses was related primarily to the growth in loans, with only 16.1%, 39.8%, and 27.5%, respectively, related to net charge-offs. If the quality of the loan portfolio declines or a higher percentage of the portfolio is charged-off, additional provisions may be required.

Noninterest Income

The following tables set forth information related to our noninterest income.

	Six months ended June 30,		Years ended December 31,	
	2004	2003	2003	2002
Loan fee income	$ 66,824	103,666	183,932	155,401
Service fees on deposits	139,728	123,296	251,938	182,667
Write-down on real estate owned		(100,000)	(253,699)	
Other income	156,348	104,145	239,513	182,183
Total noninterest income	$ 362,900	231,107	421,684	520,251

Years ended December 31, 2003 and 2002

Noninterest income for the year ended December 31, 2003 was $421,684, a decrease of $98,567 compared to noninterest income of $520,251 during the same period in 2002. During 2003, we incurred a $253,699 write-down on real estate that was previously acquired in foreclosure and was sold in December 2003. Excluding the $253,699 loss on real estate owned, noninterest income from loan and service fees and other noninterest income increased $155,132, or 29.8%, from 2002.

Loan fees consist primarily of late charge fees and mortgage origination fees we receive on residential loans funded and closed by a third party. Loan fees were $183,932 and $155,401 for the years ended December 31, 2003 and 2002, respectively. The additional $28,531 related primarily to the increase in late charges that resulted from our larger loan portfolio in 2003 compared to 2002. We received $107,058 of mortgage origination fees in 2003 compared to $102,554 in 2002. We anticipate that the level of mortgage origination fees will decrease as the mortgage refinancing business declines due to higher mortgage rates currently being offered.

Service fees on deposits consist primarily of service charges on our checking, money market, and savings accounts and the fee income received from client non-sufficient funds ("NSF") transactions. Deposit fees were $251,938 and $182,667 for the years ended December 31, 2003 and 2002, respectively. The additional $69,271 of income related to both higher service charges and an increase in NSF transactions which resulted from the larger number of client accounts. NSF income was $160,260 and $121,112 for the years ended December 31, 2003 and 2002, respectively, representing 63.6% of total service fees on deposits in 2003 compared to 66.3% of total service fees on deposits in 2002.

Other income consists primarily of fees received on debit and credit card transactions, income from sales of checks, and the fees received on wire transfers. Other income was $239,513 and $182,183 for the years ended December 31, 2003 and 2002, respectively. The $57,330 increase resulted from an increase in the volume of ATM transactions for which we receive fees. The ATM transaction fees were $213,844 and $158,292 for the years ended December 31, 2003 and 2002, respectively. The ATM transaction fees represented 89.3% and 86.9% of total other income for the years ended December 31, 2003 and 2002, respectively. Included in noninterest outside service expense was $201,970 and $152,563 related to corresponding transaction costs associated with ATM transaction fees for the years ended December 31, 2003 and 2002, respectively. The net impact of the fees received and the related cost of the ATM transactions on earnings for the years ended December 31, 2003 and 2002 was $11,874 and $5,724, respectively.

Six months ended June 30, 2004 and 2003

Noninterest income in the first six months of 2004 was $362,900, an increase of 57.0% over noninterest income of $231,107 in the same period of 2003. Noninterest income in the six months ended June 30, 2003 was reduced by a $100,000 write-down on real estate owned. Excluding the 2003 write-down, noninterest income increased $31,793, or 9.6%, for the first six months of 2004 compared to the same period in 2003.

Loan fees were $66,824 and $103,666 for the six months ended June 30, 2004 and June 30, 2003, respectively. The $36,842 decrease related primarily to the lower amount of mortgage origination fees that we received in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. Mortgage origination fees were $3,423 and $63,623 for the six months ended June 30, 2004 and 2003, respectively. The reduction related to the significant decline in volume of residential mortgage refinancing in the first six months of 2004 compared to the same period in 2003. We received $31,721 in fees on lines of credit in the first six months of 2004 compared to $15,602 in the first six months of 2003. Late charge fees were $31,680 and $24,442 for the six months ended June 30, 2004 and 2003, respectively. The increase in late charges related to our larger loan portfolio in 2004 compared to 2003.

Deposit fees were $139,728 and $123,296 for the six months ended June 30, 2004 and 2003, respectively. The additional $16,432 of income related to both higher service charges and an increase of NSF transactions resulting from the larger number of client accounts. NSF income was $84,955 and $77,490 for the six months ended June 30, 2004 and 2003, respectively, representing 60.8% of total service fees on deposits in the 2004 period compared to 62.8% of total service fees on deposits in the 2003 period.

Other income was $156,348 and $104,145 for the six months ended June 30, 2004 and 2003, respectively. The $52,203 increase resulted primarily from an increase in the volume of ATM transactions for which we receive fees. ATM transaction fees were $140,141 and $90,336 for the six months ended June 30, 2004 and 2003, respectively. ATM transaction fees represented 89.6% and 86.7% of total other income for the six months ended June 30, 2004 and 2003, respectively. Included in noninterest outside service expense was $123,860 and $90,277 related to corresponding transaction costs associated with ATM transaction fees for the six months ended June 30, 2004 and 2003, respectively. The net impact of the fees received and the related cost of the ATM transactions on earnings for the years ended December 31, 2003 and 2002 was $16,281 and $59, respectively.

Noninterest expenses

The following tables set forth information related to our noninterest expenses.

	Six months ended June 30,		Years ended December 31,	
	2004	**2003**	**2003**	**2002**
Compensation and benefits	$ 1,199,522	967,842	1,983,204	1,768,878
Professional fees	99,815	74,559	175,126	153,257
Marketing	125,958	78,745	159,486	123,553
Insurance	61,662	53,265	110,219	93,282
Occupancy	289,899	299,362	587,992	587,783
Data processing and related costs	396,775	287,530	625,779	473,577
Telephone	13,306	11,187	22,097	23,674
Other	126,159	84,955	188,946	154,478
Total noninterest expense	$ 2,313,096	1,857,445	3,852,849	3,378,482

Years ended December 31, 2003 and 2002

We incurred noninterest expenses of $3.9 million for the year ended December 31, 2003, compared to $3.4 million for the year ended December 31, 2002. Average interest-earning assets increased 33.6% during this period, while general and administrative expense increased by only 14.0%.

The $214,326 increase in compensation and benefits and $152,202 increase in additional data processing and related costs accounted for 77.3% of the $474,367 increase in noninterest expense for the year ended December 31, 2003 compared to the same period in 2002. The remaining $107,839 increase resulted primarily from increases of $21,869 in professional fees, $35,933 in marketing costs, $16,937 in insurance expenses, and $34,468 in other expenses. A significant portion of the increase in professional fees related to additional audit expenses. The increase in marketing expenses related to expanding our market awareness in the Greenville market, while a significant portion of the increase in other expenses was due to increased costs of postage and office supplies, additional staff education and training, and higher dues and subscription costs.

Occupancy expense, which represented 15.3% and 17.4% of total noninterest expense for the years ended December 31, 2003 and 2002, respectively, remained virtually unchanged. Occupancy expense was $587,992 and $587,783 for the years ended December 31, 2003 and 2002, respectively.

Six months ended June 30, 2004 and 2003

We incurred noninterest expenses of $2.3 million for the six months ended June 30, 2004 compared to $1.9 million for the six months ended June 30, 2003. Average interest-earning assets increased 44.4% during this period, while general and administrative expense increased only 24.5%.

The $231,680 increase in compensation and benefits and $109,245 in additional data processing and related costs accounted for 74.8% of the $455,651 increase in noninterest expense for the six months ended June 30, 2004 compared to the same period in 2003. The remaining $114,726 increase resulted primarily from increases of $25,256 in professional fees, $47,213 in marketing costs, and $41,204 in other expenses. A significant portion of the increase in professional fees related to additional audit expenses. The increase in marketing expenses related to expanding our market awareness in the Greenville market, while a significant portion of the increase in other expenses was due to increased costs of postage and office supplies, additional staff education and training, and higher dues and subscription costs.

Occupancy expense, which represented 12.5% and 16.1% of total noninterest expense for the six months ended June 30, 2004 and 2003, respectively, remained virtually unchanged. Occupancy expense was $289,899 and $299,362 for the six months ended June 30, 2004 and 2003, respectively.

The following tables set forth information related to our compensation and benefits.

		Six months ended June 30,		Years ended December 31,	
		2004	2003	2003	2002
Base compensation	$	811,087	687,313	1,396,373	1,272,785
Incentive compensation		270,000	182,000	420,000	352,000
Total compensation		1,081,087	869,313	1,816,373	1,624,785
Benefits		179,095	156,104	285,941	245,263
Capitalized loan origination costs		(60,660)	(57,575)	(119,110)	(101,170)
Total compensation and benefits	$	1,199,522	967,842	1,983,204	1,768,878

Years Ended December 31, 2003 and 2002

Compensation and benefits expense was $2.0 million and $1.8 million for the years ended December 31, 2003 and 2002, respectively. Compensation and benefits represented 51.5% and 52.4% of our total noninterest expense for the years ended December 31, 2003 and 2002, respectively. The $214,326 increase in compensation and benefits expense in 2003 compared to 2002 resulted from increases of $123,588 in base compensation, $68,000 in additional incentive compensation, and $40,676 in higher benefits costs, offset by an increase of $17,940 in loan origination compensation expense, which is required to be capitalized and amortized over the life of the loans as a reduction of loan interest income.

The $123,588 increase in base compensation expense related to the cost of two additional employees as well as annual salary increases. Incentive compensation represented 21.2% and 19.9% of total compensation for the years ended December 31, 2003 and 2002, respectively. Approximately 33.4% of the total pay for the seven highest compensated officers was earned and accrued in the form of incentive compensation because we believe that a significant portion of the compensation for our officers should be tied to their level of performance. Benefits expense increased $40,676 in the year ended December 31, 2003 compared to the year ended December 31, 2002. Benefits expense represented 15.7% and 15.1% of the total compensation for the years ended December 31, 2003 and 2002, respectively.

Six Months Ended June 30, 2004 and 2003

Compensation and benefits expense was $1.2 million and $967,842 for the six months ended June 30, 2004 and 2003, respectively. Compensation and benefits represented 51.9% and 52.1% of our total noninterest expense for the six months ended June 30, 2004 and 2003, respectively. The $231,680 increase in compensation and benefits in the first six months of 2004 compared to the same period in 2003 resulted from increases of $123,774 in base compensation, $88,000 in additional incentive compensation, and $22,991 in higher benefits costs, offset by an increase of $3,085 in loan origination compensation expense, which is required to be capitalized and amortized over the life of the loan as a reduction of loan interest income.

The $123,774 increase in base compensation expense related to the cost of two additional employees as well as annual salary increases. Incentive compensation represented 22.5% and 18.8% of total compensation for the six months ended June 30, 2004 and 2003, respectively. The incentive compensation expense recorded for the first six months of 2004 and 2003 represented an accrual of the portion of the estimated incentive compensation earned during the first six months of the respective year. Benefits expense increased $22,991 in the first six months of 2004 compared to the same period in 2003. Benefits expense represented 16.6% and 18.0% of the total compensation for the six months ended June 30, 2004 and 2003, respectively.

The following tables set forth information related to our data processing and related costs.

	Six months ended June 30,		Years ended December 31,	
	2004	2003	2003	2002
Data processing costs	$ 204,348	134,093	292,526	208,943
ATM transaction expense	123,860	90,277	201,970	152,563
Courier expense	36,023	28,699	61,826	52,209
Other expenses	32,544	34,461	69,457	59,862
Total data processing and related costs	$ 396,775	287,530	625,779	473,577

Data processing and related costs were $625,729 and $473,577 for the years ended December 31, 2003 and 2002, respectively. During the first six months of 2004 and the same period of 2003, our data processing and related costs were $396,775 and $287,530, respectively.

During the year ended December 31, 2003, our data processing costs for our core processing system were $292,526 compared to $208,943 for the year ended December 31, 2002. We have contracted with an outside computer service company to provide our core data processing services.

During the six months ended June 30, 2004 and 2003, the data processing costs were $204,348 and $134,093, respectively.

Data processing costs increased $83,583, or 40.0%, for the year ended December 31, 2003 compared to the same period in 2002. For the six months ended June 30, 2004, data processing costs increased $70,255, or 52.4%, compared to the same period in 2003. The increases in costs were caused by the higher number of loan and deposit accounts. A significant portion of the fee charged by the third party processor is directly related to the number of loan and deposit accounts and the related number of transactions.

We receive ATM transaction income from transactions performed by our clients. Since we also outsource this service, we are charged related transaction fees from our ATM service provider. ATM transaction expense was $213,844 and $158,292 for the years ended December 31, 2003 and 2002, respectively. During the first six months of 2004 and the same period of 2003, the ATM transaction expense was $123,860 and $90,277, respectively. The increases in each period related to the higher transaction volume during the respective periods.

Income tax expense was $616,534 for the year ended December 31, 2003. We recorded no income tax expense in 2002. For the six months ended June 30, 2004, income tax expense was $491,433 compared to $242,942 during the same period of 2003. The increase related to the higher level of income before taxes.

Balance Sheet Review

General

At December 31, 2003, we had total assets of $230.8 million, consisting principally of $206.1 million in loans, $15.8 million in investments, $2.8 million in federal funds sold, and $4.1 million in cash and due from banks. Our liabilities at December 31, 2003 totaled $219.7 million, consisting principally of $169.0 million in deposits, $32.5 million in FHLB advances, $9.3 million of short-term borrowings, and $6.2 million of junior subordinated debentures. At December 31, 2003, our shareholders' equity was $11.2 million.

At June 30, 2004, we had total assets of $273.4 million, consisting principally of $244.4 million in loans, $20.9 million in investments, $1.4 million in federal funds sold, and $2.6 million in cash and due from banks. Our liabilities at June 30, 2004 totaled $261.5 million, which consisted principally of $178.0 million in deposits, $58.4 million in FHLB advances, $16.6 million in short-term borrowings, and $6.2 million in junior subordinated debentures. At June 30, 2004, our shareholders' equity was $11.9 million.

Federal Funds Sold

At December 31, 2003, our $2.8 million in short-term investments in federal funds sold on an overnight basis comprised 1.2% of total assets, compared to $41,736, or 0.02% of total assets, at December 31, 2002. At June 30, 2004, our federal funds sold were $1.4 million, or 0.5% of total assets. As a result of the historically low yields paid for federal funds sold during the last two and one-half years, we have maintained a lower than normal level of federal funds.

Investments

At December 31, 2003, the $15.8 million in our investment securities portfolio represented approximately 6.8% of our total assets. We held U.S. Government agency securities and mortgage-backed securities with a fair value of $15.7 million and an amortized cost of $15.6 million for an unrealized gain of $74,000. As a result of the strong growth in our loan portfolio and the historical low fixed rates that were available during the last two and one-half years, we have maintained a lower than normal level of investments. As rates on investment securities rise and additional capital and deposits are obtained, we anticipate increasing the size of the investment portfolio.

Contractual maturities and yields on our investments at December 31, 2003 are shown in the following table. 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. At December 31, 2003, we had no securities with a maturity of less than one year or more than 10 years.

	One to Five Years		Five to Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale						
U.S. Government/Government sponsored agency	$ 1,098	5.34%	$		$ 1,098	5.34%
Mortgage-backed securities			2,531	3.40%	2,531	3.40%
Total	$ 1,098	5.34%	$ 2,531	3.40%	$ 3,629	4.30%
Held to Maturity						
Mortgage-backed securities	$	%	$ 9,834	%	$ 9,834	4.70%

At December 31, 2003, our investments included securities issued by Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association with carrying values of $1.1 million, $354,067, and $12.0 million, respectively.

Other investments at December 31, 2003 consisted of Federal Reserve Bank stock with a cost of $485,150, an investment in Greenville First Statutory Trust I of $186,000, and Federal Home Loan Bank stock with a cost of $1.6 million. At December 31, 2002, we owned Federal Reserve Bank stock with a cost of $255,000 and Federal Home Loan Bank stock with a cost of $650,000. At December 31, 2001, we owned Federal Reserve Bank stock with a cost of $255,000 and Federal Home Loan Bank stock with a cost of $300,000.

At June 30, 2004, the $20.9 million in our investment securities portfolio represented approximately 7.6% of our total assets. We held U.S. Government agency securities and mortgage-backed securities with a fair value of $16.7 million and an amortized cost of $17.2 million for an unrealized loss of $513,547.

Contractual maturities and yields on our investments that are available for sale and are held to maturity at June 30, 2004 are shown in the following table. 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. At June 30, 2004, we had no securities with a maturity of less than one year or more than 10 years.

	One to Five Years		Five to Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
Available for Sale						
U.S. Government/Government sponsored agencies	$ 1,062	5.40%	$		$ 1,062	5.40%
Mortgage-backed securities			2,017	3.40%	2,017	3.40%
Total	$ 1,062	5.40%	$ 2,017	3.40%	$ 3,079	4.09%
Held to Maturity						
Mortgage-backed securities		%	$ 14,215	4.25%	$ 14,215	4.25%

At June 30, 2004, our investments included securities issued by Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association with carrying values of $1.1 million, $5.4 million, and $10.8 million, respectively.

The amortized costs and the fair value of our investments at June 30, 2004 and December 31, 2003, 2002, and 2001 are shown in the following table.

	June 30, 2004		December 31, 2003		December 31, 2002		December 31, 2001	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)							
Available for Sale								
U.S. Government/government sponsored agencies	$ 1,018	$ 1,062	$ 1,022	$ 1,098	$ 9,641	$ 9,784	$ 17,460	$ 17,653
Mortgage-backed securities	2,017	2,017	2,460	2,531	4,727	4,808	260	260
Total	3,035	3,079	3,482	3,629	14,368	14,592	17,720	17,913
Held to Maturity								
Mortgage-backed securities	$ 14,215	$ 13,658	$ 9,834	$ 9,761	$	$	$	$

Other investments totaled $3.6 million, $2.3 million, and $905,000 at June 30, 2004, December 31, 2003, and December 31, 2002, respectively. Other investments at June 30, 2004 consisted of Federal Reserve Bank stock with a cost of $485,150, an investment in Greenville First Statutory Trust I of $186,000, and Federal Home Loan Bank stock with a cost of $2.9 million.

Loans

Since loans typically provide higher interest yields than other types of interest-earning assets, a substantial percentage of our earning assets are invested in our loan portfolio. Average loans for the years ended December 31, 2003 and 2002 were $174.3 million and $123.3 million, respectively. Before allowance for loan losses, total loans outstanding at December 31, 2003 and 2002 were $208.8 million and $149.9 million, respectively.

For the six months ended June 30, 2004 and 2003, average loans were $225.5 million and $159.7 million, respectively. Before allowance for loan losses, total loans outstanding at June 30, 2004 were $247.6 million.

The principal component of our loan portfolio is loans secured by real estate mortgages. Most of our real estate loans are secured by residential or commercial property. We do not generally originate traditional long term residential mortgages, but we do issue traditional second mortgage residential real estate loans and home equity lines of credit. We obtain a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to increase the likelihood of the ultimate repayment of the loan. Generally, we limit the loan-to-value ratio on loans we make to 80%. Due to the short time our portfolio has existed, the current mix may not be indicative of the ongoing portfolio mix. We attempt to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral.

The following table summarizes the composition of our loan portfolio at December 31, 2003, 2002, 2001, and 2000. We had no outstanding loans at December 31, 1999.

	2003		2002		2001		2000	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)							
Real Estate:								
Commercial								
Owner Occupied	$ 39,301	18.82%	$ 22,653	15.11%	$ 16,533	17.13%	$ 5,589	11.99%
Nonowner occupied	53,898	25.82	43,077	28.74	22,813	23.63	13,435	28.81
Construction	10,878	5.21	4,008	2.67	8,292	8.59	2,422	5.20
Total commercial real estate	104,077	49.85%	69,738	46.52%	47,638	49.35%	21,446	46.00%
Consumer								
Residential	35,823	17.16%	25,500	17.01%	12,899	13.36%	6,367	13.66%
Home equity	24,278	11.63	18,069	12.05	8,937	9.26	4,695	10.07
Construction	4,365	2.09	4,200	2.80	3,972	4.11	1,971	4.22
Total consumer real estate	64,466	30.88%	47,769	31.86%	25,808	26.73%	13,033	27.95%
Total real estate	168,543	80.73%	117,507	78.38%	73,446	76.08%	34,479	73.95%
Commercial business	36,107	17.29%	28,192	18.81%	20,529	21.27%	9,283	19.91%
Consumer other	4,662	2.23	4,591	3.06	2,813	2.91	2,971	6.37
Deferred origination fees, net	(530)	(0.25)	(387)	(0.26)	(256)	(0.26)	(108)	(0.23)
Total gross loans, net of deferred fees	208,782	100%	149,903	100%	96,532	100%	46,625	100%
Less allowance for loan losses	(2,705)		(1,824)		(1,192)		(600)	
Total loans, net	$ 206,077		$ 148,079		$ 95,340		$ 46,025	

The following table summarizes the composition of our loan portfolio at June 30, 2004 and December 31, 2003.

	June 30, 2004		December 31, 2003	
	Amount	% of Total	Amount	% of Total
	(In thousands)			
Real estate:				
Commercial				
Owner occupied	$ 39,935	16.13%	$ 39,301	18.82%
Non-owner occupied	64,888	26.21	53,898	25.82
Construction	17,817	7.20	10,878	5.21
Total commercial real estate	122,640	49.54%	104,077	49.85%
Consumer				
Residential	41,173	16.63%	35,823	17.16%
Home equity	30,880	12.47	24,278	11.63
Construction	5,544	2.24	4,365	2.09
Total consumer real estate	77,597	31.34%	64,466	30.88%
Total real estate	200,237	80.88%	168,543	80.73%
Commercial business	42,272	17.07%	36,107	17.29%
Consumer other	5,667	2.29	4,662	2.23
Deferred origination fees, net	(593)	(0.24)	(530)	(0.25)
Total gross loans, net of deferred fees	247,583	100%	208,782	100%
Less allowance for loan losses	(3,176)		(2,705)	
Total loans, net	$ 244,407		$ 206,077	

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following tables 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 maturity. Actual repayments of loans may differ from the 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 December 31, 2003.

	One year or less	After one but within five years	After five years	Total
	(In thousands)			
Real estate mortgage	$ 21,466	122,731	9,102	153,299
Real estate construction	6,752	5,152	3,340	15,244
Total real estate	28,218	127,883	12,442	168,543
Commercial business	21,296	14,799	12	36,107
Consumer other	2,103	2,007	552	4,662
Deferred origination fees, net	(95)	(397)	(38)	(530)
Total gross loans, net of deferred fees	$ 51,522	144,292	12,968	208,782
Loans maturing after one year with:				
Fixed interest rates				$ 51,437
Floating interest rates				$ 105,823

The following table summarizes the loan maturity distribution by type and related interest rate characteristics at June 30, 2004.

	One year or less	After one but within five years	After five years	Total
	(In thousands)			
Real estate mortgage	$ 25,510	131,354	20,012	176,876
Real estate construction	7,973	6,720	8,668	23,361
Total real estate	33,483	138,074	28,680	200,237
Commercial business	25,087	17,143	42	42,272
Consumer other	2,956	2,429	282	5,667
Deferred origination fees, net	(112)	(400)	(81)	(593)
Total gross loans, net of deferred fees	$ 61,414	157,246	28,923	247,583
Loans maturing after one year with:				
Fixed interest rates				$ 59,016
Floating interest rates				$ 127,153

Provision and Allowance for Loan Losses

We have established an allowance for loan losses through a provision for loan losses charged to expense on our statement of income. The allowance for loan losses represents an amount which we believe will be adequate to absorb probable losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. Our determination of the allowance for loan losses 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 also consider subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons. Due to our limited operating history, the provision for loan losses has been made primarily as a result of our assessment of general loan loss risk compared to banks of similar size and maturity. Periodically, we adjust the amount of the allowance based on changing circumstances. We charge recognized losses to the allowance and add subsequent recoveries back to the allowance for loan losses. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period.

The following table summarizes the activity related to our allowance for loan losses for the years ended December 31, 2000 through 2003. We had no loans nor any allowance in the year ended December 31, 1999.

	December 31,			
	2003	2002	2001	2000
	(Dollars in thousands)			
Balance, beginning of year	$ 1,824	$ 1,192	$ 600	$
Loans charged-off	(173)	(418)	(8)	
Recoveries of loans previously charged-off	4			
Net loans charged-off	$ (169)	$ (418)	$ (8)	$
Provision for loan losses	1,050	1,050	600	600
Balance, end of year	$ 2,705	$ 1,824	$ 1,192	$ 600
Allowance for loan losses to gross loans	1.30%	1.22%	1.24%	1.29%
Net charge-offs to average loans	0.10%	0.34%	0.01%	

The following table summarizes the activity related to our allowance for loan losses for the six months ended June 30, 2004 and 2003:

	June 30,	
	2004	2003
	(Dollars in thousands)	
Balance, beginning of period	$ 2,705	1,824
Loans charged-off	(192)	(14)
Recoveries of loans previously charged-off	13	3
Net loans charged-off	$ (179)	(11)
Provision for loan losses	650	500
Balance, end of period	$ 3,176	2,313
Allowance for loan losses to gross loans	1.28%	1.32%
Net charge-offs to average loans	0.08%	0.01%

We do not allocate the allowance for loan losses to specific categories of loans. Instead, we evaluate the adequacy of the allowance for loan losses on an overall portfolio basis utilizing our credit grading system which we apply to each loan. We have retained an independent consultant to review the loan files on a test basis to confirm the grading of each loan.

Nonperforming Assets

The following table shows the nonperforming assets, percentages of net charge-offs, and the related percentage of allowance for loan losses for the six months ended June 30, 2004 and the years ended December 31, 2000 through 2003. We had no loans, and therefore no nonperforming assets, in 1999.

	June 30, 2004	December 31, 2003	2002	2001	2000
	(Dollars in thousands)				
Loans over 90 days past due	$ 229	396	3	360	
Loans on nonaccrual:					
Mortgage	364	150		360	
Commercial	63	224	100		
Consumer	7	70	13		
Total nonaccrual loans	434	444	113	360	
Troubled debt restructuring					
Total of nonperforming loans	434	444	113	360	
Other nonperforming assets	306		525		
Total nonperforming assets	$ 740	444	638	360	
Percentage of total assets	0.27%	0.19%	0.37%	0.30%	
Percentage of nonperforming loans and assets to gross loans	0.30%	0.21%	0.43%	0.37%	
Allowance for loan losses to gross loans	1.28%	1.30%	1.22%	1.24%	1.29%
Net charge-offs to average loans	0.08%	0.10%	0.34%	0.01%	

At June 30, 2004, December 31, 2003, and December 31, 2002, the allowance for loan losses was $3.2 million, $2.7 million, and $1.8 million, respectively, or 1.28%, 1.30%, and 1.22%, respectively, of outstanding loans. During the years ended December 31, 2003 and 2002, we charged off loans of $172,646 and $418,098, respectively. During the six months ended June 30, 2004 and 2003, our net charged-off loans were $179,520 and $10,775, respectively.

At June 30, 2004 and December 31, 2003, nonaccrual loans represented 0.18% and 0.21% of total loans, respectively. At June 30, 2004, December 31, 2003, and December 31, 2002, we had $434,419, $443,939, and $113,105 of loans, respectively, on nonaccrual status. The increase in mortgage loans on nonaccrual status related primarily to one loan that was adequately secured by real estate. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when we believe, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as income when received.

The amount of foregone interest income on the nonaccrual loans for the years ended December 31, 2003 and 2002 was approximately $6,100 and $4,400, respectively. The amount of foregone interest income on the nonaccrual loans in the first six months of 2004 was approximately $10,400. The amount of interest income recorded in 2003 for loans that were on nonaccrual at December 31, 2003 was approximately $8,300, and was approximately $2,500 in 2002. The amount of interest income recorded in the first six months of 2004 for loans that were on nonaccrual at June 30, 2004 was $2,000.

Deposits and Other Interest-Bearing Liabilities

Our primary source of funds for loans and investments is our deposits, advances from the FHLB, and short-term repurchase agreements. National and local market trends over the past several years

suggest that consumers have moved an increasing percentage of discretionary savings funds into investments such as annuities, stocks, and fixed income mutual funds. Accordingly, it has become more difficult to attract deposits. We have chosen to obtain a portion of our certificates of deposits from areas outside of our market. The deposits obtained outside of our market area generally have lower rates than rates being offered for certificates of deposits in our local market. We also utilize out-of-market deposits in certain instances to obtain longer-term deposits than are readily available in our local market. We anticipate that the amount of out-of-market deposits will decline after we open additional retail deposit offices. The amount of out-of-market deposits was $79.6 million at December 31, 2003 and $71.1 at June 30, 2004. The decrease in the first six months of 2004 resulted primarily from the replacement of a portion of our out-of-market deposits with additional NOW accounts and money market funds that we obtained from a retail deposit promotion.

We anticipate being able to either renew or replace these out-of-market deposits when they mature, although we may not be able to replace them with deposits with the same terms or rates. Our loan-to-deposit ratio was 139%, 124%, and 112% at June 30, 2004, December 31, 2003, and December 31, 2002, respectively.

The following table shows the average balance amounts and the average rates paid on deposits held by us for the years ended December 31, 2003, 2002, and 2001.

	2003		2002		2001	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Noninterest bearing demand deposits	$ 14,852	%	$ 11,001	%	$ 5,687	%
Interest bearing demand deposits	15,253	0.83	16,366	1.59	6,872	2.39
Money market accounts	21,029	0.61	22,019	1.39	19,446	3.46
Saving accounts	1,793	0.41	792	1.31	142	1.78
Time deposits less than $100,000	31,171	3.09	32,687	3.88	24,750	5.65
Time deposits greater than $100,000	59,414	2.59	39,159	3.36	18,232	5.52
Total deposits	$ 143,512	1.93%	$ 122,024	2.59%	$ 75,129	4.32%

The following table shows the average balance amounts and the average rates paid on deposits held by us for the six months ended June 30, 2004 and 2003.

	2004		2003	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Noninterest bearing demand deposits	$ 14,948	%	$ 13,771	%
Interest bearing demand deposits	21,032	1.17	14,477	0.82
Money market accounts	32,068	1.25	18,796	0.62
Saving accounts	1,418	0.34	1,916	0.47
Time deposits less than $100,000	30,227	2.62	32,258	3.29
Time deposits greater than $100,000	73,262	2.33	53,650	2.87
Total deposits	$ 172,955	1.82%	$ 134,868	2.11%

Core deposits, which 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 $107.8 million, $89.9 million, and $82.7 million at June 30, 2004, December 31, 2003, and December 31, 2002, respectively.

All of our time deposits are certificates of deposits. The maturity distribution of our time deposits of $100,000 or more at June 30, 2004 and December 31, 2003 is as follows:

	June 30, 2004	December 31, 2003
	(In thousands)	
Three months or less	$ 21,386	$ 19,272
Over three through six months	12,917	16,416
Over three through twelve months	8,017	24,983
Over twelve months	27,853	18,437
Total	$ 70,173	$ 79,108

The increase in time deposits of $100,000 or more for the year ended December 31, 2003 compared to the same period in 2002 resulted from the utilization of deposits that were obtained outside of our primary market. The decrease in time deposits of $100,000 or more for the six months ended June 30, 2004 resulted from the repayment of maturing deposits that were obtained outside of our primary market with the additional NOW accounts and money market funds that we obtained from a retail deposit promotion.

Capital Resources

Total shareholders' equity was $11.2 million at December 31, 2003 and $10.2 million at December 31, 2002. The increase between 2002 and 2003 primarily resulted from the $1.0 million of net income incurred during 2003, less a $50,736 decrease in unrealized gain on investment securities, net of tax.

At June 30, 2004, total shareholders' equity was $11.9 million. The increase during the first six months of 2004 resulted from the $801,801 of net income earned during the first six months and the additional capital of $20,010 obtained from the exercise of warrants that were outstanding. The additions to capital were partly offset by a $68,217 reduction in unrealized gain on investment securities, net of tax.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), and equity to assets ratio (average equity divided by average total assets) for the six months ended June 30, 2004 and the years ended December 31, 2003 and 2002. Since our inception, we have not paid cash dividends.

	June 30, 2004	December 31, 2003	December 31, 2002
Return on average assets	0.65%	0.52%	0.51%
Return on average equity	13.95%	9.28%	7.72%
Equity to assets ratio	4.53%	5.57%	6.71%

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, regulatory 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 shareholders' 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 to be 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. We are also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

At both the holding company and bank level, we are subject to various regulatory capital requirements administered by the federal banking agencies. To be considered "adequately capitalized" 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 holding company's and the bank's various capital ratios at June 30, 2004 and at December 31, 2003 and 2002. For all periods, the bank was considered "well capitalized" and the holding company met or exceeded its applicable regulatory capital requirements.

	June 30, 2004		**December 31, 2003**		**December 31, 2002**	
	Holding Company	**Bank**	**Holding Company**	**Bank**	**Holding Company**	**Bank**
Total risk-based capital	9.2%	10.5%	10.2%	10.1%	8.6%	10.3%
Tier 1 risk-based capital	7.1%	9.2%	7.8%	8.8%	7.4%	9.1%
Leverage capital	6.0%	7.8%	6.1%	7.7%	6.1%	7.5%

Borrowings

The following table outlines our various sources of borrowed funds during the six months ended June 30, 2004 and the years ended December 31, 2003 and 2002, the amounts outstanding at the end of each period, at the maximum point for each component during the periods and on average for each period, and the average interest rate that we paid for each borrowing source. The maximum month-end balance represents the high indebtedness for each component of borrowed funds at any time during each of the periods shown.

	Ending Balance	Period-End Rate	Maximum Month-end Balance	Average for the Period Balance	Average for the Period Rate
			(Dollars in thousands)		
At or for the Six Months Ended June 30, 2004					
Federal Home Loan Bank advances	$ 58,400	1.70%	$ 58,400	$ 46,988	1.91%
Securities sold under agreement to repurchase	13,565	1.23%	14,637	13,798	1.11%
Federal funds purchased		1.79%		412	1.46%
Correspondent bank line of credit	3,000	3.61%	3,000	1,034	3.11%
Junior subordinated debentures	6,186	4.50%	6,186	6,186	4.55%
At or for the Year Ended December 31, 2003					
Federal Home Loan Bank advances	$ 32,500	2.00%	$ 40,000	$ 27,569	2.14%
Securities sold under agreement to repurchase	9,297	1.12%	9,865	5,589	1.23%
Federal funds purchased		1.25%	1,556	450	1.56%
Correspondent bank line of credit		3.12%	3,000	1,332	3.23%
Junior subordinated debentures	6,186	4.27%	6,186	3,107	4.54%
At or for the Year Ended December 31, 2002					
Federal Home Loan Bank advances	$ 13,000	2.35%	$ 13,000	$ 7,090	3.05%
Securities sold under agreement to repurchase	7,892	1.38%	7,892	4,349	1.93%
Federal funds purchased	1,215	1.65%	1,215	411	1.95%
Correspondent bank line of credit	2,500	3.00%	2,500	702	3.42%

Effect of Inflation and Changing Prices

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

Unlike most industrial companies, our assets and liabilities 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 client as long as the client has not violated any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2003, unfunded commitments to extend credit were $51.2 million, of which $16.1 million was at fixed rates and $35.1 million was at variable rates. At June 30, 2004, unfunded commitments to extend credit were $47.3 million, of which $6.5 million was at fixed rates and $40.9 million was at variable rates. A significant portion of the unfunded commitments related to consumer equity lines of credit. Based on historical experience, we anticipate that a significant portion of these lines of credit will not be funded. We evaluate each client's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. The type of collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At December 31, 2003, there was a $1.7 million commitment under a letter of credit. At June 30, 2004, there was a $2.1 million commitment under a letter of credit. The credit risk and collateral involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. 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 prospectus, we are not involved in off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements, or transactions that could result in liquidity needs or other commitments that 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 generally arise in the normal course of our business.

We actively monitor and manage our interest rate risk exposure principally by measuring 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.

Approximately 68.0% of our loans were variable rate loans at December 31, 2003 and June 30, 2004, and we were asset sensitive during most of the year ended December 31, 2003 and the six months ended June 30, 2004. As of June 30, 2004, we expect to be asset sensitive for the next three months. After September 30, 2004, we expect to be liability sensitive for the next nine months because substantially all of our variable rate loans repriced within the first three months of the year but a majority of our deposits will reprice over a 12-month period. The ratio of cumulative gap to total earning assets after 12 months was (1.2%) because $3.2 million more liabilities will reprice in a 12 month period than assets. 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 us as significantly less interest-sensitive than market-based rates such as those paid on noncore deposits. Net interest income may be affected by other significant factors in a given interest rate environment, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities.

Liquidity and Interest Rate Sensitivity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. 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 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 our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At June 30, 2004, our liquid assets, consisting of cash and due from banks and federal funds sold, amounted to $4.0 million, or 1.5% of total assets. Our investment securities at June 30, 2004 amounted to $17.3 million, or 6.3% of total assets. At December 31, 2003 and 2002, our liquid assets amounted to $6.9 million and $4.5 million, or 3.0% and 2.6% of total assets, respectively. Our investment securities at December 31, 2003 and 2002 amounted to $13.5 million and $14.6 million, or 5.8% and 8.6% of total assets, respectively. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, substantially all of these securities are pledged against outstanding debt. Therefore, the related debt would need to be repaid prior to the securities being sold in order for these securities to be converted to cash.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and the net proceeds from this offering. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. During most of 2003 and 2004, as a result of historically low rates that were being earned on short-term liquidity investments, we chose to maintain a lower than normal level of short-term liquidity securities. In addition, we maintain two federal funds purchased lines of credit with correspondent banks totaling $7.0 million. We are also a member of the Federal Home Loan Bank of Atlanta, from which applications for borrowings can be made for leverage purposes. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the bank be pledged to secure any advances from the FHLB. The unused borrowing capacity currently available from the FHLB at June 30, 2004 was $11.1 million, assuming that the bank's $2.9 million investment in FHLB stock, as well as qualifying mortgages, would be available to secure any future borrowings.

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

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 in order to minimize potentially adverse impacts on earnings from changes in market interest rates. Our asset/liability management committee ("ALCO") monitors and considers methods of managing exposure to interest rate risk. We have both an internal ALCO consisting of senior management that meets at various times during each month and a board ALCO that meets monthly. The ALCOs are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

The following table sets forth information regarding our rate sensitivity, as of December 31, 2003, at each of the time intervals. The information in the table may not be indicative of our rate sensitivity position at other points in time. In addition, the maturity distribution indicated in the table 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	Total
	(In thousands)				
Interest-earning assets:					
Federal funds sold	$ 2,843	$	$	$	$ 2,843
Investment securities	501	1,503	8,906	2,553	13,463
Loans	148,763	10,492	42,092	7,222	208,569
Total earning assets	$ 152,107	$ 11,995	$ 50,998	$ 9,775	$ 224,875
Interest-bearing liabilities:					
Money market and NOW	$ 42,253	$	$	$	$ 42,253
Regular savings	1,589				1,589
Time deposits	26,088	57,463	25,269		108,820
Repurchase agreements	9,297				9,297
FHLB advances	24,500		8,000		32,500
Junior subordinated debentures	6,186				6,186
Total interest-bearing liabilities	$ 109,913	$ 57,463	$ 33,269	$	$ 200,645
Period gap	$ 42,194	$ (45,468)	$ 17,729	$ 9,775	
Cumulative gap	42,194	(3,274)	14,455	24,230	
Ratio of cumulative gap to total earning assets	18.8%	(1.5)%	6.4%	10.8%	

54

The following table sets forth information regarding our rate sensitivity as of June 30, 2004 for each of the time intervals indicated.

	Within three months	After three but within twelve months	After one but within five years	After five years	Total
			(In thousands)		
Interest-earning assets:					
Federal funds sold	$ 1,365	$	$	$	$ 1,365
Investment securities	1,453	4,359	11,481		17,293
Loans	177,672	7,958	47,518	14,000	247,148
Total earning assets	$ 180,490	$ 12,317	$ 58,999	$ 14,000	$ 265,806
Interest-bearing liabilities:					
Money market and NOW	$ 66,550	$	$	$	$ 66,550
Regular savings	1,321				1,321
Time deposits	27,992	33,968	27,733	5,774	95,467
Repurchase agreements	13,565				13,565
Note payable	3,000				3,000
FHLB advances	38,400	5,000	5,000	10,000	58,400
Junior subordinated debentures	6,186				6,186
Total interest-bearing liabilities	$ 157,014	$			