COMMUNITY BANKSHARES INC /SC/
Form 10-Q
May 10, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002 Commission File number: 000-22054

COMMUNITY BANKSHARES, INC.
(Exact Name of Registrant as Specified in its Charter)

South Carolina	57-0966962
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

791 Broughton St., Orangeburg, South Carolina 29115
(Address of Principal Executive Office, Zip Code)

(803) 535-1060
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,299,674 shares of common stock outstanding as of May 1, 2002.

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Part I. Item 1. Financial Statements

COMMUNITY BANKSHARES, INC. - CONSOLIDATED BALANCE SHEETS

$ amounts in thousands

ASSETS

Cash and due from other financial institutions:

Non-interest bearing ....
Federal funds sold ....

Total cash and cash equivalents ....
Interest bearing deposits in other banks ....
Investment securities:
Securities held to maturity ....
Securities available for sale ....
Loans held for resale ....

Loans ....
Less, allowance for loan losses ....

Net loans ....

Premises and equipment ....
Accrued interest receivable ....
Deferred income taxes ....
Goodwill ....
Other assets ....

Total assets ....

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:
Non-interest bearing ....
Interest bearing ....

Total deposits ....
Federal funds purchased and securities
sold under agreements to repurchase ....
Federal Home Loan Bank advances ....
Lines of credit payable ....

Other liabilities	
Total liabilities	
Shareholders' equity:	
Common stock	
No par, authorized shares 12,000,000, issued and .... outstanding 3,299,674 in 2002 and 3,199,180 in 2001	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total shareholders' equity	
Total liabilities and shareholders' equity	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

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COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY
for the three months ended March 31, 2002 and 2001 (Unaudited)
(amounts in thousands, except per share data)

	Common Shares	Common Stock	Reta Earn
Balances at Dec. 31, 2000	3,199,180	$ 15,928	$ 7
Comprehensive income:			
Net income			
Change in unrealized gain (loss) on securities available for sale, net of tax effect			
Dividends paid	-	-	
Balances at Mar. 31, 2001	3,199,180	$ 15,928	$ 8
Balances at Dec. 31, 2001	3,299,674	$ 17,208	$ 10
Comprehensive income:			
Net income			1
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect			
Dividends paid	-	-	
Balances at Mar. 31, 2002	3,299,674	$ 17,208	$ 11

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF INCOME

In thousands, except per share data

Interest and dividend income:	
Loans, including fees	
Deposits with other financial institutions	
Debt securities	
Dividends	
Federal funds sold	
Total interest and dividend income	
Interest expense:	
Deposits:	
Certificates of deposit of $100,000 or more	
Other	
Total deposits	
Federal funds purchased and securities sold under agreements to repurchase	
Other borrowed funds	
Total interest expense	
Net interest income	
Provision for loan losses	
Net interest income after provision for loan losses	
Non-interest income:	
Service charges on deposit accounts	
Gains on sales of securities	
Mortgage banking income	
Other	
Total non-interest income	
Non-interest expense:	
Salaries and employee benefits	
Premises and equipment	
Other	
Total non-interest expense	
Income before income taxes	
Income tax expense	

Net income ....

Basic earnings per common share:
Weighted average shares outstanding ....
Net income per common share ....
Diluted earnings per common share:
Weighted average shares outstanding ....
Net income per common share ....

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

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COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF CASH FLOWS

$ amounts in thousands

Cash flows from operating activities:

Net income ....
Adjustments to reconcile net income
to net cash provided (used) by operating activities
Depreciation and amortization ....
Provision for loan losses ....
Accretion of discounts and amortization of premiums -
investment securities - net ....
Net realized (gains) on sale of securities ....
Proceeds from sale of real estate loans held for sale ....
Origination of real estate loans held for sale ....

Changes in operating assets and liabilities:
(Increase) decrease in interest receivable ....
(Increase) decrease in other assets ....
Increase in other liabilities ....

Net cash provided by operating activities ....

Cash flows from investing activities:
Net increase (decrease) in interest bearing deposits
with other banks ....
Proceeds from maturities of held to maturity securities ....
Purchases of available for sale securities ....
Proceeds from maturities of available for sale securities ....
Proceeds from sales of available for sale securities ....
Net (increase) in loans to customers ....
Purchase of premises and equipment ....

Net cash provided by (used in) investing activities ....

Cash flows from financing activities:	
Net increase in demand, savings, & time deposits	
Net decrease (increase) in federal funds purchased and securities sold under agreement to repurchase	
(Decrease) in Other Borrowings	
Dividend payments	
Net cash provided by financing activities	
Net increase in cash and cash equivalents	
Cash and cash equivalents - beginning of period	
Cash and cash equivalents - end of period	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Summary of Significant Accounting Principles

A summary of significant accounting policies and the audited financial statements for 2001 are included in Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Principles of Consolidation

The consolidated financial statements include the accounts of Community Bankshares, Inc. (CBI), the parent company, and Orangeburg National Bank, Sumter National Bank, Florence National Bank and Community Resource Mortgage Inc., its wholly owned subsidiaries. All significant intercompany items have been eliminated in the consolidated statements.

Management Opinion

The interim financial statements in this report are unaudited. In the opinion of management, all the adjustments necessary to present a fair statement of the results for the interim period have been made. Such adjustments are of a normal and recurring nature.

The results of operations for any interim period are not necessarily indicative of the results to be expected for an entire year. These interim financial statements should be read in conjunction with the annual financial statements and notes thereto contained in the 2001 Annual Report on Form 10-K.

Changes in Comprehensive Income Components

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," effective for fiscal years beginning after December 15, 1997. This Statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Disclosure as required by the Statement is as follows:

	Three months ended March 31,	
	2002	2001

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	(Dollars in thousands)	
Unrealized holding gains (losses) on available for sale securities	$(293)	$ 251
Less: Reclassification adjustment for gains (losses) realized in income	42	-
Net unrealized gains (losses)	(251)	251
Tax effect	88	(88)
Net-of-tax amount	$(163)	$ 163

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COMMUNITY BANKSHARES, INC. - AVERAGE BALANCE SHEETS, YIELDS, AND RATES
($ in thousands)

Quarter ended March 31,		2002	
Assets	Average Balance	Interest Income/ Expense	Yields/ Rates
Interest bearing deposits	$ 1,735	$ 6	1.38%
Investment securities taxable	36,688	403	4.39%
Investment securities--tax exempt	341	3	5.33%
Federal funds sold	20,935	87	1.66%
Loans receivable	243,987	4,324	7.09%
Total interest earning assets	303,686	4,823	6.35%
Cash and due from banks	12,326		
Allowance for loan losses	(2,960)		
Premises and equipment	5,541		
Goodwill	921		
Other assets	3,130		
Total assets	$322,644		
Liabilities and Shareholders' Equity			
Interest bearing deposits			
Savings	$ 44,327	$ 189	1.71%
Interest bearing transaction accounts	41,530	83	0.80%
Time deposits	140,419	1,348	3.84%
Total interest bearing deposits	226,276	1,620	2.86%
Short term borrowing	4,463	22	1.97%
Other borrowings	28,081	364	5.19%

Total interest bearing liabilities	258,820	2,006	3.10%
Noninterest bearing demand deposits	33,569		
Other liabilities	2,028		
Shareholders' equity	28,227		
Total liabilities and equity	$322,644		
Interest rate spread			3.25%
Net interest income and net yield on earning assets		$2,817	3.71%

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

Forward Looking Statements

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as `forward looking statements' for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words "estimate," "project," "intend,", "expect," "believe," "anticipate," "plan," and similar expressions identify forward-looking statements. The Corporation cautions readers that forward looking statements, including without limitation, those relating to the Corporation's future business prospects, ability to successfully integrate recent and proposed acquisitions, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Corporation's reports filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS: QUARTER ENDED MARCH 31, 2002 COMPARED TO QUARTER ENDED MARCH 31, 2001

Net Income

For the first quarter of 2002 CBI earned a consolidated profit of $1,125,000 compared to $901,000 for the first quarter of 2001, an increase of 24.9% or $224,000. Basic and diluted earnings per share were $.34 and $.33, respectively, for the 2002 period compared to $.28 for both in the 2001 period.

For the first quarter of 2002 Orangeburg National Bank reported a profit of $670,000 compared to $609,000 for the first quarter of 2001, an increase of 10% or $61,000.

For the first quarter of 2002 Sumter National Bank reported a profit of $321,000 compared to $250,000 for the first quarter of 2001, an increase of 28.4% or $71,000. The Sumter bank opened its first branch in February 2002.

For the first quarter of 2002 Florence National Bank reported a profit of $53,000 compared to $47,000 for the first quarter of 2001, an improvement of 12.8% or $6,000. The Florence bank began operation in July 1998.

For the first quarter of 2002 Community Resource Mortgage Inc. reported a profit of $107,000. It was acquired by Community Bankshares in November 2001.

As noted above, consolidated net income for the quarter ended March 31, 2002, increased from the prior year by 24.9% or $224,000. The major components of this increase are discussed below. Net interest income before provision for

loan losses for the three months ended March 31, 2002 increased to $2,817,000 compared to $2,704,000 for the same period in 2001, an increase of 4.2% or $113,000. For the same period, the provision for loan losses was $169,000 compared to $142,000 for the 2001 period, an increase of 19% or $27,000. Non-interest income for the 2002 period increased to $1,687,000 from $551,000 for the 2001 period, a 206% or $1,136,000 increase. Non-interest expense increased to $2,578,000 from $1,712,000, a 50.6% or $866,000 increase. The addition of the mortgage company in November, 2001, is responsible for most of the increase in noninterest income and noninterest expense.

Profitability

One of the best ways to review earnings is through the ROA (return on average assets) and the ROE (return on average equity). Return on assets is the income for the period divided by the average assets for the period, annualized. Return on equity is the income for the period divided by the average equity for the period, annualized. Based on operating results for the quarters ended March 31, 2002 and 2001, the following table is presented.

Quarter ended March 31,	2002	2001
Average assets	$322,644	$274,918
ROA	1.39%	1.31%
Average equity	$28,227	$23,690
ROE	15.94%	15.21%
Net income	$1,125	$901

Net interest income

Net interest income, the major component of CBI's income, is the amount by which interest and fees on interest earning assets exceeds the interest paid on interest bearing deposits and other interest bearing funds. During the first quarter of 2002, net interest income after provision for loan losses increased to $2,648,000 from $2,562,000, a 3.4% or $86,000 increase over the first quarter of 2001. Net interest income after the provision for loan losses was almost unchanged between the periods. Average earning assets increased to $304 million in the first quarter of 2002 from $260 million in the first quarter of 2001, but the average yield on these earning assets decreased to 6.35% for the 2002 period from 8.52% for the 2001 period. The changes occurred in a declining interest rate environment, during which the average CBI prime rate fell to 4.75% for the first quarter of 2002 as compared to 8.50% for the same period in 2001.

For the first quarter of 2002 the cost of funds averaged 3.10% compared to 5.18% for the first quarter of 2001. The decrease in the cost of the funds did not offset the decreased yield on earning assets. The effect of these changes was a net interest spread (yield on earning assets less cost of interest bearing liabilities) of 3.25% for the first quarter of 2002 compared to 3.35% during the first quarter of 2001. CBI's net interest margin (net interest income divided by total earning assets) was 3.71% for the first quarter of 2002 compared to 4.15% for the first quarter of 2001.

Interest Income

Elsewhere in this report is a table comparing the average balances, yields, and rates for the interest rate sensitive segments of CBI's balance sheets for the quarters ended March 31, 2002 and 2001. A discussion of that table follows.

Total interest income for the first quarter 2002 was $4,823,000 compared with $5,550,000 for the same quarter in 2001, a 13.1% or $727,000 decrease. The yield on earning assets for the 2002 quarter was 6.35%, decreased from 8.52% for the 2001 quarter. Total average interest earning assets for the 2002 quarter were $303,686,000 compared to $260,442,000 for the 2001 quarter, an increase of 16.6% or $43,244,000.

The loan portfolio earned $4,324,000 for the first quarter 2002 compared with $4,591,000 for the same quarter of 2001, a 5.8% or $267,000 decrease. The yield on loans for the 2002 quarter was 7.09%, decreased from 9.23% for the 2001 quarter. The average size of the loan portfolio for the 2002 quarter was $243,987,000 compared to $199,047,000 for the 2001 quarter, an increase of 22.6% or $44,940,000.

The taxable investment portfolio earned $403,000 for the first quarter in 2002 compared with $754,000 for the 2001 quarter, a 46.6% or $351,000 decrease. The yield was 4.39% for the 2002 quarter, decreased from 6.46% for the 2001 quarter. The average size of the portfolio for the 2002 quarter was $36,688,000 compared to $46,655,000 for the 2001 quarter, a decrease of 21.4 % or $9,967,000.

The tax-exempt investment portfolio earned $3,000 for the first quarter in 2002 compared with $7,000 for the 2001 quarter, a 57.1% or $4,000 decrease. The taxable equivalent yield on the portfolio was 5.33%, decreased from 5.35%. The average size of the portfolio was $341,000 for the 2002 quarter compared to $793,000 in the 2001 quarter, a decrease of 57% or $452,000.

Interest bearing deposits in other banks earned $6,000 for the first quarter in 2002 compared to $28,000 for the 2001 quarter, a decrease of 78.6% or $22,000. The yield on these deposits was 1.38% for the 2002 quarter, decreased from 6.12% for the 2001 quarter. CBI averaged $1,735,000 in interest bearing balances in the first quarter 2002 compared to $1,830,000 the 2001 quarter, a decrease of 5.2% or $95,000.

Federal funds sold earned $87,000 the first quarter of 2002 compared to

$170,000 for the 2001 quarter, a decrease of 48.8% or $83,000. The yield was 1.66% for the 2002 quarter, decreased from 5.61% for the 2001 quarter. CBI's average volume in federal funds sold was $20,935,000 for the 2002 quarter compared to $12,117,000 for the 2001 quarter, a 72.8% or $8,818,000 increase.

Interest Expense

Interest expense decreased to $2,006,000 for the first quarter of 2002 from $2,846,000 for the 2001 quarter, a 29.5% or $840,000 decrease. For the same periods, the volume of interest bearing liabilities was $258,820,000 compared to $219,929,000, a 17.7% or $38,891,000 increase. The average rate paid for interest-bearing liabilities was 3.10% for the 2002 quarter, down from 5.18% for the 2001 quarter.

Savings accounts cost $189,000 in the first quarter in 2002 compared to $350,000 in the first quarter of 2001, a 46% or $161,000 decrease. For the same periods, average savings deposit balances were $44,327,000 compared to $35,684,000, an increase of 24.2% or $8,643,000. The average rate paid on these funds decreased to 1.71% from 3.92%.

Interest bearing transaction accounts cost $83,000 for the first quarter in 2002 compared to $68,000 for the first quarter of 2001, a 22.1% or $15,000 increase. The volume of these deposits was $41,530,000 for the first quarter in 2002 compared to $21,267,000 for the first quarter of 2001, a 95.3% or $20,263,000 increase. The majority of this increase was associated with an increase in public deposits, which will probably be short lived. The average rate paid on these funds decreased to .80% from 1.28%.

Time deposits cost $1,348,000 for the first quarter of 2002 compared to $2,044,000 for the first quarter of 2001, a decrease of 34.1% or $696,000. The volume was $140,419,000 for the first quarter in 2002 compared to $135,324,000 for the first quarter of 2001, a 3.8% or $5,095,000 increase. The average rate paid on these funds decreased to 3.84% from 6.04%.

Short-term borrowings consist of federal funds purchased and securities sold under agreements to repurchase. This is a relatively small and volatile part of the balance sheet. It cost $22,000 for the first quarter in 2002 compared to $83,000 for the first quarter of 2001, a 73.5% or $61,000 decrease. The volume of these funds was $4,463,000 in the first quarter 2002 compared to $7,304,000 in the first quarter of 2001, a decrease of 38.9% or $2,841,000. The average rate paid on these funds decreased to 1.97% from 4.55%.

Other borrowings include lines of credit payable and advances from the Federal Home Loan Bank of Atlanta. They cost $364,000 for the first quarter in 2002 compared to $301,000 for the first quarter in 2001, an increase of 20.9% or $63,000. The borrowings averaged $28,081,000 during the 2002 quarter compared to $20,350,000 for the prior year quarter, a 38% or $7,731,000 increase. The major reason for the increase in volume was the addition of lines of credit for Community Resource Mortgage, which was acquired in November, 2001. The average rate paid on these funds decreased to 5.19% from 5.92%.

Non-Interest Income

Non-interest income for the first quarter 2002 grew to $1,687,000 from $551,000 in the first quarter of 2001, a 206% or $1,136,000 increase. The vast majority of this increase was due to mortgage banking income of $956,000 earned during the first quarter, virtually all of which was generated by Community Resource Mortgage, Inc.

Non-Interest Expense

For the first quarter of 2002 non-interest expenses increased to $2,578,000 from $1,712,000 for the first quarter of 2001, a 50.6% or $866,000 increase. Approximately three quarters of this increase was associated with the operation of Community Resource Mortgage.

For the 2002 period, personnel costs were $1,655,000 compared to $1,040,000 for the 2001 period, an increase of 59.1% or $615,000.

For the 2002 period, premises and equipment expense were $297,000 compared to $235,000 for the 2001 period, an increase of 26.4% or $62,000.

For the 2002 period, other costs were $626,000 compared to $437,000 for the 2001 period, an increase of 43.2% or $189,000.

Income Taxes

CBI provided $632,000 for federal and state income taxes during the first quarter of 2002 compared to $500,000 for the same period in 2001, a 26.4% or $132,000 increase. The average tax rate for the 2002 period was 36% and for the 2001 period it was 35.7%.

CHANGES IN FINANCIAL POSITION

Investment portfolio

The investment portfolio is comprised of held to maturity securities and available for sale securities. CBI and its three banks usually purchase short-term issues (ten years or less) of U. S Treasury and U. S. Government agency securities for investment purposes. At March 31, 2002 the held to maturity portfolio totaled $500,000, unchanged from December 31, 2001. At March 31, 2002 the available for sale portfolio totaled $40,363,000 compared to $43,207,000 at December 31, 2001, a decrease of 6.6% or $2,844,000. The following chart summarizes the investment portfolios at March 31, 2002 and December 31, 2001.

	March	
	Held to maturity	
	Amortized cost	Fair value
	(dollars i	
U. S. Government and federal agencies	$ 500	$ 480
Tax exempt securities	-	-
Other equity securities	-	-
Total	$ 500	$ 480
Unrealized (loss)	$ (20)	

	Decembe	
	Held to maturity	
	Amortized cost	Fair value
	(dollars i	
U. S. Government and federal agencies	$ 500	$ 500
Tax exempt securities	-	-
Other equity securities	-	-
Total	$ 500	$ 500
Unrealized (loss)	$ -	

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Loan portfolio

The loan portfolio is primarily consumer and small business oriented. At March 31, 2002 the loan portfolio was $240,625,000 compared to $229,905,000 at December 31, 2001, a 4.7% or $10,720,000 increase. The following chart summarizes the loan portfolio at March 31, 2002 and December 31, 2001.

	Mar. 31, 2002	Dec. 31, 2001
	(dollars in thousands)	
Real estate	$154,155	$146,559
Commercial	59,688	56,515
Loans to individuals	26,782	26,831
Total	$240,625	$229,905

The loan portfolio does not include loans held for sale. Loans held for sale are loans originated by CBI for sale to others which are held by CBI pending completion of the sale. The vast majority of such loans are originated by Community Resource Mortgage, Inc. and are one-to-four family residential mortgage loans. At March 31, 2002 loans held for sale totaled $8,988,000 compared to $10,265,000 at December 31, 2001, a 12.4% or $1,277,000 decrease.

Past Due and Non-Performing Assets

CBI closely monitors past due loans and loans that are in non-accrual status and other real estate owned. Below is a summary of past due and non-performing assets at March 31, 2002 and December 31, 2001.

	Mar. 31, 2002	Dec. 31, 2001
	(dollars in thousands)	

Past due 90 days + accruing loans	$222	$ 17
Non-accrual loans	$330	$281
Impaired loans (included in nonaccrual) ...	$330	$281
Other real estate owned	$267	$267

Management considers the past due and non-accrual amounts at March 31, 2002 to be reasonable in relation to the size of the portfolio and manageable in the normal course of business.

CBI had no restructured loans during any of the above listed periods.

Allowance for Loan Losses

CBI operates three independent community banks in central South Carolina. Under the provisions of the National Bank Act each board of directors is responsible for determining the adequacy of its bank's loan loss allowance.

In addition, each bank is supervised and regularly examined by the Office of the Comptroller of the Currency (OCC) of the U. S. Treasury Department. As a normal part of a safety and soundness examination, the OCC examiners will assess and comment on the adequacy of a national bank's allowance for loan losses. The allowance presented in this discussion is on an aggregated basis.

The nature of community banking is such that the loan portfolios will be predominantly comprised of small and medium size business and consumer loans. As community banks, there is a natural geographic concentration of loans within the Banks' respective city or county. Management at each bank monitors the loan concentrations and loan portfolio quality on an ongoing basis including, but not limited to: quarterly analysis of loan concentrations, monthly reporting of past dues, non-accruals, and watch loans, and quarterly reporting of loan charge-offs and recoveries. These efforts focus on historical experience and are bolstered by quarterly analysis of local and state economic conditions, which is part of the Banks' assessment of the adequacy of their allowances for loan losses.

Management reviews its allowance for loan losses in three broad categories: commercial, real estate and installment loans. However, management does not believe it would be useful to maintain a separate allowance for each category. Instead management assigns an estimated risk percentage factor to each category in the computation of the overall allowance. In general terms, the real estate portfolio is subject to the least risk, followed by the commercial loan portfolio, followed by the installment loan portfolio. The Banks' internal and external loan review programs will from time to time identify loans that are subject to specific weaknesses and such loans will be reviewed for a specific loan loss allowance.

Based on the current levels of non-performing and other problem loans, management believes that loan charge-offs in 2002 will at least approximate the 2001 levels as such loans progress through the collection process. Management believes that the allowance for loan losses, as of March 31, 2002 is sufficient to absorb the expected charge-offs and provide adequately for the inherent losses that remain in the loan portfolio. Management will continue to closely monitor the levels of non-performing and potential problem loans and address the weaknesses in these credits to enhance the amount of ultimate collection or recovery of these assets. Management considers the levels and trends in non-performing and past due loans in determining how historical loan loss rates are adjusted.

The aggregate allowance for loan losses of the banks and the aggregate activity with respect to those allowances are summarized in the following table.

	Mar. 31, 2002
Allowance at beginning of period	$ 2,830
Provision expense	169
Net charge offs	(38)
Allowance at end of period	$ 2,961
Allowance/outstanding loans	1.23%

Goodwill

CBI has adopted FASB No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. As of March 31, 2002 the balance in goodwill, our only intangible asset, totaled $921,000, unchanged from December 31, 2001. The Company will evaluate the goodwill for impairment later in 2002.

The balance in goodwill was acquired in connection with the purchase of Community Resource Mortgage Inc., consummated in November 2001.

Deposits

Deposits were $267,712,000 at March 31, 2002 compared to $255,433,000 at December 31, 2001, an increase of 4.8% or $12,279,000.

Time deposits greater than $100,000 were $55,581,000 at March 31, 2002 compared to $51,374,000 at December 31, 2001, an increase of 8.2% or $4,207,000.

Liquidity

Liquidity is the ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Adequate liquidity is necessary to meet the requirements of customers for loans and deposit withdrawals in a timely and economical manner. The most manageable sources of liquidity are composed of liabilities, with the primary focus of liquidity management being the ability to attract deposits within the Banks' service areas. Core deposits (total deposits less certificates of deposit of $100,000 or more) provide a relatively stable funding base. Certificates of deposit of $100,000 or more are generally more sensitive to changes in rates, so they must be monitored carefully. Asset liquidity is provided by several sources, including amounts due from banks, federal funds sold, and investments available-for-sale.

CBI maintains an available-for-sale investment portfolio. While investment securities purchased for this portfolio are generally purchased with the intent to be held to maturity, such securities are marketable and occasional sales may occur prior to maturity as part of the process of asset/liability and liquidity management. CBI also maintains a held-to-maturity investment portfolio. Securities in this portfolio are generally not considered a primary source of liquidity. Management deliberately maintains a short-term maturity schedule for its investments so that there is a continuing stream of maturing investments. CBI intends to maintain a short-term investment portfolio in order to continue to be able to supply liquidity to its loan portfolio and for customer withdrawals.

CBI has substantially more liabilities (mostly deposits, which may be withdrawn) which mature in the next 12 months than it has assets maturing in the same period. In addition CBI has commitments to make loans and standby letters of credit totaling $31,058,000 and $2,881,000, respectively, outstanding at March 31, 2002. These off balance sheet commitments are subject to various conditions and, based on historical experience, many will never be drawn on. However, based on its historical experience, and that of similar financial institutions, CBI believes that it is unlikely that so many deposits would be withdrawn, without being replaced by other deposits, and loan commitments and standby letters of credit drawn on during any period, that CBI would be unable to meet its liquidity needs with the proceeds of maturing assets.

CBI through its banking subsidiaries has a demonstrated ability to attract deposits from its markets. Deposits have grown from $30 million in 1989 to over $267 million in 2002. This base of deposits is the major source of operating liquidity.

CBI's long term liquidity needs are expected to be primarily affected by the maturing of long-term certificates of deposit. At March 31, 2002 CBI had approximately $23 million and $11 million in certificates of deposit and other interest bearing liabilities maturing in one to five years and over five years, respectively. CBI's assets maturing or repricing in the same periods were $138 million and $27 million, respectively. CBI expects to be able to manage its current balance sheet structure without experiencing any material liquidity problems.

In the opinion of management, CBI's current and projected liquidity position is adequate.

Capital resources

As summarized in the table below, CBI maintains a strong capital position.

	Mar. 31, 2002
Tier 1 capital to average total assets	8.48%
Tier 1 capital to risk weighted assets	11.25%
Total capital to risk weighted assets	12.44%

In the opinion of management, the Company's current and projected capital positions are adequate. In each case the ratios exceed by a substantial margin the minimum regulatory requirement for being considered well capitalized.

Dividends

CBI declared and paid a quarterly cash dividend of eight cents per share during the first quarter of 2002. The total cost of this dividend was $264,000. On May 8, 2002, CBI declared a second quarter dividend of eight cents per share, payable June 28, 2002. The expected cost of this dividend is $264,000.

Subsequent events

In late November 2001 CBI entered into an agreement to acquire the common stock of Ridgeway Bancshares Inc., the holding company for the Bank of Ridgeway. The agreement provides for CBI to issue 1,000,000 shares of its stock and $4,000,000 cash in exchange for 100% of the stock of Ridgeway. The transaction requires approval by two-thirds of the shareholders of both companies, as well as various regulators. Shareholder meetings for both companies were held in April 2002 and the shareholders of both companies approved the transaction. Various regulatory approvals are still pending. CBI anticipates that the Ridgeway bank will become part of Community Bankshares on July 1, 2002.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. CBI's market risk arises principally from interest rate risk inherent in its lending, deposit and borrowing activities. Management actively monitors and manages its interest rate risk exposure. Although CBI manages other risks, such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk and this risk could potentially have the largest material effect on CBI's financial condition and results of operations. Other types of market risks such as foreign currency exchange risk and commodity price risk do not arise in the normal course of community banking activities.

Achieving consistent growth in net interest income is the primary goal of CBI's asset/liability function. CBI attempts to control the mix and maturities of assets and liabilities to achieve consistent growth in net interest income despite changes in market interest rates. CBI seeks to accomplish this goal while maintaining adequate liquidity and capital. CBI's asset/liability mix is sufficiently balanced so that the effect of interest rates moving in either direction is not expected to be significant over time.

CBI's Asset/Liability Committee uses a simulation model to assist in achieving consistent growth in net interest income while managing interest rate risk. The model takes into account interest rate changes as well as changes in the mix and volume of assets and liabilities. The model simulates CBI's balance sheet and income statement under several different rate scenarios. The model's inputs (such as interest rates and levels of loans and deposits) are updated on a quarterly basis in order to obtain the most accurate projection possible. The projection presents information over a twelve-month period. It reports a base case in which interest rates remain flat and reports variations that occur when rates increase and decrease 100 and 200 basis points. According to the model as of March 31, 2002 CBI is positioned so that net interest income would increase $652,000 and net income would increase $402,000 in the next twelve months if interest rates rose 200 basis points. Conversely, net interest income would decline $652,000 and net income would decline $402,000 in the next twelve months if interest rates declined 200 basis points. In the current interest rate environment, it is unlikely that there will be any significant rate decreases in the immediate future. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates and loan prepayment, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions CBI could undertake in response to changes in interest rates.

As of March 31, 2002 there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2001. The foregoing disclosures related to the market risk of the Company should be read in connection with Management's Discussion and Analysis of Financial Position and Results of Operations included in the 2001 Annual Report on Form 10-K.

Part II--Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

b) Reports on Form 8-K. None.

Signatures

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

DATED: May 9, 2002

COMMUNITY BANKSHARES, INC.

By: s/ E. J. Ayers, Jr.,

E. J. Ayers, Jr.,
Chief Executive Officer

By: s/ William W. Traynham

William W. Traynham
President and Chief Financial Officer
(Principal Accounting Officer)