COMMUNITY BANKSHARES INC /SC/
Form 10-Q
November 12, 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 Sept. 30, 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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 4,304,384 shares of common stock outstanding as of November 1, 2002.

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Part I. Item 1. Financial Statements

COMMUNITY BANKSHARES, INC. - CONSOLIDATED BALANCE SHEETS

(Dollars 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 ....
Other real estate owned ....
Accrued interest receivable ....
Deferred income taxes ....

Intangible assets	
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 4,304,384 in 2002 and 3,299,674 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 nine months ended September 30, 2002 and 2001 (Unaudited)
(Dollars in thousands)

	Number of Shares	Amount	Retain Earnin
Balances at Dec. 31, 2000	3,199,180	$ 15,928	$ 7,3
Comprehensive income:			
Net income			2,7
Change in unrealized gain (loss) on			

securities available for sale, net of tax effect			
Shares issued under option agreement	5,040	39	
Dividends paid	-	-	(6
Balances at September 30, 2001	3,204,220	$ 15,967	$ 9,4
Balances at Dec. 31, 2001	3,299,674	$ 17,208	$ 10,3
Comprehensive income:			
Net income			3,9
Change in unrealized gain (loss) on securities available for sale, net of tax effect			
Shares issued under option agreement	4,710	40	
Shares issued under merger agreement	1,000,000	12,020	
Expense associated with merger		(178)	
Dividends paid	-	-	(8
Balances at September 30, 2002	4,304,384	$ 29,090	$ 13,4

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended Sept	
(Dollars in thousands, except per share data)	2002 UNAUDITED	200 UNAUDI
Interest and dividend income:		
Loans, including fees	$14,017	$13,6
Deposits with other financial institutions	18	1
Debt securities	1,526	1,6
Dividends	89	1
Federal funds sold	254	6
Total interest and dividend income	15,904	16,2

Interest expense:		
Deposits:		
Certificates of deposit of $100,000 or more	1,410	1,9
Other	3,460	5,0
Total deposits	4,870	7,0
Federal funds purchased and securities sold under agreements to repurchase	75	2
Other borrowed funds	1,090	8
Total interest expense	6,035	8,0
Net interest income	9,869	8,1
Provision for loan losses	597	4
Net interest income after provision for loan losses	9,272	7,6
Non-interest income:		
Service charges on deposit accounts	1,843	1,4
Gains on sales of securities	119	
Mortgage banking income	3,112	
Other	492	4
Total non-interest income	5,566	1,9
Non-interest expense:		
Salaries and employee benefits	5,546	3,1
Premises and equipment	998	7
Other	2,219	1,4
Total non-interest expense	8,763	5,3
Income before income taxes	6,075	4,3
Income tax expense	2,139	1,5
Net income	$ 3,936	$ 2,7

	Nine months ended Sept. 30, 2002 UNAUDITED	2001 UNAUDITED
Basic earnings per common share:		
Weighted average shares outstanding	3,487,790	3,201,500
Net income per common share	$ 1.13	$ 0.87
Diluted earnings per common share:		

Weighted average shares outstanding	3,599,383	3,222,456
Net income per common share	$ 1.09	$ 0.87
Cash dividends per common share	$ .24	$ .21

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash flows from operating activities:

Net income ....
Adjustments to reconcile net income to net cash used in 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 of sale of loans held for sale ....
Origination of loans held for sale ....
Changes in assets and liabilities:
(Increase) decrease in interest receivable ....
Decrease in other assets ....
Increase in other liabilities ....

Net cash provided by operating activities ....

Cash flows from investing activities:
Proceeds from maturities of held to maturity securities ....
Purchases of investment securities - held to maturity ....
Proceeds from maturities of available for sale
securities ....
Proceeds from sales of available for sale securities ....
Purchases of investment securities - available for sale ....
Net (increase) decrease in interest bearing deposits ....
Net (increase) in loans to customers ....
Net cash acquired in transaction accounted under the
purchase method ....
Cash paid in connection with merger ....
Purchase of premises and equipment ....
Net (increase) in other real estate ....

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

Cash flows from financing activities:
Net increase in demand, savings, and time deposits ....
Net increase in federal funds purchased and
securities sold under agreements to repurchase ....
Net increase under line of credit agreement ....
Repayment of Federal Home Loan Bank advances ....
Sale of common stock ....
Merger expenses ....
Dividends ....

Net cash provided by financing activities ....

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Net increase in cash and due from other
Financial institutions ....

Cash and due from other financial institutions -
Beginning of period ....

Cash and due from other financial institutions -
End of period ....

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Notes to Unaudited Consolidated 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 or the Corporation), the parent company, and Orangeburg National Bank, Sumter National Bank, Florence National Bank, Community Resource Mortgage Inc., and the Bank of Ridgeway, 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 disclosure of comprehensive income and its components in a full set of general-purpose financial statements. Disclosure as required by the Statement is as follows:

	Nine months ended Sept. 30, 2002	2001
	(In thousands)	
Unrealized holding gains (losses) on available for sale securities	$ 496	$ 388
Less: Reclassification adjustment for gains (losses) realized in income	119	14
Net unrealized gains (losses)	377	374
Tax effect	(128)	(127)
Net-of-tax amount	$ 249	$ 247

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average shares of common stock outstanding during each period. Diluted earnings per share is based on the weighted-average shares of common stock outstanding during each period plus the maximum dilutive effect of common stock issuable upon exercise of stock options. The weighted average number of shares and equivalents are determined after giving retroactive effect to stock dividends and stock splits. Weighted-average shares outstanding used in calculating earnings per share for the three and nine months ended September 30, 2002 and 2001 are as follows:

	Three months ended 9/30/2002	9/30/2001	Nine months ended 9/30/2002	9/30/2001
Basic	4,309,094	3,200,867	3,487,790	3,201,500
Diluted	4,420,687	3,220,138	3,599,383	3,222,456

Dividends per share are calculated using the current equivalent of number of common shares outstanding at the time of the dividend based on the

Corporation's shares outstanding.

COMMUNITY BANKSHARES, INC. - AVERAGE BALANCE SHEETS, YIELDS, AND RATES

Nine months ended Sept. 30, In thousands	2002		
Assets	Average Balance	Interest Income/ Expense	Yields/ Rates
Interest bearing deposits	$ 1,388	$ 18	1.73%
Investment securities taxable	43,507	1,504	4.61%
Investment securities--tax exempt*	3,290	111	6.82%
Federal funds sold	19,672	254	1.72%
Loans receivable	268,216	14,017	6.97%
Total interest earning assets	336,073	15,904	6.31%
Cash and due from banks	13,569		
Allowance for loan losses	(3,085)		
Premises and equipment	5,830		
Intangible assets	3,172		
Other assets	3,374		
Total assets	$358,933		
Liabilities and Shareholders' Equity			
Interest bearing deposits			
Savings	$ 52,748	$ 668	1.69%
Interest bearing transaction accounts	41,270	230	0.74%
Time deposits	155,153	3,972	3.41%

Total interest bearing deposits	249,171	4,870	2.61%
Short term borrowing	4,753	75	2.10%
Other borrowings	30,537	1,090	4.76%
Total interest bearing liabilities	284,461	6,035	2.83%
Noninterest bearing demand deposits	38,640		
Other liabilities	2,680		
Shareholders' equity	33,152		
Total liabilities and shareholders' equity	$358,933		
Interest rate spread			3.48%
Net interest income and net yield on earning assets		$ 9,869	3.92%

* Yields are quoted as fully taxable equivalents

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 acquisitions, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to 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 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2001

Net Income

For the first nine months of 2002 Community Bankshares Inc. (CBI) earned a consolidated profit of $3,936,000 compared to $2,793,000 for the same period of 2001, an increase of 40.9% or $1,143,000. Basic earnings per share were $1.13 in the 2002 period compared to $.87 for the 2001 period. Diluted earnings per share were $1.09 in the 2002 period compared to $.87 for the 2001 period.

For the first nine months of 2002 Orangeburg National Bank reported a profit of $2,135,000 compared to $1,869,000 for the first nine months of 2001, an increase of 14.2% or $266,000.

For the first nine months of 2002 Sumter National Bank reported a profit of $979,000 compared to $849,000 for the first nine months of 2001, an increase of 15.3% or $130,000.

For the first nine months of 2002 Florence National Bank reported a profit of $277,000 compared to $125,000 for the first nine months of 2001, an increase of 122% or $152,000. The Florence bank began operation in July 1998.

For the first nine months of 2002 Community Resource Mortgage Inc. reported a profit of $333,000. CBI acquired the mortgage company in November 2001 so there are no comparative numbers available.

For the three month period ended September 30, 2002 the Bank of Ridgeway reported a profit of $291,000. CBI acquired the Ridgeway Bank July 1, 2002 so there are no comparative numbers available.

As noted above, consolidated net income for the nine months ended September 30, 2002, increased from the prior year by 40.9% or $1,143,000. The major components of this increase are discussed below. Net interest income before provision for loan losses for the nine months ended September 30, 2002 increased to $9,869,000 compared to $8,126,000 for the same period in 2001, an increase of 21.4% or $1,743,000. For the same period the provision for loan losses was $597,000 compared to $457,000 for the 2001 period, an increase of 30.6% or $140,000. Non-interest income for the 2002 period increased to $5,566,000 from $1,987,000 for the 2001 period, a 180% or $3,579,000 increase. Non-interest expense increased to $8,763,000 from $5,322,000, a 64.7% or $3,441,000 increase.

The large percentage increases are primarily the result of the addition of Community Resource Mortgage and the Bank of Ridgeway. The mortgage company was acquired November 1, 2001 and the Ridgeway bank was acquired July 1, 2002. Accordingly, throughout this discussion there will be significant percentage and dollar changes on a year to date and quarter to date basis. Consoldiated net income includes $333,000 which was contributed by fee income from residential mortgage lending activities of the mortgage company. This income is very sensitive to home purchase and refinancing demand which, in turn, is sensitive to interest rates. Accordingly, this component of net income is significantly more volatile than other components of net income. This volatility is somewhat mitigated by the fact that personnel compensation is directly related to loan production volumes.

Profitability

Profitability may be measured 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. Operating results for the nine months ended September 30, 2002 and 2001 are shown below.

	Period ended September 30,	
	2002	2001

	----	----
	(dollars in thousands)	
Average assets	$358,933	$281,704
ROA	1.46%	1.32%
Average equity	$ 33,152	$ 24,488
ROE	15.83%	15.21%
Net income	$ 3,936	$ 2,793

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 nine months of 2002 net interest income after provision for loan losses increased to $9,272,000 from $7,669,000, a 20.9% or $1,603,000 increase over the 2001 period. This improvement was mostly the result of a $69 million increase in the average volume of earning assets, of which $40 million resulted from acquistions. The average yield on earning assets decreased to 6.31% for the 2002 period from 8.07% for the 2001 period. This decline in yield was primarily the result of market interest rate declines. When 2001 began, the prime lending rate

was 9.5%; by year-end 2001 it was at 4.75% where it has remained through the first nine months of 2002.

For the first nine months of 2002 the cost of funds averaged 2.83%, decreased from 4.79% for the first nine months of 2001. The effect of these changes was a net interest spread (yield on earning assets less cost of interest bearing liabilities) of 3.48% for the first nine months of 2002, increased from 3.28% for the first nine months of 2001. CBI's net interest margin (net interest income divided by total earning assets) was 3.92% for the first nine months of 2002 compared to 4.05% for the first nine months 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 the Corporation's balance sheets for the nine months ended September 30, 2002 and 2001. A discussion of that table follows.

Total interest income for the first nine months of 2002 was $15,904,000 compared to $16,200,000 for the same period in 2001, a 1.8% or $296,000 decrease. The yield on average earning assets for the 2002 period was 6.31%, decreased from 8.07% for the 2001 period. Total average interest earning assets for the 2002 period were $336,073,000 compared to $267,610,000 for the 2001 period, an increase of 25.6% or $68,463,000.

The loan portfolio earned $14,017,000 for the first nine months of 2002 compared to $13,694,000 for the same period of 2001, a 2.4% or $323,000 increase. The yield decreased to 6.97% for the 2002 period from 8.85% for the 2001 period. The average size of the loan portfolio was $268,216,000 for the 2002 period compared to $206,419,000 for the 2001 period, an increase of 29.9% or $61,797,000.

The taxable investment portfolio earned $1,504,000 for the first nine months in 2002 compared to $1,699,000 for the same period in 2001, an 11.5% or $195,000 decrease. The yield decreased to 4.61% in the 2002 period from 6.21% in the 2001 period. The average size of the portfolio was $43,507,000 in the 2002 period compared to $36,490,000 in the 2001 period, an increase of 19.2% or $7,017,000.

The tax-exempt investment portfolio earned $111,000 for the first nine months in 2002 compared to $21,000 for the same period in 2001, a 429% or $90,000 increase. The yield (on a taxable equivalent basis) on the portfolio was 6.82%, an increase from 5.69%. The average size of the portfolio was $3,290,000 for the 2002 period compared to $746,000 in the 2001 period, an increase of 341% or $2,544,000. The unusual magnitude of the percentage change in this category is due to the acquisition of the Bank of Ridgeway on July 1, 2002 and its tax exempt investment portfolio, which at September 30, 2002 totaled $9,515,000.

Interest bearing deposits in other banks contributed $18,000 for the first nine months of 2002 compared to $144,000 during the prior year, a decrease of 87.5% or $126,000. The yield on these deposits decreased to 1.73% for the 2002 period from 4.32% in the 2001 period. CBI averaged $1,388,000 in interest bearing balances in the first nine months of 2002 compared to $4,441,000 the first nine months of the prior year, a decrease of 68.7% or $3,053,000.

Federal funds sold earned $254,000 the first nine months of 2002 compared to $642,000 the prior year, a decrease of 60.4% or $388,000. Yields

decreased to 1.72% for the first nine months in 2002 from 4.39% for the first nine months in 2001. For the first nine months of 2002 CBI increased its average volume in federal funds sold to $19,672,000 compared to $19,514,000 for the first nine months of 2001, a .8% or $158,000 increase.

Interest Expense

Interest expense for the first nine months of 2002 was $6,035,000 compared to the prior year's $8,074,000, a 25.3% or $2,039,000 decrease. The volume of interest bearing liabilities was $284,461,000 for the first nine months in 2002 compared to $224,702,000 for the first nine months of 2001, a 26.6% or $59,759,000 increase. The average rate paid for interest-bearing liabilities during the 2002 period was 2.83%, decreased from 4.79% for the 2001 period.

The cost of savings accounts was $668,000 in the first nine months in 2002 compared to $927,000 in the first nine months of 2001, a 27.9% or $259,000 decrease. Average savings deposit balances were $52,748,000 for the first nine months in 2002 compared to $37,290,000 for the first nine months of 2001, an increase of 41.5% or $15,458,000. The average rate paid on these funds decreased to 1.69% from 3.31%.

Interest bearing transaction accounts cost $230,000 for the first nine months in 2002 compared to the prior year's $165,000, an increase of 39.4% or $65,000. The volume of these deposits was $41,270,000 for the first nine months in 2002 compared to $23,389,000 for the first nine months of 2001, a 76.5% or $17,881,000 increase. The average rate paid on these funds for the first nine months in 2002 decreased to .74% from .94% for the first nine months of 2001.

Time deposits cost $3,972,000 for the first nine months of 2002 compared to $5,909,000 for the first nine months of the prior year, a decrease of 32.8% or $1,937,000. The volume was $155,153,000 for the first nine months in 2002 compared to $136,836,000 for the first nine months of 2001, a 13.4% or

$18,317,000 increase. The average rate paid on these funds decreased to 3.41% for the first nine months in 2002 from 5.76% for the first nine months in 2001.

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 $75,000 for the first nine months in 2002 compared to $212,000 for the first nine months of 2001, a decrease of 64.6% or $137,000. The volume of these funds was $4,753,000 in the first nine months of 2002 compared to $7,414,000 in the first nine months of 2001, a decrease of 35.9% or $2,661,000. The average rate paid on these funds decreased to 2.10% from 3.81%.

Other borrowings consist of advances from the Federal Home Loan Bank and warehouse lines of credit for the mortgage company. They cost $1,090,000 for the first nine months in 2002 compared to $861,000 for the first nine months in 2001, an increase of 26.7% or $229,000. The borrowings averaged $30,537,000 during the 2002 period compared to $19,773,000 for the prior year period, a 54.4% or $10,764,000 increase. The average rate paid on these funds decreased to 4.76% from 5.81%. The primary reason for the substantial increase in these borrowings is the addition of the lines of credit for the mortgage company, which are not reflected in 2001 period.

Non-Interest Income

Non-interest income for the first nine months of 2002 grew to $5,566,000 from $1,987,000 for the first nine months of 2001, a 180% or $3,579,000 increase. Approximately $3 million of this increase was related to the mortgage company.

Non-Interest Expense

For the first nine months of 2002 non-interest expenses increased to $8,763,000 from $5,322,000 for the first nine months of 2001, a 64.7% or $3,441,000 increase. Approximately $2.1 million of this increase was related to the mortgage company and approximately $650,000 was related to the Ridgeway bank. These two acquisitions account for most of the increases noted below.

For the 2002 period personnel costs were $5,546,000 compared to $3,172,000 for the 2001 period, an increase of 74.8% or $2,374,000;

For the 2002 period premises and equipment expenses were $998,000 compared to $703,000 for the 2001 period, an increase of 42% or $295,000; and

For the 2002 period other costs were $2,219,000 compared to $1,447,000 for the 2001 period, an increase of 53.4% or $772,000.

Income Taxes

CBI provided $2,139,000 for federal and state income taxes during the first nine months of 2002 compared to $1,541,000 for the same period in 2001, a 38.8% or $598,000 increase. The average tax rate for the 2002 period was 35.2% and for the 2001 period it was 35.6%.

RESULTS OF OPERATIONS FOR THE QUARTERS ENDED SEPTEMBER 30, 2002 AND 2001

Net Income

For the quarter ended September 30, 2002 CBI earned a consolidated profit of $1,600,000, compared to $962,000 for the comparable period of 2001, an increase of 66.3% or $638,000. Basic earnings per share were $.37 in the 2002 period, compared to $.30 for the 2001 period. Diluted earnings per share were $.36 in the 2002 period, compared to $.30 for the 2001 period. The changes in the items comprising net interest income, which are discussed below, resulted from essentially the same factors discussed above regarding the results of operation for the nine months ended September 30, 2002, most notably the acquisitions of Community Resource Mortgage and the Bank of Ridgeway.

Net interest income

Net interest income before provision for loan losses for the quarter ended September 30, 2002 increased to $3,975,000 compared to $2,770,000 for the same period in 2001, an increase of 43.5% or $1,205,000. For the same period the provision for loan losses was $239,000 compared to $180,000 for the 2001 period, an increase of 32.8% or $59,000.

Interest Income

Total interest income for the third quarter 2002 was $6,140,000 compared with $5,261,000 for the same period in 2001, a 16.7% or $879,000 increase.

The loan portfolio earned $5,351,000 for the third quarter 2002 compared to $4,578,000 for the same period of 2001, a 16.9% or $773,000 increase.

The investment portfolio earned $694,000 for the third quarter 2002 compared to $457,000 for the 2001 period, a 51.9% or $237,000 increase.

Interest bearing deposits in other banks contributed $8,000 for the third quarter 2002 compared to $38,000 during the prior year, a decrease of 78.9% or $30,000.

Federal funds sold earned $87,000 the third quarter of 2002 compared to $188,000 the prior year, a decrease of 53.7% or $101,000.

Interest expense

Interest expense for the third quarter of 2002 was $2,165,000 compared to the prior year's $2,491,000, a 13.1% or $326,000 decrease.

Non-interest income and expense

Non-interest income for the 2002 period was $2,129,000 compared to $744,000 for the 2001 period, a 186% or $1,385,000 increase. Most of this change is due to the mortgage company. Non-interest expense was $3,440,000 compared to $1,833,000, an 87.7% or $1,607,000 increase.

CHANGES IN FINANCIAL POSITION

Investment portfolio

The investment portfolio is comprised of held to maturity securities and available for sale securities. CBI and its banks usually purchase short-term issues (ten years or less) of U. S Treasury and U. S. Government agency securities for investment purposes. At September 30, 2002, the held to maturity portfolio totaled $500,000, unchanged from December 31, 2001. At September 30, 2002, the available for sale portfolio totaled $58,830,000 compared to $43,207,000 at December 31, 2001, an increase of 36.2% or $15,623,000. The following chart summarizes the investment portfolios at September 30, 2002, and December 31, 2001.

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	Septemb	
	Held to maturity	
	Amortized cost	Fair value
	(dollars	
U. S. Government and agencies	$ 500	$ 502
Tax exempt securities	-	-
Mortgage backed securities	-	-
Other equity securities	-	-
Total	$ 500	$ 502
Unrealized gain (loss)	$ 2	

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

Loan portfolio

The loan portfolio is primarily consumer and small business oriented. At September 30, 2002 the loan portfolio was $300,051,000 compared to $229,905,000 at December 31, 2001, a 30.5% or $70,146,000 increase. The following chart summarizes the loan portfolio at September 30, 2002 and December 31, 2001.

	Sept. 30, 2002	Dec. 31, 2001
	(dollars in thousands)	
Real estate	$187,361	$146,559
Commercial	76,561	56,515
Loans to individuals	36,129	26,831
Total	$300,051	$229,905

Past Due and Non-Performing Assets and the Allowance for Loan Losses

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 September 30, 2002 and December 31, 2001.

	Sept. 30, 2002	Dec. 31, 2001
	(dollars in thousands)	
Past due 90 days + accruing loans	$296	$17
Non-accrual loans	$954	$281
Impaired loans (included in nonaccrual) ..	$954	$281
Other real estate owned	$ -	$267

Management considers the past due and non-accrual amounts at September 30, 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

The Corporation operates four independent community banks in central South Carolina. Under the provisions of various state and national banking laws each board of directors is responsible for determining the adequacy of its Bank's loan loss allowance. In addition, each national Bank is supervised and regularly examined by the Office of the Comptroller of the Currency of the U. S. Treasury Department. Our state chartered bank is supervised and regularly examined by the Federal Deposit Insurance Corporation and state bank examiners. As a normal part of a safety and soundness examination examiners will assess and comment on the adequacy of a bank's allowance for loan losses and may, in some cases, require changes in the allowance. 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 cities or counties. 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 of each of the banks reviews its allowance for loan losses in three broad categories: commercial, real estate and installment loans. However, management of each of the banks does not believe it would be useful to maintain a separate allowance for each category. Instead management of each of the banks assigns an estimated risk percentage factor to each category in the computation of the overall allowance. In general terms, the real estate loan portfolio is subject to the least risk, followed by the installment loan portfolio, which in turn is followed by the commercial 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 of each of the banks believes that loan charge-offs in 2002 will exceed the 2001 levels as such loans progress through the collection process. Management believes that the allowance for loan losses, as of September 30, 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.

	Nine months ended September 30, 2002	Dec
Allowance at beginning of period	$ 3,248	
Provision expense	597	
Net charge offs	(348)	
Allowance at end of period	$ 3,497	
Allowance / outstanding loans	1.17%	

In reviewing the adequacy of the allowance for loan losses at the end of each period, management of each bank considers historical loan loss experience, current economic conditions, loans outstanding, trends in non-performing and delinquent loans, and the quality of collateral securing problem loans. Based on these considerations management makes estimates on the amount of loss inherent in the loan portfolio so that an adequate allowance can be maintained. After charging off all known losses, management of each bank considers the allowance adequate to provide for estimated losses inherent in the loan portfolio at September 30, 2002.

Intangible assets

CBI has adopted FASB No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. As of September 30, 2002 the balance in intangible assets totaled $7,958,000, compared to $921,000 at December 31, 2001. Of the balance, approximately $7 million represents goodwill and the core deposit intangible associated with the acquisition of the Ridgeway bank (more fully discussed later in this document) and the $921,000 represents goodwill associated with the acquisition of Community Resource Mortgage.

Deposits

Deposits were $334,125,000 at September 30, 2002 compared to $255,433,000 at December 31, 2001, an increase of 30.8% or $78,692,000.

Time deposits greater than $100,000 were $70,082,000 at September 30, 2002 compared to $51,374,000 at December 31, 2001, an increase of 36.4% or $18,708,000. This category of deposits is generally more sensitive to changes in interest rates than other categories and consequently may be a somewhat volatile funding source. Slightly less than half the increase in balances is accounted for by the addition of the Ridgeway bank, most of the remainder is due to increases at the Sumter bank.

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 Orangeburg National Bank, Sumter National Bank, Florence National Bank and the Bank of Ridgeway 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 and its banks maintain an available for sale and a held to maturity investment portfolio. While all these investment securities are 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. Such sales will generally be from the available for sale portfolio. 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. 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, that CBI would be unable to meet its liquidity needs with the proceeds of maturing assets.

CBI through its banking subsidiaries also maintains federal funds lines of credit with correspondent banks, and is able to borrow from the Federal Home Loan Bank and from the Federal Reserve's discount window.

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 $334 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 September 30, 2002 CBI had approximately $29.9 million and $20 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 $162 million and $46 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 well capitalized position.

	Sept. 30, 2002
Tier 1 capital to average total assets	8.41%
Tier 1 capital to risk weighted assets	11.20%
Total capital to risk weighted assets	12.34%

In the opinion of management, the Corporation's current and projected capital positions meet all applicable requirements and are adequate.

Dividends

CBI declared and paid a quarterly cash dividend of eight cents per share for each of the first three quarters of 2002. The total cost of these dividends was $873,000.

Business Combination

On July 1, 2002 CBI acquired 100% of the common stock of Ridgeway Bancshares Inc., the parent of the Bank of Ridgeway. The contract purchase price was one million shares of CBI common stock, with a market value at the time of the announcement of $12,020,000, and $4 million in cash. CBI incurred additional costs associated with the acquisition of $621,000. The results of Ridgeway's operations have been included in the consolidated financial statements since that date. The Bank of Ridgeway is the oldest state chartered community bank in the state of South Carolina and is operating as one of four community bank subsidiaries of CBI. As a result of the acquisition, CBI expects to improve its position in the South Carolina community banking market.

The following table summarizes the estimated fair market value of the assets acquired and the liabilities assumed at the date of the acquisition, July 1, 2002. CBI obtained the services of an independent firm to assist in valuing the loans and deposits. Local real estate appraisers were used to determine the fair value of the bank's real property.

$ in thousands	Fair value
ASSETS	
Cash and federal funds	$ 9,774
Investments	24,727
Loans, net of allowance	44,078
Premises and equipment	1,021
Goodwill	3,400
Core deposit intangible	3,698
Other assets	599
Total assets acquired	$87,297
LIABILITIES	
Deposits	$66,697
Short-term borrowings	3,600
Other liabilities	4,359
Total liabilities assumed	74,656
Net assets acquired	$12,641

The core deposit intangible of $3.7 million will be amortized over its estimated useful life of 15 years. The goodwill amount of $3.4 million will be periodically evaluated for impairment.

Presented below are the pro forma results of operations for the year to date and quarter ended September 30, 2002 and the corresponding periods for 2001 as though the business combination had been completed on the first day the reported period.

For the nine months ended September 30,	2002 CBI	2002 RW	2002 Total*
Total interest and noninterest income	21,470	2,693	24,163
Net interest income	9,869	1,674	11,543
Net income	3,936	410	4,346
EPS			1.09

For the three months ended September 30,	2002 CBI	2002 RW	2002 Total*
Total interest and noninterest income	6,902	1,367	8,269
Net interest income	3,097	878	3,975
Net income	1,309	291	1,600
EPS			0.37

* CBI total includes Ridgeway results for three months ended Sept. 30, 2002
** Total is from the statements of income

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Corporation'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 the Corporation 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 the risk that could potentially have the largest material effect on the Corporation'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 the Corporation's asset/liability function. The Corporation 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. The Corporation seeks to accomplish this goal while maintaining adequate liquidity and capital. Management believes that the Corporation'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.

The Corporation'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 the Corporation'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 September 30, 2002 the Corporation is positioned so that net interest income would be expected to increase $363,000 and net income would be expected to increase $224,000 in the next twelve months if interest rates rise 100 basis points. Conversely, net interest income would be expected to decline $363,000 and net income would be expected to decline $224,000 in the next twelve months if interest rates decline 100 basis points. 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 the Corporation could undertake in response to changes in interest rates.

As of September 30, 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 Corporation 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.

Item 4. Controls and Procedures

(a) Based on their evaluation of the issuer's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-14(c) and 240.15d-14(c)) as of a date within 90 days prior to the filing of this quarterly report, the issuer's chief executive officer and chief financial officer concluded that the effectiveness of such controls and procedures was adequate.

(b) There were no significant changes in the issuer's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses, other than the following item. In September the CBI audit committee and board of directors conducted a review of the company's risk management systems. They elected to increase the financial resources devoted to loan review, compliance and internal auditing. The Board and management consider this to be an enhancement of internal controls.

Part II--Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Index

Exhibit No.(from item 601 of S-K)	Description
10	Amended and Restated Guaranty Agreement, dated

October 7, 2002

b) Reports on Form 8-K.

1. A Form 8-K was filed July 15, 2002 to report pursuant to item 2 thereof the Corporation's acquisition of Ridgeway Bancshares, Inc.

2. Amendment No. 1 to the above referenced 8-K was filed September 16, 2002 to provide financial statements required by Items 2 and 7 of Form 8-K in conncection with the Corporation's acquisition of Ridgeway Bancshares, Inc.

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: November 12, 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)

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CERTIFICATIONS

I, E. J. Ayers, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Bankshares Inc.;

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2002

s/E. J. Ayers, Jr.

E. J. Ayers, Jr.

Chairman and CEO

CERTIFICATIONS

I, William W. Traynham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Community Bankshares Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material

respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

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

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

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

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

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

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

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

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

Date: November 12, 2002

s/William W. Traynham

William W. Traynham

President and CFO

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EXHIBIT INDEX

Exhibit No. (from Item 601 of S-K)	Description
10	Amended and Restated Guaranty Agreement, Dated October 7, 2002