COMMUNITY BANKSHARES INC /SC/
Form 10-Q
August 13, 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 June 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 [ ]

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 August 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 3,304,384 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 six months ended June 30, 2002 and 2001 (Unaudited)
($ amounts in thousands)

	Number of Shares	Amount	Retaine Earning
Balances at Dec. 31, 2000	3,199,180	$ 15,928	$ 7,3
Comprehensive income:			
Net income			1,8
Change in unrealized gain (loss) on securities available for sale, net of tax effect			
Shares issued under option agreement	5,040	39	
Dividends paid	-	-	(4
Balances at June 30, 2001	3,204,220	$ 15,967	$ 8,7
Balances at Dec. 31, 2001	3,299,674	$ 17,208	$ 10,3
Comprehensive income:			
Net income			2,3
Change in unrealized gain (loss) on securities available for sale, net of tax effect			
Shares issued under option agreement	4,710	40	
Expense associated with pending merger		(98)	
Dividends paid	-	-	(5
Balances at June 30, 2002	3,304,384	$ 17,150	$ 12,1

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June	
(In thousands, except per share data)	2002 UNAUDITED	20 UNAUD
Interest and dividend income:		
Loans, including fees	$ 8,666	$ 9,
Deposits with other financial institutions	10	
Debt securities	858	1,
Dividends	63	
Federal funds sold	167	
Total interest and dividend income	9,764	10,
Interest expense:		
Deposits:		
Certificates of deposit of $100,000 or more	914	1,
Other	2,206	3,
Total deposits	3,120	4,
Federal funds purchased and securities sold under agreements to repurchase	44	
Other borrowed funds	706	
Total interest expense	3,870	5,
Net interest income	5,894	5,
Provision for loan losses	358	
Net interest income after provision for loan losses	5,536	5,
Non-interest income:		
Service charges on deposit accounts	1,082	

Gains on sales of securities	104	
Mortgage banking income	1,948	
Other	303	
Total non-interest income	3,437	1,
Non-interest expense:		
Salaries and employee benefits	3,383	2,
Premises and equipment	605	
Other	1,335	
Total non-interest expense	5,323	3,
Income before income taxes	3,650	2,
Income tax expense	1,314	1,
Net income	$ 2,336	$ 1,

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	Six months ended June 30, 2002 UNAUDITED	2001 UNAUDITED
Basic earnings per common share:		
Weighted average shares outstanding	3,299,834	3,199,180
Net income per common share	$ 0.71	$ 0.57
Diluted earnings per common share:		
Weighted average shares outstanding	3,404,733	3,217,067
Net income per common share	$ 0.69	$ 0.57

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

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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 ....
- 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 assets and liabilities:
- (Increase) decrease in interest receivable ....
- Decrease in other assets ....
- Decrease in other liabilities ....

Net cash provided by operating activities ....

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

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

Cash flows from financing activities:
- Net increase in demand, savings, & time deposits ....
- Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase ....
- Net principal reduction under lines of credit agreements ....
- Repayment of FHLB advances ....
- Sale of common stock ....
- Merger expenses ....
- Dividends ....

Net cash provided by financing activities ....

Net increase (decrease) 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 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 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:

Unrealized holding gains (losses) on available for sale securities	
Less: Reclassification adjustment for gains (losses) realized in income	
Net unrealized gains (losses)	
Tax effect	
Net-of-tax amount	

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

Six months ended June 30, $ in thousands	2002			
Assets	Average Balance	Interest Income/ Expense	Yields/ Rates	
Interest bearing deposits	$ 1,311	$ 10	1.53%	$
Investment securities taxable	40,229	916	4.55%	
Investment securities--tax exempt*	269	5	5.63%	

Federal funds sold	19,884	167	1.68%	
Loans receivable	247,983	8,666	6.99%	--
Total interest earning assets	309,676	9,764	6.31%	
Cash and due from banks	11,952			
Allowance for loan losses	(2,947)			
Premises and equipment	5,539			
Goodwill	921			
Other assets	3,022			--
Total assets	$ 328,163			$
Liabilities and Shareholders' Equity				
Interest bearing deposits				
Savings	$ 46,577	$ 403	1.73%	$
Interest bearing transaction accounts	42,158	171	0.81%	
Time deposits	142,278	2,546	3.58%	--
Total interest bearing deposits	231,013	3,120	2.70%	
Short term borrowing	4,603	44	1.91%	
Other borrowings	27,512	706	5.13%	--
Total interest bearing liabilities	263,128	3,870	2.94%	
Noninterest bearing demand deposits	34,344			
Other liabilities	2,025			
Shareholders' equity	28,666			--
Total liabilities and shareholders' equity	$ 328,163			$
Interest rate spread			3.37%	
Net interest income and net yield on earning assets		$ 5,894	3.81%	

* Yields are quoted as fully taxable equivalents

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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 FOR THE SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO JUNE 30, 2001

Net Income

For the first half of 2002 CBI earned a consolidated profit of $2,336,000 compared to $1,831,000 for the first half of 2001, an increase of 27.6% or $505,000. Basic earnings per share were $.71 in the 2002 period compared to $.57 for the 2001 period. Diluted earnings per share were $.69 in the 2002 period compared to $.57 for the 2001 period.

For the first half of 2002 Orangeburg National Bank reported a profit of $1,410,000 compared to $1,222,000 for the first half of 2001, an increase of 15.4% or $188,000.

For the first half of 2002 Sumter National Bank reported a profit of $630,000 compared to $552,000 for the first half of 2001, an increase of 14.31% or $78,000.

For the first half of 2002 Florence National Bank reported a profit of $155,000 compared to $86,000 for the first half of 2001, an increase of 80.2% or $69,000. The Florence bank began operation in July 1998.

For the first half of 2002 Community Resource Mortgage Inc. reported a profit of $207,000. The company acquired the mortgage company in November 2001, so there are no comparative numbers available.

As noted above, consolidated net income for the six months ended June 30, 2002, increased from the prior year by 27.6% or $505,000. The major components of this increase are discussed below. Net interest income before provision for loan losses for the six months ended June 30, 2002 increased to $5,894,000 compared to $5,356,000 for the same period in 2001, an increase of

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10% or $538,000. For the same period the provision for loan losses was $358,000 compared to $277,000 for the 2001 period, an increase of 29.2% or $81,000. Non-interest income for the 2002 period increased to $3,437,000 from $1,243,000 for the 2001 period, a 177% or $2,194,000 increase. Non-interest expense increased to $5,323,000 from $3,489,000, a 52.6% or $1,834,000 increase. The large percentage increases in noninterest income and expense are mostly associated with the addition of the mortgage company to the corporate group.

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 six months ended June 30, 2002 and

2001 yield the results in the table shown below.

	Period ended June 30, 2002	2001
	(dollars in thousands)	
Average assets	$328,163	$279,344
ROA	1.42%	1.31%
Average equity	$28,666	$24,053
ROE	16.30%	15.22%
Net income	$2,336	$1,831

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 six months of 2002 net interest income after provision for loan losses increased to $5,536,000 from $5,079,00, a 9% or $457,000 increase over the first six months of 2001. This improvement was mostly the result of a $44 million increase in the average volume of earning assets. The average yield on earning assets decreased to 6.31% for the 2002 period from 8.25% for the 2001 period. This decline in yield was 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 middle of 2002.

For the first six months of 2002 the cost of funds averaged 2.94%, decreased from 5.00% for the first six months of 2001. The effect of these changes was a net interest spread (yield on earning assets less cost of interest bearing liabilities) of 3.37% for the first six months of 2002, increased from 3.25% during the first six months of 2001. CBI's net interest margin (net interest income divided by total earning assets) was 3.81% for the first six months of 2002 compared to 4.04% for the first six 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 six months ended June 30, 2002 and 2001. A discussion of that table follows.

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Total interest income for the first six months of 2002 was $9,764,000 compared with $10,939,000 for the same period in 2001, a 10.7% or $1,175,000 decrease. The yield on average earning assets for the 2002 period was 6.31%, decreased from 8.25% for the 2001 period. Total average interest earning assets for the 2002 period were $309,676,000 compared to $265,312,000 for the 2001 period, an increase of 16.7% or $44,364,000.

The loan portfolio earned $8,666,000 for the first six months of 2002 compared to $9,116,000 for the same period of 2001, a 4.9% or $450,000 decrease. The yield decreased to 6.99% for the 2002 period from 9.03% for the 2001 period. The average size of the loan portfolio was $247,983,000 for the 2002 period compared to $201,885,000 for the 2001 period, an increase of 22.8% or $46,098,000.

The taxable investment portfolio earned $916,000 for the first six months in 2002 compared to $1,250,000 for the same period in 2001, a 26.7% or

$334,000 decrease. The yield decreased to 4.55% in the 2002 period from 6.35% in the 2001 period. The average size of the portfolio was $40,229,000 in the 2002 period compared to $39,370,000 in the 2001 period, an increase of 2.2% or $859,000.

The tax-exempt investment portfolio earned $5,000 for the first six months in 2002 compared to $13,000 for the same period in 2001, a 61.5% or $8,000 decrease. The yield (on a taxable equivalent basis) on the portfolio was 5.63%, an increase from 5.4%. The average size of the portfolio was $269,000 for the 2002 period compared to $730,000 in the 2001 period, a decrease of 63.2% or $461,000.

Interest bearing deposits in other banks contributed $10,000 for the first six months of 2002 compared to $106,000 during the prior year, a decrease of 90.6% or $96,000. The yield on these deposits decreased to 1.53% for the 2002 period from 4.79% in the 2001 period. CBI averaged $1,311,000 in interest bearing balances in the first six months of 2002 compared to $4,427,000 the first six months of the prior year, a decrease of 70.4% or $3,116,000.

Federal funds sold earned $167,000 the first six months of 2002 compared to $454,000 the prior year, a decrease of 63.2% or $287,000. Yields decreased to 1.68% for the first six months in 2002 from 4.80% for the first six months in 2001. For the first six months of 2002 CBI increased its average volume in federal funds sold to $19,884,000 compared to $18,900,000 for the first six months of 2001, a 5.2% or $984,000 increase.

Interest Expense

Interest expense for the first six months of 2002 was $3,870,000 compared to the prior year's $5,583,000, a 30.7% or $1,713,000 decrease. The volume of interest bearing liabilities was $263,128,000 for the first six months in 2002 compared to $223,209,000 for the first six months of 2001, a 17.9% or $39,919,000 increase. The average rate paid for interest-bearing liabilities during the 2002 period was 2.94%, decreased from 5.00% for the 2001 period.

The cost of savings accounts was $403,000 in the first six months in 2002 compared to $651,000 in the first six months of 2001, a 38.1% or $248,000 decrease. Average savings deposit balances were $46,577,000 for the first six months in 2002 compared to $36,526,000 for the first six months of 2001, an increase of 27.5% or $10,051,000. The average rate paid on these funds decreased to 1.73% from 3.56%.

Interest bearing transaction accounts cost $171,000 for the first six months in 2002 compared to the prior year's $123,000, an increase of 39% or $48,000. The volume of these deposits was $42,158,000 for the first six months in 2002 compared to $23,063,000 for the first six months of 2001, an 82.8% or $19,095,000 increase. The average rate paid on these funds for the first six months in 2002 decreased to .81% from 1.07% for the first six months of 2001. Most of the increase in volume was due to a local government checking account balance of about $16 million that was moved from one of the banks on June 28, 2002.

Time deposits cost $2,546,000 for the first six months of 2002 compared to $4,064,000 for the first six months of the prior year, a decrease of 37.4% or $1,518,000. The volume was $142,278,000 for the first six months in 2002 compared to $135,934,000 for the first six months of 2001, a 4.7% or $6,344,000 increase. The average rate paid on these funds decreased to 3.58% for the first six months in 2002 from 5.98% for the first six 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 $44,000 for the first six months in 2002 compared to $149,000 for the first six months of 2001, a decrease of 70.5% or $105,000. The volume of these funds was $4,603,000 in the first six months of 2002 compared to $7,391,000 in the first six months of 2001, a decrease of 37.7% or $2,788,000. The average rate paid on these funds decreased to 1.91% from 4.03%.

Other borrowings consist of advances from the Federal Home Loan Bank and warehouse lines of credit for the mortgage company. They cost $706,000 for the first six months in 2002 compared to $596,000 for the first six months in 2001, an increase of 18.5% or $110,000. The borrowings averaged $27,512,000 during the 2002 period compared to $20,295,000 for the prior year period, a 35.6% or $7,217,000 increase. The average rate paid on these funds decreased to 5.13% from 5.87%. Virtually all of this increase in volume is associated with the warehouse lines of credit for the mortgage company.

Non-Interest Income

Non-interest income for the first six months of 2002 grew to $3,437,000 compared to $1,243,000 in the first six months of 2001, a 177% or $2,194,000 increase. Of this increase, approximately $1.9 million resulted from the mortgage company operations.

Non-Interest Expense

For the first six months of 2002 non-interest expenses increased to $5,323,000 from $3,489,000 for the first six months of 2001, a 52.6% or $1,834,000 increase. Of this increase, approximately $1.3 million was related to the mortgage company operations, which accounts for most of the inceases noted below.

For the 2002 period, personnel costs were $3,383,000 compared to $2,102,000 for the 2001 period, an increase of 60.9% or $1,281,000;

For the 2002 period, premises and equipment expenses were $605,000 compared to $471,000 for the 2001 period, an increase of 28.5% or $134,000; and

For the 2002 period, other costs were $1,335,000 compared to $916,000 for the 2001 period, an increase of 45.7% or $419,000.

Income Taxes

CBI provided $1,314,000 for federal and state income taxes during the first six months of 2002 compared to $1,002,000 for the same period in 2001, a 31.1% or $312,000 increase. The average tax rate for the 2002 period was approximately 36% and for the 2001 period it was approximately 35.4%.

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

Net Income

For the quarter ended June 30, 2002, CBI earned a consolidated profit of $1,211,000, compared to $930,000 for the comparable period of 2001, an increase of 30.2% or $281,000. Basic earnings per share were $.37 in the 2002 period, compared to $.29 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 six months ended June 30, 2002.

Net interest income

Net interest income before provision for loan losses for the quarter ended June 30, 2002, increased to $3,077,000 compared to $2,652,000 for the same period in 2001, an increase of 16% or $425,000. For the same period the provision for loan losses was $189,000 compared to $135,000 for the 2001 period, an increase of 40% or $54,000.

Interest Income

Total interest income for the second quarter 2002 was $4,941,000 compared with $5,389,000 for the same period in 2001, an 8.3% or $448,000 decrease.

The loan portfolio earned $4,342,000 for the second quarter 2002 compared to $4,525,000 for the same period of 2001, a 4% or $183,000 decrease.

The investment portfolio earned $483,000 for the second quarter 2002 compared to $469,000 for the 2001 period, a 3% or $14,000 increase.

Interest bearing deposits in other banks contributed $4,000 for the second quarter 2002 compared to $78,000 during the prior year, a decrease of 94.9% or $74,000.

Federal funds sold earned $80,000 the second quarter of 2002 compared to $284,000 the prior year, a decrease of 71.8% or $204,000.

Interest expense

Interest expense for the second quarter of 2002 was $1,864,000 compared to the prior year's $2,737,000, a 31.9% or $873,000 decrease.

Non-interest income and expense

Non-interest income for the 2002 period was $1,750,000 compared to $692,000 for the 2001 period, a 153% or $1,058,000 increase. Non-interest expense was $2,745,000 compared to $1,777,000, a 54.5% or $968,000 increase. Both changes were mostly the result of mortgage company operations.

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 June 30, 2002, the held to maturity portfolio totaled $500,000, unchanged from December 31, 2001. At June 30, 2002, the available for sale portfolio totaled $40,450,000 compared to $43,207,000 at December 31, 2001, a decrease of 6.4% or $2,757,000. The following chart summarizes the investment portfolios at June 30, 2002, and December 31, 2001.

	Jun	
	Held to maturity	
	Amortized cost	Fair value
		(dollars
U. S. Government and agencies	$ 500	$ 492
Tax exempt securities	-	-
Other equity securities	-	-
Total	$ 500	$ 492
Unrealized gain (loss)	$ (8)	

	Decem	
	Held to maturity	
	Amortized cost	Fair value
		(dollars
U. S. Government and 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 June 30, 2002 the loan portfolio was $244,993,000 compared to $229,905,000 at December 31, 2001, a 6.6% or $15,088,000 increase. The following chart summarizes the loan portfolio at June 30, 2002 and December 31, 2001.

	Jun. 30, 2002	Dec. 31, 2001
	(dollars in thousands)	
Real estate	$153,261	$146,559

Commercial	64,753	56,515
Loans to individuals	26,979	26,831
Total	$244,993	$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 June 30, 2002 and December 31, 2001.

	Jun. 30, 2002	Dec. 31, 2001
	(dollars in thousands)	
Past due 90 days + accruing loans	$266	$ 17
Non-accrual loans	$824	$281
Impaired loans (included in nonaccrual)	$824	$238
Other real estate owned	$ -	$267

Management considers the past due and non-accrual amounts at June 30, 2002 to be reasonable in relation to the size of the portfolio and manageable in the normal course of business. The increase in non-accrual assets is associated with a small number of loans and is not indicative, in the opinion of management, of any trend.

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

Allowance for Loan Losses

The Corporation 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 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 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 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 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 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 June 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.

	Six months ended June 30, 2002
	(d
Allowance at beginning of period	$ 2,830
Provision expense	358
Net charge offs	(328)
Allowance at end of period	$ 2,860
Allowance as a percent of 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. 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 June 30, 2002.

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Goodwill

CBI has adopted FASB No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. As of June 30, 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., which was consummated in November 2001.

Deposits

Deposits were $260,808,000 at June 30, 2002 compared to $255,433,000 at December 31, 2001, an increase of 2.1% or $5,375,000.

Time deposits greater than $100,000 were $61,677,000 at June 30, 2002 compared to $51,374,000 at December 31, 2001, an increase of 20% or $10,303,000.

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 Orangeburg National Bank, Sumter National Bank, and Florence National Bank 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 $260 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 June 30, 2002 CBI had approximately $25.7 million and $11.5 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 $138.1 million and $28.2 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.

	Jun. 30, 2002
Tier 1 capital to average total assets	8.50%
Tier 1 capital to risk weighted assets	11.49%
Total capital to risk weighted assets	12.63%

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 during both the first and second quarters of 2002. The total cost of these dividends was $529,000.

Subsequent events

In late November 2001 CBI entered into an agreement to acquire by merger Ridgeway Bancshares Inc., the holding company for the Bank of Ridgeway. The agreement provided 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 required 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. This transaction was consummated on July 1, 2002. A Form 8-K was filed on July 15, 2002 to describe this transaction.

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 June 30, 2002 the Corporation is positioned so that net interest income would be expected to increase $210,000 and net income would be expected to increase $129,000 in the next twelve months if interest rates rise 100 basis points. Conversely, net interest income would be expected to decline $210,000 and net income would be expected to decline $129,000 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. In addition, market interest rates are at long term lows and the probability of a rate decrease is relatively small.

As of June 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.

Part II--Other Information

Item 4. Submission of Matters to a Vote of Security Holders.

CBI held a Special Shareholders Meeting on April 8, 2002 to approve the agreement and plan of merger dated as of November 20, 2001 by and between Ridgeway Bancshares Inc. and Community Bankshares Inc.

The vote tally was as follows:

	Total number of shares eligible to vote	Voting for	Voting against or to withhold authority	Abstaining	P me n

Merger with Ridgeway Bancshares	3,299,281	2,550,233	47,360	0

CBI was required to obtain approval of two-thirds of its outstanding shares in order to complete the transaction. Total shares voting in favor were 77.3%. The shareholders of Ridgeway Bancshares Inc. also approved the transaction, and the transaction was consummated on July 1, 2002.

CBI held an Annual Meeting of Shareholders on May 8, 2002.

The following persons were elected to the Board for terms of three years:

Martha Rose C. Carson, J. M. Guthrie, A. Wade Douroux, Phil P. Leventis, W. Reynolds Williams, Michael A. Wolfe.

The other item approved was the ratification of J. W. Hunt and Co., Certified Public Accountants, as outside auditors for CBI for the year ended December 31, 2002.

The vote tally was as follows:

	Total number of shares eligible to vote	Voting for	Voting against or to withhold authority	Abstaining	P me n
Election of directors					
Martha Rose C. Carson	3,299,281	2,284,286	33,541	0	
J. M. Guthrie	3,299,281	2,279,555	38,272	0	
A. Wade Douroux	3,299,281	2,313,124	4,703	0	
Phil P. Leventis	3,299,281	2,311,164	6,653	0	
Wm. Reynolds Williams	3,299,281	2,314,064	3,763	0	
Michael A. Wolfe	3,299,281	2,312,709	5,118	0	
Ratification of J. W. Hunt	3,299,281	2,301,929	15,370	528	

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Index

Exhibit No.(from item Description 601 of S-K) None.

b) Reports on Form 8-K. CBI filed a Form 8-K on July 15, 2002 to announce the consummation of its merger with 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: August 13, 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)