COMMUNITY BANKSHARES INC /SC/
Form 10-Q
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001 Commission File number: 000-22054

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

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 3,199,180 shares of common stock outstanding as of May 1, 2001.

10-Q TABLE OF CONTENTS

Part I-Financial Statements Page

Item 1 Financial Statements 3

Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3	Quantitative and Qualitative Disclosure About Market Risk	15
	Part II-Other Information	
Item 6	Exhibits and Reports on Form 8-K	16

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	
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	
Other liabilities	
Total liabilities	
Shareholders' equity:	
Common stock	
No par, authorized shares 12,000,000, issued and outstanding 3,199,180 in 2001 and 2000	
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

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY
for the three months ended March 31, 2001 and 2000 (Unaudited)

	Common Shares	Common Stock	Retai Earni
Balances at Dec. 31, 1999	3,191,462	$ 14,207	$ 6,
Comprehensive income:			
Net income			
Other comprehensive income (loss) net of tax:			
Unrealized (loss) on securities			
Cash-in-lieu of shares in connection			

with Jan. 31, 2000 stock dividend	(137)		
Market value of shares issued in five			
percent stock dividend	-	1,709	(1,
Costs of stock dividend		(10)	
Dividends paid	-	-	(
	---------	--------	-----
Balances at Mar. 31, 2000	3,191,325	$ 15,906	$ 5,
	=========	========	=====
Balances at Dec. 31, 2000	3,199,180	$ 15,928	$ 7,
Comprehensive income:			
Net income			
Other comprehensive income (loss) net of tax:			
Unrealized gain on securities			
Dividends paid	-	-	(
	---------	--------	-----
Balances at Mar. 31, 2001	3,199,180	$ 15,928	$ 8,
	=========	========	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF INCOME
$ amounts in thousands

Interest and dividend income:

Interest and fees on loans ....
Deposits with other financial institutions ....
Investment securities:
Interest - U. S. Treasury and
U. S. Government Agencies ....
Dividends ....

Total investment securities ....
Federal funds sold and securities
purchased under agreements to resell ....

Total interest and dividend income ....

Interest expense:	
Deposits:	
Certificates of deposit of $100,000 or more	
Other	
Total deposits	
Federal funds purchased and securities sold under agreements to repurchase	
Federal Home Loan Bank advances	
Total interest expense	
Net interest income	
Provision for loan losses	
Net interest income after provision for loan losses	
Non-interest income:	
Service charges on deposit accounts	
Other	
Total non-interest income	
Non-interest expense:	
Salaries and employee benefits	
Premises and equipment	
Other	
Total non-interest expense	
Net income before taxes	
Provision for income taxes	
Net income	
Basic earnings per common share:	
Weighted average shares outstanding	
Net income per common share	
Diluted earnings per common share:	
Weighted average shares outstanding	
Net income per common share	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF CASH FLOWS
$ amounts in thousands

Cash flows from operating activities:

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

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

Net cash provided by operating activities ....

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

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

Cash flows from financing activities:
Net increase in demand, savings, & time deposits ....
Net decrease in federal funds purchased
and securities sold under agreements to repurchase ....
Increase in Federal Home Loan Bank advances ....
Cost of stock dividend ....
Dividend payments ....

Net cash provided by financing activities ....

Net increase (decrease) in cash and cash equivalents ....
Cash and cash equivalents - beginning of period ....

Cash and cash equivalents - end of period ....

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Summary of Significant Accounting Principles

A summary of significant accounting policies and the audited financial statements for 2000 are included in Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Principles of Consolidation

The consolidated financial statements include the accounts of Community Bankshares, Inc. (CBI), the parent company, and Orangeburg National Bank, Sumter National Bank and Florence National Bank, 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 2000 Annual Report on Form 10-K.

Changes in Comprehensive Income Components

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

	Before-Tax Amount
Unrealized gains (losses) on securities:	
Unrealized holding gains (losses) arising during period	$(1,053,000)
Less: reclassification adjustment for gains (losses) realized in net income	0
Net unrealized gains (losses)	(1,053,000)
Other comprehensive (loss), March 31, 2000	$(1,053,000)
Unrealized gains (losses) on securities:	
Unrealized holding gains (losses) arising during period	$ 48,000
Less: reclassification adjustment for gains (losses) realized in net income	0
Net unrealized gains (losses)	48,000
Other comprehensive income, March 31, 2001	$ 48,000

7

Stock Dividend

On January 31, 2000 CBI effected a five- percent stock dividend. All shares outstanding and per share data amounts have been retroactively restated to reflect the dividend.

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

				Quarter ended Marc
		2001		
Assets	Average Balance	Interest Income/ Expense	Yields/ Rates	Aver Bala
Interest bearing deposits	$ 1,830	$ 28	6.12%	$ 3
Investment securities taxable	46,655	754	6.46%	45,8
Investment securities--tax exempt	793	7	5.35%	8
Federal funds sold	12,117	170	5.61%	7,8
Loans receivable	199,047	4,591	9.23%	163,2
Total interest earning assets	260,442	5,550	8.52%	218,0
Cash and due from banks	9,269			8,2
Allowance for loan losses	(2,487)			(2,0
Premises and equipment	4,411			4,5
Other assets	3,283			2,9
Total assets	$274,918			$231,8
Liabilities and Shareholders' Equity				
Interest bearing deposits				
Savings	$ 35,684	$ 350	3.92%	$ 31,1
Interest bearing transaction accounts	21,267	68	1.28%	19,1
Time deposits	135,324	2,044	6.04%	112,6
Total interest bearing deposits	192,275	2,462	5.12%	163,0
Short term borrowing	7,304	83	4.55%	2,7
FHLB advances	20,350	301	5.92%	18,0
Total interest bearing liabilities	219,929	2,846	5.18%	183,7
Noninterest bearing demand deposits	29,582			26,5
Other liabilities	1,717			1,1

Shareholders' equity	23,690			20,4
	--------			------
Total liabilities and equity	$274,918			$231,8
	========			======
Interest rate spread			3.34%	
Net interest income and net yield on earning assets		$2,704	4.15%	

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 Corporation cautions readers that forward looking statements, including without limitation, those relating to the Corporation's future business prospects, revenues, working capital, liquidity, capital needs, interest costs, and income, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Corporation's reports filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS: QUARTER ENDED MARCH 31, 2001 COMPARED TO QUARTER ENDED MARCH 31, 2000

Net Income

For the first quarter of 2001 CBI earned a consolidated profit of $901,000 compared to $694,000 for the first quarter of 2000, an increase of 29.8% or $207,000. Basic and diluted earnings per share were $.28 in the 2001 period compared to $.22 for the 2000 period.

For the first quarter of 2001 Orangeburg National Bank reported a profit of $609,000 compared to $541,000 for the first quarter of 2000, an increase of 12.6% or $68,000.

For the first quarter of 2001 Sumter National Bank reported a profit of $250,000 compared to $181,000 for the first quarter of 2000, an increase of 38.1% or $69,000. The Sumter bank began operation in June 1996.

For the first quarter of 2001 Florence National Bank reported a profit of $47,000 compared to net loss of $29,000 for the first quarter of 2000, an improvement of $76,000. The Florence bank began operation in July 1998.

As noted above, consolidated net income for the quarter ended March 31, 2001, increased from the prior year by 29.8% or $207,000. The major components of this increase are discussed below. Net interest income before provision for loan losses for the three months ended March 31, 2001 increased to $2,704,000 compared to $2,418,000 for the same period in 2000, an increase of 11.8% or $286,000. For the same period, the provision for loan losses was $142,000 compared to $180,000 for the 2000 period, a decrease of 21.1% or $38,000. Non-interest income for the 2001 period increased to $551,000 from $437,000 for the 2000 period, a 26.1% or $114,000 increase. Non-interest expense increased to $1,712,000 from $1,600,000, a 7% or $112,000 increase.

Profitability

One of the best ways to review earnings is through the ROA (return on average assets) and the ROE (return on average equity). Return on assets is the income for the period divided by the average assets for the period, annualized. Return on equity is the income for the period divided by the average equity for the period, annualized. Based on operating results for the quarters ended March 31, 2001 and 2000, the following table is presented.

Period ended March 31,	2001	2000
	(dollar amounts in thousands)	
Average assets	$274,918	$231,857
ROA	1.31%	1.20%
Average equity	$ 23,690	$ 20,427
ROE	15.21%	13.59%
Net income	$ 901	$ 694

Net interest income

Net interest income, the major component of CBI's income, is the amount by which interest and fees on interest earning assets exceeds the interest paid on interest bearing deposits and other interest bearing funds. During the first quarter of 2001, net interest income after provision for loan losses increased to $2,562,000 from $2,238,000, a 14.5% or $324,000 increase over the first quarter of 2000. This improvement was the result of a $42 million increase in the volume of earning assets. The average yield on these earning assets increased to 8.52% for the 2001 period from 8.41% for the 2000 period. This increase was achieved in a declining interest rate environment. The Federal Reserve cut the discount interest rate a total of 150 basis points in three installments during the first quarter of 2001. A fourth fifty basis point reduction in interest rates occurred in late April. For CBI, the average prime rate during the first quarter of 2001 was 8.50% compared to 8.75% for the same period in 2000. The full impact of the rate cuts will not be felt until the second quarter of 2001 and management expects the cuts will put additional pressure on net interest margins.

For the first quarter of 2001 the cost of funds averaged 5.18% compared to 4.71% for the first quarter of 2000. The increase in the cost of the funds more than offset the increased yield on earning assets. The effect of these changes was a net interest spread (yield on earning assets less cost of interest bearing liabilities) of 3.35% for the first quarter of 2001 compared to 3.69% during the first quarter of 2000. CBI's net interest margin (net interest income divided by total earning assets) was 4.15% for the first quarter of 2001 compared to 4.44% for the first quarter of 2000.

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 quarters ended March 31, 2001 and 2000. A discussion of that table follows.

Total interest income for the first quarter 2001 was $5,550,000 compared with $4,583,000 for the same quarter in 2000, a 21.1% or $967,000 increase. The yield on earning assets for the 2001 quarter was 8.52%, increased from 8.41% for the 2000 quarter. Total average interest earning assets for the 2001 quarter were $260,442,000 compared to $218,049,000 for the 2000 quarter, an increase of 19.4% or $42,393,000.

The loan portfolio earned $4,591,000 for the first quarter 2001 compared with $3,730,000 for the same quarter of 2000, a 23.1% or $861,000 increase. The yield on loans for the 2001 quarter was 9.23%, increased from 9.14% for the 2000 quarter. The average size of the loan portfolio for the 2001 quarter was $199,047,000 compared to $163,226,000 for the 2000 quarter, an increase of 21.9% or $35,821,000.

The taxable investment portfolio earned $754,000 for the first quarter in 2001 compared with $727,000 for the 2000 quarter, a 3.7% or $27,000 increase. The yield was 6.46% for the 2001 quarter, increased from 6.34% for the 2000 quarter. The average size of the portfolio for the 2001 quarter was $46,655,000 compared to $45,852,000 for the 2000 quarter, an increase of 1.8% or $803,000.

The tax-exempt investment portfolio earned $7,000 for the first quarter in 2001 compared with $8,000 for the 2000 quarter, a 12.5% or $1,000 decrease. The yield on the portfolio was 5.35%, decreased from 5.99%. The average size of the portfolio was $793,000 for the 2001 quarter compared to $809,000 in the 2000 quarter, a decrease of 19.8% or $16,000.

Interest bearing deposits in other banks earned $28,000 for the first quarter 2001 compared to $4,000 for the 2000 quarter, an increase of 600% or $24,000. The yield on these deposits was 6.12% for the 2001 quarter, increased from 4.55% in the 2000 quarter. CBI averaged $1,830,000 in interest bearing balances in the first quarter 2001 compared to $352,000 the 2000 quarter, an increase of 420% or $1,478,000. The fall in bond market interest rates during the first quarter of 2001 resulted in many investments in the banks' investment portfolios being called prior to maturity. The cash resulting from these numerous calls was temporarily placed in interest bearing accounts, which explains the unusual increase in this category.

Federal funds sold earned $170,000 the first quarter of 2001 compared to $114,000 for the 2000 quarter, an increase of 49.1% or $56,000. The yield was 5.61% for the 2001 quarter, decreased from 5.84% for the 2000 quarter. CBI's average volume in federal funds sold was $12,117,000 for the 2001 quarter compared to $7,810,000 for the 2000 quarter, a 55.1% or $4,307,000 increase. As noted above, the increase in banks' liquidity was directly related to the influx of cash from called investment securities.

Interest Expense

Interest expense increased to $2,846,000 for the first quarter of 2001 from $2,165,000 for the 2000 quarter, a 31.5% or $681,000 increase. For the same periods, the volume of interest bearing liabilities was $219,929,000 compared to $183,719,000, a 19.7% or $36,210,000 increase. The average rate paid for interest-bearing liabilities was 5.18% for the 2001 quarter, up from 4.71% for the 2000 quarter.

Savings accounts cost $350,000 in the first quarter in 2001 compared to $295,000 in the first quarter of 2000, an 18.6% or $55,000 increase. For the same periods, average savings deposit balances were $35,684,000 compared to $31,191,000, an increase of 14.4% or $4,493,000. The average rate paid on these funds increased to 3.92% from 3.78%.

Interest bearing transaction accounts cost $68,000 for the first quarter in 2001 compared to $75,000 for the first quarter of 2000, a 9.3% or $7,000 decline. The volume of these deposits was $21,267,000 for the first quarter in 2001 compared to $19,166,000 for the first quarter of 2000, a 10.96% or $2,101,000 increase. The average rate paid on these funds decreased to 1.28% from 1.57%.

Time deposits cost $2,044,000 for the first quarter of 2001 compared to $1,518,000 for the first quarter of 2000, an increase of 34.7% or $526,000. The volume was $135,324,000 for the first quarter in 2001 compared to $112,652,000 for the first quarter of 2000, a 20.1% or $22,672,000 increase. The average rate paid on these funds increased to 6.04% from 5.39%.

Short-term borrowings consists 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 $83,000 for the first quarter in 2001 compared to $24,000 for the first quarter of 2000, a 246% or $59,000 increase. The volume of these funds was $7,304,000 in the first quarter 2001 compared to $2,709,000 in the first quarter of 2000, an increase of 170% or $4,595,000. The average rate paid on these funds increased to 4.55% from 3.54%.

Borrowings from the Federal Home Loan Bank of Atlanta cost $301,000 for the first quarter in 2001 compared to $253,000 for the first quarter in 2000, an increase of 19% or $48,000. The advances averaged $20,350,000 during the 2001 quarter compared to $18,001,000 for the prior year quarter, a 13% or $2,349,000 increase. The average rate paid on these funds increased to 5.92% from 5.62%.

Non-Interest Income

Non-interest income for the first quarter 2001 grew to $551,000 from $437,000 in the first quarter of 2000, a 26.1% or $114,000 increase. This was mostly the result of increasing volumes of service charges associated with increased numbers of accounts and the resulting fee income.

Non-Interest Expense

For the first quarter of 2001 non-interest expenses increased to $1,712,000 from $1,600,000 for the first quarter of 2000, a 7% or $112,000 increase. This increase is related to higher levels of business activity and included the following components:

For the 2001 period, personnel costs were $1,040,000 compared to $940,000 for the 2000 period, an increase of 10.6% or $100,000;

For the 2001 period, premises and equipment expense were $235,000 compared to $224,000 for the 2000 period, an increase of 4.9% or $11,000; and

For the 2001 period, other costs were $437,000 compared to $436,000 for the 2000 period, an increase of .2% or $1,000.

Income Taxes

CBI provided $500,000 for federal and state income taxes during the first quarter of 2001 compared to $381,000 for the same period in 2000, a 31.2% or $119,000 increase. The average tax rate for the 2001 period was 35.7% and for the 2000 period it was 35.4%.

CHANGES IN FINANCIAL POSITION

Investment portfolio

The investment portfolio is comprised of held to maturity securities and available for sale securities. CBI and its three banks usually purchase short-term issues (ten years or less) of U. S Treasury and U. S. Government agency securities for investment purposes. At March 31, 2001 the held to maturity portfolio totaled $8,372,000 compared to $12,371,000 at December 31, 2000, a decrease of 32.3% or $3,999,000. At March 31, 2001 the available for sale portfolio totaled $30,805,000 compared to $41,195,000 at December 31, 2000, a decrease of 25.2% or $10,390,000. The following chart summarizes the investment portfolios at March 31, 2001 and December 31, 2000. Most of the decline in the banks' investment portfolios is due to the call of many securities during the first quarter, which resulted from the decline in bond market interest rates.

	Mar	
	Held to maturity	
	Amortized cost	Fair val
		(dollars
U. S. Government and federal agencies	$ 8,372	$ 8,373
Tax exempt securities	-	-
Other equity securities	-	-
Total	$ 8,372	$ 8,373
Unrealized gain	$ 1	

	Dece	
	Held to maturity	
	Amortized cost	Fair val
		(dollars
U. S. Government and federal agencies	$ 12,371	$ 12,217
Tax exempt securities	-	-
Other equity securities	-	-
Total	$ 12,371	$ 12,217

Unrealized (loss)	$ (154)
	========

Loan portfolio

The loan portfolio is primarily consumer and small business oriented. At March 31, 2001 the loan portfolio was $201,644,000 compared to $195,077,000 at December 31, 2000, a 3.7% or $7,182,000 increase. The following chart summarizes the loan portfolio at March 31, 2001 and December 31, 2000.

	Mar. 31, 2001	Dec. 31, 2000
	(dollars in thousands)	
Real estate	$117,975	$113,543
Commercial	53,475	52,264
Loans to individuals	30,194	29,270
Total	$201,644	$195,077

Past Due and Non-Performing Assets

CBI closely monitors past due loans and loans that are in non-accrual status and other real estate owned. Below is a summary of past due and non-performing assets at March 31, 2001 and December 31, 2000.

	Mar. 31, 2001	Dec. 31, 2000
	(dollars in thousands)	
Past due 90 days + accruing loans	$582	$ 93
Non-accrual loans	$239	$238
Impaired loans (included in nonaccrual)	$239	$238
Other real estate owned	$ -	$ -

Management considers the past due and non-accrual amounts at March 31, 2001 to be reasonable in relation to the size of the portfolio and manageable in the normal course of business. The increase in accruing loans over 90 days past due 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 city or county. Management at each bank monitors the loan concentrations and loan portfolio quality on an ongoing basis including, but not limited to: quarterly analysis of loan concentrations, monthly reporting of past dues, non-accruals, and watch loans, and quarterly reporting of loan charge-offs and recoveries. These efforts focus on historical experience and are bolstered by quarterly analysis of local and state economic conditions, which is part of the Banks' assessment of the adequacy of their allowances for loan losses.

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

Based on the current levels of non-performing and other problem loans, management believes that loan charge-offs in 2001 will at least approximate the 2000 levels as such loans progress through the collection process. Management believes that the allowance for loan losses, as of March 31, 2001 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.

	Quarter ended March March 31, 2001	D
Allowance at beginning of period	$ 2,424	
Provision expense	142	
Net charge offs	(10)	
Allowance at end of period	$ 2,556	
Allowance / outstanding loans	1.26%	

Deposits

Deposits were $228,222,000 at March 31, 2001 compared to $218,811,000 at December 31, 2000, an increase of 4.3% or $9,411,000.

Time deposits greater than $100,000 were $46,672,000 at March 31, 2001 compared to $38,702,000 at December 31, 2000, an increase of 20.6% or

$7,970,000.

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 investment 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 $228 million in 2001. This base of deposits is the major source of operating liquidity.

CBI's long term liquidity needs are expected to be primarily affected by the maturing of long-term certificates of deposit. At March 31, 2001 CBI had approximately $23 million and $12 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 $107 million and $39 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.

	March 31, 2001	Dec. 31, 2000
Tier 1 capital to average total assets ..	8.73%	8.20%
Tier 1 capital to risk weighted assets ..	12.42%	11.10%
Total capital to risk weighted assets ...	13.66%	12.30%

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

Dividends

CBI declared and paid a quarterly cash dividend of seven cents per share during the first quarter of 2001. The total cost of this dividend was $224,000.

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 this risk 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. 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 March 31, 2001 the Corporation is positioned so that net interest income will increase $817,000 and net income will increase $502,000 in the next twelve months if interest rates rise 300 basis points. Conversely, net interest income will decline $544,000 and net income will decline $335,000 in the next twelve months if interest rates decline 200 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 March 31, 2001 there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2000. The foregoing disclosures related to the market risk of the Company should be read in connection with Management's Discussion and Analysis of Financial Position and Results of Operations included in the 2000 Annual Report on Form 10-K.

Part II--Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

b) Reports on Form 8-K. None.

Signatures

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

DATED: May 11, 2001

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)