COMMUNITY BANKSHARES INC /SC/
Form 10-Q
May 14, 2003

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, 2003 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 Act). Yes [ ] No [X]

State the number of sharesoutstanding of each of the issuer's classes of common equity, as of the latest practicable date: 4,306,984 shares of common stock outstanding as of May 1, 2003.

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$ amounts in thousands

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Total cash and cash equivalents ....

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Loans receivable ....

Less, allowance for loan losses ....

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Total assets ....

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Interest bearing ....

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Federal funds purchased and securities sold under agreements to repurchase ....

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Lines of credit payable ....

Other liabilities	
Total liabilities	
Shareholders' equity:	
Common stock	
No par, authorized shares 12,000,000, issued and outstanding 4,305,984 in 2003 and 3,299,674 in 2002	
Retained earnings	
Accumulated other comprehensive income	
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, 2003 and 2002 (Unaudited)
(Amounts in thousands, except share data)

	Common Shares	Common Stock	Retain Earnin
Balances at Dec. 31, 2001	3,299,674	$ 17,208	$ 10
Comprehensive income:			
Net income			1
Other comprehensive income (loss) net of tax:			
Unrealized gain (loss) on securities			
Dividends paid	-	-	
Balances at Mar. 31, 2002	3,299,674	$ 17,208	$ 11
Balances at Dec. 31, 2002	4,304,384	$ 29,090	$ 14
Comprehensive income:			
Net income			1
Other comprehensive income (loss) net of tax:			
Unrealized gain (loss) on securities			
Stock issued under option	1,600	17	
Dividends paid	-	-	
Balances at Mar. 31, 2003	4,305,984	$ 29,107	$ 15

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF INCOME

In thousands, except shares and per share data
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Deposits with other financial institutions
Debt securities
Dividends
Federal funds sold
Total interest and dividend income
Interest expense:
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Other
Total deposits
Federal funds purchased and securities sold under agreements to repurchase
Other borrowed funds
Total interest expense
Net interest income
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Non-interest income:
Service charges on deposit accounts
Gains on sales of securities
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Other
Total non-interest income
Non-interest expense:
Salaries and employee benefits
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Other
Total non-interest expense
Income before income taxes
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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

(Dollar amounts in thousands)

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Net amortization (accretion) of securities	
Provision for loan losses	
Net realized gains on sale of securities	
Proceeds from sales of loans held for sale	
Originations of real estate loans held for sale	
Deferred income taxes	
Changes in operating assets and liabilities:	
Accrued interest receivable	
Other assets	
Other liabilities	
Net cash provided by operating activities	
Cash flows from investing activities:	
Net (increase) decrease in interest bearing deposits	
Purchases of securities available for sale	
Maturities of securities available-for-sale	
Sales of securities available-for-sale	
Loan originations and principal collections, net	
Purchases of premises and equipment	
Net cash (used) in investing activities	
Cash flows from financing activities:	
Net increase in deposits	
Net increase (decrease) in short-term borrowing	
Net increase (decrease) under line of credit	
Proceeds from issuance of common stock	
Dividend payments	
Net cash provided by financing activities	

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

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

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

COMMUNITY BANKSHARES, INC. - CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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CASH FLOW INFORMATION

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Cash payments for income tax ....

NON-CASH INVESTING ACTIVITIES
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Summary of Significant Accounting Principles

A summary of significant accounting policies and the audited financial statements for 2002 are included in Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Principles of Consolidation

The consolidated financial statements include the accounts of Community Bankshares, Inc. (CBI), the parent company, and Orangeburg National Bank, Sumter National Bank, Florence National Bank, 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 2002 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:

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	

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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 (CBI) cautions readers that forward looking statements, including without limitation, those relating to the CBI's future business prospects, ability to successfully integrate recent acquisitions, revenues, adequacy of the allowance for loan losses, 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 CBI's reports filed with the Securities and Exchange Commission.

Critical Accounting Policies

CBI has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of the CBI's financial statements. The significant accounting policies of CBI are described in detail in the notes to CBI's audited consolidated financial statements included in CBI's Annual Report on Form 10-K.

Certain accounting policies involve significant judgments and estimates by management, which have a material impact on the carrying value of certain assets and liabilities. Management considers such accounting policies to be critical accounting policies. The judgments and estimates used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the results of operations of CBI.

CBI is a holding company for community banks and a mortgage company and, as a financial institution, believes the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of its consolidated financial statements. Refer to the sections "Allowance for Loan Losses" and "Provision for Loan Losses" in the Annual Report on Form 10-K for 2002 for a detailed description of CBI's estimation process and methodology related to the allowance for loan losses.

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RESULTS OF OPERATIONS: QUARTER ENDED MARCH 31, 2003 COMPARED TO QUARTER ENDED MARCH 31, 2002 (all comparisons in this section are quarter to quarter, unless specified otherwise)

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

Quarter ended March 31,		2003	
($ in thousands)			
Assets	Average Balance	Interest Income/ Expense	Yields/ Rates

Interest bearing deposits	$ 576	$ 4	2.78%
Investment securities taxable	44,758	409	3.66%
Investment securities--tax exempt	9,534	104	6.61%
Federal funds sold	20,441	57	1.12%
Loans receivable	332,526	5,275	6.35%
Total interest earning assets	407,835	5,849	5.74%
Cash and due from banks	14,313		
Allowance for loan losses	(3,607)		
Premises and equipment	6,615		
Intangible assets	7,864		
Other assets	3,386		
Total assets	$436,406		
Liabilities and Shareholders' Equity			
Interest bearing deposits			
Savings	$ 66,553	$ 214	1.29%
Interest bearing transaction accounts	40,891	51	0.50%
Time deposits	184,417	1,281	2.78%
Total interest bearing deposits	291,861	1,546	2.12%
Short term borrowing	14,475	38	1.05%
Warehouse lines of credit	15,357	143	3.72%
FHLB advances	20,210	274	5.42%
Total interest bearing liabilities	341,903	2,001	2.34%
Noninterest bearing demand deposits	47,939		
Other liabilities	1,956		
Shareholders' equity	44,608		
Total liabilities and equity	$436,406		
Interest rate spread			3.40%
Net interest income and net yield on earning assets		$3,848	3.77%

Notes:
Yields and rates are annualized.
The yield on tax exempt securities is calculated on a tax equivalent basis using a 34% income tax rate.

Earnings Performance, March 31, 2003 compared to March 31, 2002

The first quarter of 2003 was influenced by three major factors: interest rates held stable at historically low levels, higher demand for mortgage loans generated by continuing low interest rates, and the July 2002 acquisition of the Bank of Ridgeway. The prime lending rate for the first quarter 2003 was 4.25%, compared to 4.75% for the same quarter in 2002. Low interest rates put continuing pressure on the Banks' net interest margin, nevertheless the Banks' margin improved to 3.77% from 3.71%. Most of this increase was associated with the acquisition of the Bank of Ridgeway in July with its relatively large dollar volume of relatively low cost deposits. Low rates were also responsible for the unprecedented volume of mortgage loan originations and refinances done by Community Resource Mortgage, Inc., and its income was up over 82%, favorably impacting CBI's (CBI) noninterest income. Three months of operation in 2003 for the Bank of Ridgeway also had a significant impact on CBI's income statement. The substantial dollar and percentage changes that are discussed throughout this document are due in large measure to these factors.

CBI's net income was $1,581,000 or $.37 per basic share in 2003 compared to $1,125,000 or $.34 per basic share in 2002, an increase of $456,000 or 40.5%. Diluted earnings were $.36 per share, up from $.33.

This increase in net income resulted from the operations of the subsidiaries, which are detailed in the following chart (dollars in thousands):

Net Income

For the quarter ended March 31,	2003	2002
Orangeburg National Bank (ONB)	$ 699	$ 67
Sumter National Bank (SNB)	349	32
Florence National Bank (FNB)	139	5
Community Resource Mortgage, Inc.(CRM)	195	10
Bank of Ridgeway (RW)	239	
Totals	$1,621	$1,15

The totals reflected in the chart do not include the net costs of operation of the holding company and accordingly are more than CBI's consolidated net income for the period as shown on the Consolidated Statements of Income included in this report.

Net Income

As noted above, consolidated net income for 2003, increased from the prior year by 40.5% or $456,000. The major components of this increase are shown below.

Summary Income Statement for Quarters ended March 31,

	2003	2002

(Dollar amounts in thousands)		
Interest income	$ 5,849	$ 4,823
Interest expense	2,001	2,006
Net interest income	3,848	2,817
Provision for loan losses	264	169
Noninterest income	2,555	1,687
Noninterest expense	3,735	2,578
Income tax expense	823	632
Net income	1,581	1,125

Elsewhere in this report is a table comparing the average balances, yields, and rates for the interest rate sensitive segments of CBI's balance sheets for the quarters ended March 31, 2003 and 2002. A discussion of that table and the above table follows.

Interest Income

Total average interest earning assets for 2003 increased $104,149,000 or 34.3% over 2002. The RW acquisition accounted for about $77 million or 75% of the increase. The acquisition also accounted for the majority of the increases in the volumes of specific earning assets. The acquisition provided almost the entire increase in the tax exempt security portfolio. Thus, although the average yield on interest earning assets declined, interest income rose.

Interest Expense

Total average interest bearing liabilities for 2003 also increased $83,083,000 or 32.1% over 2002. RW contributed $64 million or 77% of the increase. The acquisition also accounted for the majority of the increases in the volumes of specific interest bearing liabilities. Even though the volumes increased, rates declined enough to produce a slight decrease in increase expense.

Net interest income

Net interest 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. For 2003 net interest income was up significantly over 2002, as noted above mostly as a result of the RW acquisition.

CBI's net interest margin was 3.77% for 2003 compared to 3.71% for 2002. Most of the improvement was attributable to the RW acquisition, as RW had a large amount of relatively low cost deposits, but a portion of the improvement was also due to aggressive interest rate management by the other banks.

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Provision of loan losses

The increase in the provision for loan losses was due to the RW acquisition after the first quarter of 2002 and the establishment of a loan loss reserve by CRM, also after the first quarter of 2002.

Non-Interest Income

Non-interest income for 2003 increased $868,000 over 2002. Most of the increase was due to mortgage banking income which increased $555,000, the vast majority of which was generated by CRM. Approximately $200,000 of the increase was provided by service charges and other income from RW.

Non-Interest Expense

Approximately $683,000 or 50% of the $1,157,000 increase in non-interest expense was accounted for by the RW acquisition. The remaining increase was due to volume increases at CRM, which has a commission based compensation system, and normal increases at the other banks.

Income Taxes

Although income tax expense for 2003 increased $191,000 or 30.2% over 2002, the average tax rate for 2003 was 34.2% while in 2002 it was 36%. The decline in the average tax rate is related to the acquisition of the Ridgeway bank's substantial tax exempt investment portfolio.

Profitability

One of the best ways to review earnings is through the ROA (return on average assets) and the ROE (return on average equity). Based on operating results for the quarters ended March 31, 2003 and 2002, the following table is presented.

Period ended March 31,	2003	2002
(Dollar amounts in thousands)		
Average assets	$436,406	$322,644
ROA	1.45%	1.39%
Average equity	$44,608	$28,227
ROE	14.18%	15.94%
Net income	$1,581	$1,125

The decline in ROE is related to the increase in shareholders' equity resulting from the RW acquisition in July 2002.

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CHANGES IN FINANCIAL POSITION

Investment portfolio

The investment portfolio is comprised of available for sale securities. CBI and its four 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, 2003 the available for sale portfolio totaled $46,380,000 compared to $53,066,000 at December 31, 2002, a decrease of 12.6% or $6,686,000. The decline in the investment portfolio is related primarily to calls prior to maturity and the lack of attractive investment options in the bond market. The proceeds of these calls and maturities have generally been reinvested in federal funds. The following chart summarizes the investment portfolios at March 31, 2003 and December 31, 2002.

Available for sale	March 31, 2003 Amortized Cost	March 31, 2003 Fair Value
(Dollar amounts in thousands)		
U.S. Government and federal agencies	$34,892	$35,101
State and local governments	8,713	9,369
Other equity securities	1,910	1,910
Total	$45,515	$46,380

Available for sale	December 31, 2002 Amortized Cost	December 31, 2002 Fair Value
(Dollar amounts in thousands)		
U.S. Government and federal agencies	$41,488	$41,531
State and local governments	9,514	9,625
Other equity securities	1,910	1,910
Total	$52,912	$53,066

Loan portfolio

The loan portfolio is primarily consumer, and small and medium size business oriented. At March 31, 2003 the loan portfolio was $313,711,000 compared to $306,484,000 at December 31, 2002, a 2.4% or $7,227,000 increase. This increase was attributable to normal growth of the banks. The following chart summarizes the loan portfolio at March 31, 2003 and December 31, 2002.

	Mar. 31, 2003	Dec. 31, 2002
	(Dollar amounts in thousands)	
Real estate	$ 79,409	$ 78,210
Commercial	197,552	191,844
Loans to individuals	36,750	36,430
Total	$313,711	$306,484

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The above loan portfolio table does not include loans held for sale. Loans held for sale are loans originated by CBI's banks or mortgage company for sale to others which are held pending completion of the sale. The vast majority of such loans are originated by CRM and are one-to-four family residential mortgage loans. At March 31, 2003 loans held for sale totaled $23,191,000 compared to $24,664,000 at December 31, 2002, a 6% or $1,473,000 decrease. The amount of loans held for sale is subject to significant fluctuation depending on current market conditions.

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, 2003 and December 31, 2002.

	Mar
Past due 90 days + and still accruing loans	
Non-accrual loans	
Impaired loans (included in nonaccrual)	
Other real estate owned	

Most of the amount of accruing loans greater than 90 days past due amount at March 31, 2003 is attributable to two unrelated loans, one in the approximate amount of $1.3 million and the other in the approximate amount of $.5 million. The larger loan involves principals who are having a legal dispute with each other. Management believes that the bank's collateral position is sufficient so that no loss is expected. The smaller loan is related to a loan participation which management expects to be paid out in May. Management does not expect any material loss in relation to either of these credits.

Management considers the past due and non-accrual amounts at March 31, 2003 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 allowance for loan losses is increased by the provision for loan losses, which is a direct charge to expense. Losses on specific loans are charged against the allowance in the period in which management determines that such loans become uncollectible. Recoveries of previously charged-off loans are credited to the allowance.

Management reviews its allowance for loan losses in three broad categories: commercial, real estate and loans to individuals. The combination of a relatively short operating history and relatively high asset quality precludes management from establishing a meaningful specific loan loss percentage for the

computation of the allowance for each category. Instead management assigns an estimated percentage factor to each in the computation of the overall allowance. These estimates are not, however, intended to restrict CBI's ability to respond to losses. CBI charges losses from any segment of the portfolio to the allowance, regardless of the allocation. In general terms, the real estate portfolio is subject to the least risk, followed by the commercial loan portfolio, followed by the loans to individuals portfolio. The banks' internal and external loan review programs from time to time identify loans that are subject to specific weaknesses and such loans are 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 2003 will be less than the 2002 levels as such loans progress through the collection, foreclosure, and repossession process. Management believes that the allowance for loan losses, as of March 31, 2003, is sufficient to absorb 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 the provision for loan losses is adjusted.

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

(Dollar amounts in thousands)	Mar. 31, 2003	D
Allowance at beginning of period	$ 3,572	
Provision expense	264	
Net charge offs	(69)	
Allowance at end of period	$ 3,767	
Allowance / outstanding loans	1.20%	

Intangible assets

CBI has adopted FASB No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. As of March 31, 2003 intangible assets totaled $7,835,000, compared to $7,896,000 at December 31, 2002, a decrease of $61,000. The decrease represented amortization of the core deposit intangible acquired in conjunction with the RW acquisition.

Deposits

Deposits at March 31, 2003 were $9,608,000, or 2.9%, higher than at December 31, 2002. This increase was the result of normal business growth for the banks.

Time deposits greater than $100,000 at March 31, 2003 were $155,000 or ..23% greater than December 31, 2002, essentially unchanged.

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

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

As of March 31, 2003 the loan to deposit ratio was 90.5% compared to 90.9% at December 31, 2002 and 89.9% at March 31, 2002. The RW acquisition in July 2002 did provide a significant amount of additional liquidity to the company as a whole, and the additional liquidity has been used in meeting the overall demand for loans since the acquisition.

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

Capital resources

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

	Mar. 31, 2003
Tier 1 capital to average total assets	8.56%
Tier 1 capital to risk weighted assets	11.59%
Total capital to risk weighted assets	12.74%

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 regulatory requirement for being considered well capitalized.

Dividends

CBI declared and paid a quarterly cash dividend of nine cents per share during the first quarter of 2003. The total cost of this dividend was $387,000.

Commitments

On March 31, 2003 the Board of CBI approved a project to introduce imaging technology into the company. This technology will enable the banks to provide imaged statements to customers and it will also provide for imaging of documents. The estimated cost of the project is $700,000.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. CBI's market risk arises principally from interest rate risk inherent in its lending, deposit and borrowing activities. Management actively monitors

and manages its interest rate risk exposure. Although CBI manages other risks, such as credit quality and liquidity risk in the normal course of business, management considers interest rate risk to be its most significant market risk and this risk could potentially have the largest material effect on CBI's financial condition and results of operations. Other types of market risks such as foreign currency exchange risk and commodity price risk do not arise in the normal course of community banking activities.

CBI's Asset/Liability Committee uses a simulation model to assist in achieving consistent growth in net interest income while managing interest rate risk. According to the model as of March 31, 2003 CBI is positioned so that net interest income would increase $418,000 and net income would increase $278,000 in the next twelve months if interest rates rose 200 basis points. Conversely, net interest income would decline $418,000 and net income would decline $278,000 in the next twelve months if interest rates declined 200 basis points. In the current interest rate environment, it is unlikely that there will be any large rate decreases in the immediate future. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates and loan prepayment, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions CBI and its customers could undertake in response to changes in interest rates.

As of March 31, 2003 there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2002. The foregoing disclosures related to the market risk of CBI should be read in connection with Management's Discussion and Analysis of Financial Position and Results of Operations included in the 2002 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.

Part II--Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

b) Reports on Form 8-K. Form 8-K filed April 25, 2003, pursuant to Item 9 of that Form with respect to the information provided pursuant to Item 12 of that Form.

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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 13, 2003

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: May 13, 2003

s/E. J. Ayers, Jr.

E. J. Ayers, Jr.

Chairman and CEO

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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: May 13, 2003

s/William W. Traynham

William W. Traynham

President and CFO