COMMUNITY BANKSHARES INC /SC/
Form 10-Q
November 14, 2005

UNITED STATES 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 September 30, 2005 Commission File No. 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 No.)

791 Broughton Street
Orangeburg, South Carolina 29115

(Address of principal executive offices, zip code)

(803) 535-1060

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: common stock, no par or stated value, 4,404,303 shares outstanding on November 1, 2005.

COMMUNITY BANKSHARES, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY BANKSHARES, INC.
Consolidated Balance Sheets

Assets

Cash and due from banks ....
Federal funds sold ....

Total cash and cash equivalents ....
Interest bearing deposits with other banks ....
Securities available-for-sale ....
Securities held-to-maturity (estimated fair value $1,921 for 2005
and $1,907 for 2004) ....

Other investments ....
Loans held for sale ....
Loans receivable ....
Less, allowance for loan losses ....
Net loans ....
Premises and equipment - net ....
Accrued interest receivable ....
Net deferred income tax assets ....
Goodwill ....
Core deposit intangible assets ....
Prepaid expenses and other assets ....
Total assets ....
Liabilities
Deposits
Noninterest bearing ....
Interest bearing ....
Total deposits ....
Short-term borrowings ....
Long-term debt ....
Accrued interest payable ....
Accrued expenses and other liabilities ....
Total liabilities ....
Shareholders' equity
Common stock - no par value; 12,000,000 shares authorized; issued and outstanding - 4,404,303 for 2005 and 4,390,784 for 2004 ....
Retained earnings ....
Accumulated other comprehensive income (loss) ....
Total shareholders' equity ....
Total liabilities and shareholders' equity ....

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY BANKSHARES, INC.
Consolidated Statements of Income

	(Un	
	Period End	
	Three Months	
	2005	2004
	(Dollars in thou	
Interest and dividend income		

Loans, including fees	$ 7,593	$ 5,756
Interest bearing deposits with other banks	11	4
Debt securities	464	434
Dividends	35	19
Federal funds sold	192	40
Total interest and dividend income	8,295	6,253
Interest expense		
Time deposits $100M and over	818	360
Other deposits	1,577	958
Total deposits	2,395	1,318
Short-term borrowings	53	76
Long-term debt	481	363
Total interest expense	2,929	1,757
Net interest income	5,366	4,496
Provision for loan losses	2,300	1,648
Net interest income after provision	3,066	2,848
Noninterest income		
Service charges on deposit accounts	948	841
Securities gains (losses)	-	10
Mortgage brokerage income	1,150	835
Other	197	163
Total noninterest income	2,295	1,849
Noninterest expenses		
Salaries and employee benefits	2,550	2,123
Premises and equipment	552	508
Other	1,347	1,195
Total noninterest expenses	4,449	3,826
Income before income taxes	912	871
Income tax expense	330	306
Net income	$ 582	$ 565
Per share		
Net income	$ 0.13	$ 0.13
Net income, assuming dilution	0.13	0.12
Cash dividends declared	0.10	0.10

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Retai Earni
		(Dollars in thousa	
Balance, January 1, 2004	4,331,460	$ 29,402	$ 18
Comprehensive income:			
Net income	-	-	3
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $14	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $2	-	-	
Total other comprehensive income	-	-	
Total comprehensive income	-	-	
Exercise of employee stock options	32,902	384	
Cash dividends declared, $.30 per share	-	-	(1
Balance, September 30, 2004	4,364,362	$ 29,786	$ 20
Balance, January 1, 2005	4,390,784	$ 30,042	$ 20
Comprehensive income:			
Net income	-	-	3
Unrealized holding gains and losses on available-for-sale securities arising during the period, net of income taxes of $136	-	-	
Reclassification adjustment for losses (gains) realized in income, net of income taxes of $3	-	-	
Total other comprehensive income (loss)	-	-	
Total comprehensive income	-	-	
Exercise of employee stock options	12,744	146	
Sale of common stock	775	14	
Cash dividends declared, $.30 per share	-	-	(1
Balance, September 30, 2005	4,404,303	$ 30,202	$ 22

See accompanying notes to unaudited consolidated financial statements.

COMMUNITY BANKSHARES, INC.
Consolidated Statements of Cash Flows

Operating activities

Net income ....
Adjustments to reconcile net income to net
cash provided by operating activities
Depreciation and amortization ....
Amortization of intangibles ....
Net amortization of securities ....
Provision for loan losses ....
Net realized losses or (gains) on sales of securities ....
Net gain realized on sale of other real estate ....
Proceeds of sales of loans held for sale ....
Originations of loans held for sale ....
Increase in accrued interest receivable ....
Increase in other assets ....
Increase in accrued interest payable ....
Increase (decrease) in other liabilities ....

Net cash provided by operating activities ....

Investing activities
Net decrease in interest bearing deposits with other banks ....
Purchases of available-for-sale securities ....
Maturities, calls and paydowns of available-for-sale securities ....
Proceeds of sales of available-for-sale securities ....
Purchases of other investments ....
Net increase in loans made to customers ....
Purchases of premises and equipment ....
Proceeds from sales of other real estate ....

Net cash used by investing activities ....

Financing activities
Net increase in deposits ....
Net increase (decrease) in short-term borrowings ....
Proceeds from issuing long-term debt ....
Repayments of long-term debt ....
Exercise of employee stock options ....
Sale of common stock ....

Cash dividends paid ....

Net cash provided by financing activities ....

Increase (decrease) in cash and cash equivalents ....
Cash and cash equivalents, beginning of period ....

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

Supplemental Disclosures of Cash Flow Information
Cash payments for interest, including $5 capitalized interest during construction ....

Cash payments for income taxes ....

Supplemental Disclosures of Non-cash Investing Activities
Transfers of loans receivable to other real estate ....

See accompanying notes to unaudited consolidated financial statements.

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COMMUNITY BANKSHARES, INC.

Notes to Unaudited Consolidated Financial Statements

Accounting Principles - A summary of significant accounting policies and the audited financial statements for 2004 are included in Community Bankshares, Inc.'s (the "Company" or "CBI") Annual Report on Form 10-K for the year ended December 31, 2004.

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 periods 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 2004 Annual Report on Form 10-K.

Nonperforming Loans - As of September 30, 2005, there were $10,213,000 in nonaccrual loans and $417,000 in loans 90 or more days past due and still accruing interest.

Earnings Per Share - Basic earnings per share is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing applicable net income by the weighted average number of shares outstanding and any dilutive potential common shares and dilutive stock options. It is assumed that all dilutive stock options are exercised at the beginning of each period and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the period. Net income per share and net income per share, assuming dilution, were computed as follows:

	(Una	
	Period Ende	
	Three Months	
	2005	2004
	(Dollars in thousands	
Net income per share, basic		
Numerator - net income	$ 582	$ 565
Denominator		
Weighted average common shares issued and outstanding	4,404,303	4,363,582
Net income per share, basic	$ .13	$ .13
Net income per share, assuming dilution		
Numerator - net income	$ 582	$ 565
Denominator		
Weighted average common shares issued and outstanding	4,404,303	4,363,582
Effect of dilutive stock options	97,744	298,929
Total shares	4,502,047	4,662,511
Net income per share, assuming dilution	$ .13	$ .12

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Stock Based Compensation - As discussed below, on April 14, 2005, the Securities and Exchange Commission (the SEC) adopted a rule amending the compliance date for the adoption of Statement of Financial Accounting Standards No. 123(R), ("SFAS 123(R)"), until the first interim or annual reporting period of the registrant's first fiscal year beginning on or after June 15, 2005. The Company has elected to continue using the methodology of Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," to account for compensation expenses related to stock-based compensation. Options issued under the Company's plans have no intrinsic value at the grant date and no compensation cost is recognized in accordance with APB No. 25. Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," requires entities to provide pro forma disclosures of net income, and earnings per share, as if the fair value based method of accounting promulgated by that standard had been applied. The Company has adopted and intends to continue using the disclosure provisions of SFAS No. 123, as amended, until the required adoption of the provisions of SFAS 123(R) on January 1, 2006. Had compensation cost for the Company's stock option plan been determined based on the fair value as of the grant dates for awards under the plans consistent with the method prescribed by SFAS No. 123, the Company's net income and earnings per share would have been adjusted to the pro forma amounts indicated below:

	(Un	
	Period End	
	Three Months	
	2005	2004
	(Dollars in thousa	
Net income, as reported	$ 582	$ 565
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of any related tax effects	17	214
Pro forma net income	$ 565	$ 351
Net income per share, basic		
As reported	$ 0.13	$ 0.13
Pro forma	0.13	0.08
Net income per share, assuming dilution		
As reported	$ 0.13	$ 0.12
Pro forma	0.13	0.08

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), which requires that the costs resulting from all share based payment transactions be recognized in the financial statements. SFAS 123(R) replaces SFAS 123 and supersedes APB No. 25, as well as several other related pronouncements. As originally issued, SFAS 123(R) was effective as of the beginning of the first interim or annual period beginning after June 30, 2005. The Company originally stated in its Form 10-K filed for the period as of and ending December 31, 2004 that it would adopt the provisions of SFAS 123(R) as required. However, the SEC issued, effective April 21, 2005, an "Amendment to Rule 4-01(a) of Regulation S-X Regarding the Effective Date for Statement of Financial Accounting Standards No. 123 (Revised 2004), Share Based Payment." This amendment changes the required SFAS 123(R) compliance date for registrants that are not small business issuers to the beginning of the first interim or annual reporting period of the registrant's first fiscal year beginning on or after June 15, 2005. Early adoption is permitted. For CBI, this amendment has the effect of delaying the required implementation of the provisions of SFAS 123(R) until the first quarter of 2006. CBI now intends to adopt the provisions of SFAS 123(R) as of January 1, 2006. CBI is currently evaluating the impact of

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the adoption of SFAS 123(R) on its financial position and results of operations, including the valuation methods and support for the assumptions that underlie the valuation of the awards.

Variable Interest Entity - On March 8, 2004, CBI sponsored the creation of a

Variable Interest Entity ("VIE"), SCB Capital Trust I (the "Trust"), and is the sole owner of the common securities issued by the Trust. On March 10, 2004, the Trust issued $10,000,000 in floating rate capital securities. The proceeds of this issuance, and the amount of CBI's capital investment, were used to acquire $10,310,000 principal amount of CBI's floating rate junior subordinated deferrable interest debt securities ("Debentures") due April 7, 2034, which securities, and the accrued interest thereon, now constitute the Trust's sole assets. The interest rate associated with the debt securities, and the distribution rate on the common securities of the Trust, was established initially at 3.91% and is adjustable quarterly at 3 month LIBOR plus 280 basis points. The index rate (LIBOR) may not be lower than 1.11%. CBI may defer interest payments on the Debentures for up to twenty consecutive quarters, but not beyond the stated maturity date of the Debentures. In the event that such interest payments are deferred by CBI, the Trust may defer distributions on the common securities. In such an event, CBI would be restricted in its ability to pay dividends on its common stock and to perform under other obligations that are not senior to the junior subordinated Debentures.

The Debentures are redeemable at par at the option of CBI, in whole or in part, on any interest payment date on or after April 7, 2009. Prior to that date, the Debentures are redeemable at 105% of par upon the occurrence of certain events that would have a negative effect on the Trust or that would cause it to be required to be registered as an investment company under the Investment Company Act of 1940 or that would cause trust preferred securities not to be eligible to be treated as Tier 1 capital by the Federal Reserve Board. Upon repayment or redemption of the Debentures, the Trust will use the proceeds of the transaction to redeem an equivalent amount of trust preferred securities and trust common securities. The Trust's obligations under the trust preferred securities are unconditionally guaranteed by CBI.

FASB Interpretation 46 (FIN 46), "Consolidation of Variable Interest Entities," was issued by the Financial Accounting Standards Board (FASB) in January 2003. FIN 46 requires the primary beneficiary of a variable interest entity's activities to consolidate the VIE. FIN 46 defines a VIE as an entity in which the equity investors do not have substantive voting rights and there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The primary beneficiary is the party that absorbs a majority of the expected losses and/or receives a majority of the expected residual returns of the VIE's activities. In December 2003, the FASB issued FIN 46(R), which supersedes and amends certain provisions of FIN 46. FIN 46(R) retains many of the concepts and provisions of FIN 46, provides additional guidance related to the application of FIN 46, provides for certain additional scope exceptions, and incorporates several FASB Staff Positions issued related to the application of FIN 46. The provisions of FIN 46 are immediately applicable to VIEs created, or interests in VIEs obtained, after January 31, 2003 and the provisions of FIN 46(R) are required to be applied to such entities, except for special purpose entities, by the end of the first reporting period ending after March 15, 2004 (March 31, 2004 for CBI).

As a result of FIN 46(R) The Federal Reserve announced new rules governing the treatment of Trust Preferred Securities as Tier I capital. These new rules, effective in April 2005, permit trust preferred securities to be treated as Tier I capital for the first 25 years of the 30 year term of the related junior subordinated debt securities. During the last five years the amount included as capital will decline by twenty percent per year.

Since CBI is not the primary beneficiary of the VIE as defined by FIN

46 and FIN 46(R), the activities of this VIE have not been consolidated into the consolidated financial statements of CBI. CBI's investment in the VIE is carried in the consolidated balance sheet in other assets and the Debentures are included in long-term debt.

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

FORWARD LOOKING STATEMENTS

Statements included in this report 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. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Such forward-looking statements may be identified, without limitation, by the use of the words "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar expressions. The Company's expectations, beliefs, estimates and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs, estimates or projections will result or be achieved or accomplished. The Company cautions readers that forward looking statements, including without limitation, those relating to the Company's recent and continuing expansion, its future business prospects, revenues, working capital, liquidity, capital needs, interest costs, income, and adequacy of the allowance for loan losses, are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

REFERENCES TO OUR WEBSITE ADDRESS

References to our website address throughout this Quarterly Report on Form 10-Q and in any documents incorporated into this Form 10-Q by reference are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission's rules or the American Stock Exchange listing standards. These references are not intended to, and do not, incorporate the contents of our website by reference into this Form 10-Q or the accompanying materials.

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 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 2004 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 four 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 "Provision for Loan Losses," "Allowance for Loan Losses" and "The Application of Critical Accounting Policies" in the Annual Report on Form 10-K for 2004 for a detailed description of CBI's estimation process and methodology related to the allowance for loan losses.

CHANGES IN FINANCIAL CONDITION

During the nine months ended September 30, 2005, loans increased by $20,641,000, or 5.2%, over the amount as of December 31, 2004. However, loans increased only $415,000 in the three months ended September 30, 2005, primarily due to increases in interest rates and competitive pressures on loan pricing that resulted in an increased amount of loan payoffs. The allowance for loan losses increased by $2,311,000 since December 31, 2004 primarily as a result of an increase of $5,552,000, or 109.3%, in nonperforming loans. See "Nonperforming and Potential Problem Loans." Loans held for sale as of September 30, 2005 were $2,592,000, or 17.2%, more than the December 31, 2004 amount. Federal funds sold as of the end of the 2005 nine month period were $11,428,000, or 90.9% more than the amount at the end of 2004 and $11,398,000 more than the June 30, 2005 amount. These increases were funded primarily by larger amounts of interest bearing deposits, which increased by $31,286,000 during the 2005 nine month period, and by $18,374,000 in the 2005 three month period.

RESULTS OF OPERATIONS

Earnings Performance

Increased yields on and larger volumes of earning assets, the Company's ability to attract and manage deposits and other funding sources at reasonable rates of interest, and a resurgence in noninterest income related to renewed vigor in mortgage brokerage activities represented significant areas of improvement during the 2005 periods. However, these positive developments were offset by increased provisions for loan losses in both the three and nine month periods of 2005 and CBI's net income was only slightly higher for each period than for the same periods of 2004.

Three Months Ended September 30, 2005 and 2004

CBI earned consolidated net income of $582,000 for the quarter ended September 30, 2005, compared with $565,000 for the comparable period of 2004. Basic earnings per share was $.13 in the 2005 quarter, unchanged from the 2004 quarter. Diluted earnings per share was $.13 for the 2005 quarter compared with $.12 for the 2004 quarter.

Summary Inco

(Dollars in

For the Three Months Ended September 30,	2005	2004
Interest income	$8,295	$6,253
Interest expense	2,929	1,757
Net interest income	5,366	4,496
Provision for loan losses	2,300	1,648
Noninterest income	2,295	1,849
Noninterest expenses	4,449	3,826
Income tax expense	330	306
Net income	$ 582	$ 565

Operating results for the third quarter of 2005 reflect increased net interest income resulting from improved net interest margin and increased volumes of earning assets. Although the Company's loan growth during the 2005 three month period was limited, loan growth was strong during the first six months of 2005. Interest income from those loans was a significant factor in the Company's improved net interest income in the 2005 third quarter. The Company's deposit liabilities increased significantly during the 2005 third quarter. Interest bearing deposits increased by $18,374,000 during that three month period. Time deposits of $100,000 or more increased by $11,993,000 during the 2005 third quarter. Accordingly, interest expense for the 2005 quarter increased significantly over the third quarter of 2004. Primarily because of the large increase in nonperforming loans, the provision for loan losses in the 2005 third quarter was $2,300,000, an increase of $652,000, or 39.6% over the amount for the same period of 2004. See "Allowance for Loan Losses and Provision for Loan Losses." Noninterest income was positively affected by increased service charges assessed against deposit accounts and continuing strength in mortgage brokerage activities. Noninterest expenses for the 2005 period were higher than for the 2004 period primarily as a result of increased salaries and employee benefits and higher expenses related to premises and equipment.

Nine Months Ended September 30, 2005 and 2004

CBI's consolidated net income for the nine months ended September 30, 2005 was $3,493,000, an increase of $148,000 for the comparable 2004 period. Basic earnings per share for the 2005 period was $.79, compared with $.77 per share in 2004. Diluted earnings per share was $.78 for the 2005 period, compared with $.74 for 2004.

Summary Incom

(Dollars in t

For the Nine Months Ended September 30,	2005	2004
Interest income	$23,142	$18,089
Interest expense	7,648	5,059
Net interest income	15,494	13,030
Provision for loan losses	3,335	2,139
Noninterest income	6,106	5,626
Noninterest expenses	12,793	11,333
Income tax expense	1,979	1,839
Net income	$ 3,493	$ 3,345

Net income for the first nine months of 2005 was positively affected by increased net interest income and higher noninterest income. The repricing of variable rate loans at higher interest rates and increases in the amounts of loans outstanding and federal funds sold during the period contributed to higher interest income in the 2005 period. Higher interest expenses in the 2005 period resulted from higher interest rates paid for interest bearing deposits and volume increases in that funding source. Primarily because of a large increase in non-performing loans, the provision for loan losses in the 2005 nine month period was $3,335,000, an increase of $1,196,000, or 55.9% over the amount for the same period of 2004. See "Allowance for Loan Losses and Provision for Loan Losses" and "Nonperforming and Potential Problem Loans." Noninterest income increased for the 2005 nine month period primarily because of increased mortgage brokerage activity. Noninterest expenses increased due to higher salaries and employee benefits and expenses related to premises and equipment.

Net Interest Income

Net interest income is the amount of interest income earned on interest earning assets (loans, securities, interest bearing deposits in other banks, and federal funds sold), less the interest expense incurred on interest bearing liabilities (interest bearing deposits and other borrowings), and is the principal source of CBI's earnings. Net interest income is affected by the level of interest rates, volume and mix of interest earning assets and interest bearing liabilities and the relative funding of these assets.

Net interest income increased by $870,000, or 19.4%, in the 2005 third quarter compared with the same 2004 quarter primarily due to increasing volumes of earning assets and increasing yields and spreads.

During the 2005 nine month period, net interest income increased by $2,464,000, or 18.9%, over the same period of 2004, primarily due to increased volumes of loans and other categories of interest earning assets. Net yield on earning assets increased to 4.13% for the 2005 nine month period from 3.95% for the same 2004 period.

Total average interest earning assets for the 2005 nine month period increased $59,804,000 or 13.6% over the same 2004 period. Average loans outstanding for the 2005 period, including loans held for sale, increased by $64,404,000, or 17.9%, over the 2004 period. As of September 30, 2005, loans,

including loans held for sale, were $23,233,000, or 5.7%, more than the amount of such loans as of December 31, 2004. The average yield on loans, including loans held for sale, increased to 6.69% for the 2005 nine month period, compared with 6.11% for the same period of 2004. The average yields on other categories of earning assets also increased for the 2005 nine month period.

Total average interest bearing liabilities for the 2005 nine months increased $53,525,000 or 14.9% over 2004. Average short-term borrowings for the 2005 nine-month period fell $2,872,000, or 25.5%, below the average for the same period of 2004, while long-term debt for the 2005 period increased by $4,788,000, or 17.1%, primarily because of additional borrowings from the Federal Home Loan Bank of Atlanta by the subsidiary banks during 2005. Average savings and interest bearing transaction account balances grew significantly in the 2005 nine month period, also, increasing $16,072,000, or 12.0%. Average time deposits were significantly higher in the 2005 period, increasing by $35,537,000 or 19.2% over the prior year average. Management believes that higher average rates paid for all of the Company's interest bearing deposit products in the 2005 nine month period contributed to these volume increases.

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The following table provides details of the changes in the composition of CBI's average balance sheet, its interest income and expense, and the relationships between those items.

Average Balances, Yield
Nine Months Ended Sep

	2005		
	Average Balances	Interest Income / Expense	Yields / Rates *
			(Dollars in t
Assets			
Interest earning deposits	$ 592	$ 30	6.76%
Investment securities - taxable	52,925	1,262	3.18%
Investment securities - tax exempt (1)	6,388	164	3.42%
Federal funds sold	14,650	355	3.23%
Loans, including loans held for sale (1,2)	425,127	21,331	6.69%
Total interest earning assets	499,682	23,142	6.18%
Cash and due from banks	15,542		
Allowance for loan losses	(4,957)		
Premises and equipment, net	7,948		
Intangible assets	7,311		
Other assets	4,286		
Total assets	$ 529,812		
Liabilities and shareholders' equity			
Interest bearing deposits			
Savings	$ 87,894	$ 996	1.51%
Interest bearing transaction accounts	61,873	308	0.66%

Time deposits	221,094	4,817	2.90%
Total interest bearing deposits	370,861	6,121	2.20%
Short-term borrowings	8,379	140	2.23%
Long-term debt	32,731	1,387	5.65%
Total interest bearing liabilities	411,971	7,648	2.48%
Noninterest bearing demand deposits	63,927		
Other liabilities	2,085		
Shareholders' equity	51,829		
Total liabilities and shareholders' equity	$ 529,812		
Interest rate spread (3).........................			3.70%
Net interest income and net yield on earning assets (4)......................		$ 15,494	4.13%

* Yields and rates are annualized.

(1) Interest income on tax exempt loans and investment securities has not been calculated on a tax-equivalent basis.
(2) Nonaccruing loans are included in the average balances and income from such loans is recognized on a cash basis.
(3) Total interest earning assets yield less total interest bearing liabilities rate.
(4) Net yield equals net interst income divided by total interest earning assets.

Allowance for Loan Losses and Provision for Loan Losses

The Corporation operates four independent community banks in South Carolina. Under the provisions of law and regulations governing banks, each bank's 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 (the "OCC") (or the South Carolina State Board of Financial Institutions (the "State Board") and the Federal Deposit Insurance Corporation (the "FDIC") in the case of the Ridgeway bank. As a normal part of a safety and soundness examination, bank examiners assess and comment on the adequacy of a bank's allowance for loan losses and may require that changes be made in the allowance.

The purpose of the allowance is to provide a capital reserve to protect the banks from credit loss risks inherent in their loan portfolios. Generally accepted accounting principles control the methods by which banks estimate their allowances 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, or a portion thereof, become uncollectible. Recoveries of previously charged-off loans are credited to the allowance.

The nature of community banking is such that the individual loan portfolios are predominantly composed of small and medium size business and

individual loans. As community banks, there exists, by definition, a geographic concentration of loans within each Bank's 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, nonaccruals, and potential problem 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 are part of the Banks' assessment of the adequacy of their allowances for loan losses.

The activity in the allowance for loan losses is summarized in the following table:

	Nine Months Ended September 30, 2005
	(Dolla
Allowance at beginning of period	$ 4,347
Provision for loan losses	3,335
Net charge-offs	(1,024)
Allowance at end of period	$ 6,658
Allowance as a percentage of loans outstanding	1.61%
Loans at end of period	$ 414,290

The provision for loan losses for the third quarter of 2005 was $2,300,000, an increase of $652,000, or 39.6%, over the same period of 2004. Net charge-offs were $454,000 during the 2005 third quarter, compared with $164,000 during the same period of 2004. Of the 2005 third quarter net charge-offs,

$258,000 represents the charge-off of a loan that was included in the group of nonperforming loans handled by a former lending officer that were discussed in filings during 2004. During the third quarter of 2005, the provision for loan losses included $108,000 related to the same $258,000 loan. The remainder of the provision expense, approximately $2,192,000, was primarily attributable to specific amounts allocated to nonperforming and potential problem loans and other net charge-offs. The allowance for loan losses as a percentage of loans outstanding (excluding loans held for sale) was 1.61% as of September 30, 2005 compared with 1.51% at the end of the third quarter of 2004.

The provision for loan losses for the nine month 2005 period was $3,335,000, an increase of $1,196,000, or 55.9%, over the same period of 2004. Net charge-offs were $1,024,000 during the 2005 nine month period, compared with $576,000 during the same period of 2004. Of the 2005 amount, $801,000 represents the charge-off of loans that were included in nonperforming loans handled by a former lending officer as discussed in filings during 2004. Management

determined during the course of the 2005 nine month period that the collateral associated with these loans had become worthless and the borrowers were not likely to perform. The provision for loan losses for the nine month period ended September 30, 2005 included $535,000 related to net charge offs during the period of nonperforming loans of the same former lending officer. Of the remainder of the provision for the 2005 nine month period, $35,000 was attributable to growth in the loan portfolio and $2,765,000 was allocated primarily to nonperforming and potential problem loans. The allowance for loan losses stood at 1.61% of loans outstanding (excluding loans held for sale), compared with 1.10% at the end of 2004.

Nonperforming and Potential Problem Loans

Nonperforming loans are defined as loans that are 90 or more days past due and are still accruing interest and loans that are in nonaccrual status. Potential problem loans, a lower level of concern, are defined as loans where information about the borrowers' credit problems causes management to have more than normal concern about the borrowers' ability to comply with the original repayment terms.

Nonperforming loans totaled $10,630,000 as of the end of the 2005 period compared with $5,078,000 as of December 31, 2004, an increase of $5,552,000 or 109.3%. Following is a summary of nonperforming loans and potential problem loans for each of the past three quarters.

$ amounts in thousands	Nonaccrual loans	90 days + past due and still accruing	Total nonperforming loans	% of tot loans
December 31, 2004	$ 4,941	$ 137	$ 5,078	1.29
Net change	118	215	333	
March 31, 2005	5,059	352	5,411	1.33
Net change	200	(9)	191	
June 30, 2005	5,259	343	5,602	1.35
Net change	4,954	74	5,028	
September 30, 2005	$10,213	$ 417	$10,630	2.57

Nonaccrual loans increased $4,954,000 during the third quarter of 2005. The major components of this increase are discussed below:

A commercial loan of $1,316,000 moved from potential problem loans into nonaccrual status because of concerns about the borrower's ability to comply

with the loan's terms. The loan is substantially collateralized by real estate and business furniture and fixtures. An appraisal completed in August 2005 indicates that the real estate collateral has a value of approximately $1,200,000. Other collateral, consisting principally of the business furniture and fixtures, has a cost value estimated at approximately $500,000.

Also, two unrelated loan relationships, aggregating $2,038,000, involving borrowers in the manufactured housing business moved from potential problem loans into nonaccrual status because of concern about the continued deterioration of their financial condition and cash flows. Collateral pledged to support the loans consists of receivables, mobile home inventories and display model modular homes. Collateral values were estimated to be approximately $1,490,000 as of September 30, 2005.

A fourth loan relationship totaling $999,000 was downgraded to nonaccrual status. This relationship was a portion of the group of loans identified in the third quarter of 2004 as originated by the former lending officer referred to above. The borrower has performance weaknesses. Limited guarantor strength and weakness in the collateral are reflected in a specific allowance allocation for this credit.

CBI management has made specific loan loss allowance allocations for these four relationships based on an assessment of collateral, the capacity of the customer to perform, and related factors.

The major component of nonperforming loans existing prior to the third quarter of 2005 is discussed below:

Approximately $2,434,000 of the September 30, 2005 nonperforming loan amount represents the balance of a loan relationship that originated in July 2004 to finance the purchase of a business. During the fourth quarter of 2004, management became aware that the business was not performing as expected and the borrower stopped making the required payments. The borrower alleged that financial information furnished by the seller and relied upon in establishing the value of the business (and its purchase price) was fraudulent. Management determined during the fourth quarter of 2004 that the loan had become collateral dependent and wrote the loan down to the estimated net realizable value of the

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collateral as of December 31, 2004. An independent appraisal of the real estate, fixtures and equipment of the business was completed during the second quarter of 2005 under the assumption that the business was not operating as a going concern. That appraisal supports management's estimated net realizable value and the loan's carrying amount has not since changed. CBI is presently exercising forbearance with respect to this relationship and continues to work with the borrower who is actively trying to sell the business as a going concern. Management has retained legal counsel to assist with respect to this loan.

The remaining nonperforming loans consist of 74 loans to various individuals and businesses with an aggregate balance of $3,426,000. The amounts of the individual loans range up to approximately $500,000.

Loans that are 90 days or more past due and still accruing interest represent loans with significant performance issues, but where management believes that each loan's collateral position provides enough protection that the bank expects full recovery of principal and interest on the loan. At September 30, 2005 this category represented approximately .10% of the loan portfolio.

At September 30, 2005, the Corporation had identified $13,893,000, or 3.4%, of the loan portfolio, as potential problem loans. This is an increase of $9,265,000 over the amount as of December 31, 2004. The significant increase in potential problem loans resulted largely from risk grade changes recommended by a new loan review firm, discussed below, during their initial loan portfolio reviews earlier in 2005. The substantial decrease during the third quarter was associated with several of the credits being reclassified into nonaccrual status, which are discussed above.

The amount of potential problem loans does not represent management's estimate of potential losses since a significant portion of these loans are secured by real estate and other forms of collateral. Approximately $654,000 of potential problem loans were unsecured as of September 30, 2005.

Management will continue to closely monitor the levels of nonperforming and potential problem loans and address the weaknesses in those credits to enhance the amount of ultimate collection or recovery of these assets. Management considers the levels and trends in nonperforming, past due and potential problem loans in determining how the provision and allowance for loan losses is estimated and adjusted.

Credit Risk Management System

Risk taking is inherent in the granting of credit. To control the amounts and types of risks incurred, and to minimize losses, management has established loan policies and practices. On an ongoing basis, management seeks to better manage risk and improve internal control systems. As part of this continuous process, management hired a Chief Credit Officer for the Corporation in the second quarter of 2005. This officer has specific prior loan approval authority over major loan relationships and also assists the subsidiary banks and mortgage company in other areas of loan operation and administration. Also, during the second quarter of 2005 management changed its outside independent loan review provider. Their initial review covered essentially all loan relationships greater than $400,000, the highest risk area of the portfolio. Their preliminary reports were received late in the second quarter. CBI reviewed these reports and disclosed a substantial increase in potential problem loans in the second quarter and recorded an additional provision to the allowance for loan losses in recognition of the increase.

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During the third quarter of 2005 the Chief Credit Officer began a systematic and ongoing review of the most significant problem loans within each bank subsidiary's portfolio with each bank's senior management. This ongoing process, combined with the recent loan review reports, and more currently available information led to a determination by management that some of the most problematic loans should be moved into nonaccrual status. Based on these factors, CBI recorded a net increase in nonaccrual assets of $4,107,000 for the quarter. This also accounts, in large part, for the decrease in potential problem loans from the second quarter to the third quarter.

In a continuation of its efforts to measure and recognize the potential issues related to its asset quality, during the fourth quarter CBI management directed its external loan review firm to conduct a loan review of certain segments of its loan portfolio they had previously not reviewed. Management believes that it is possible an additional special provision for loan losses may be required during the fourth quarter as a result of the current review.

Noninterest Income

Non-interest income for the 2005 quarter increased $446,000, or 24.1% over the 2004 quarter. The majority of the increase was attributable to mortgage brokerage income which increased $315,000, or 37.7%. Service charges on deposit accounts increased by $107,000 for the 2005 quarter, primarily because of a more disciplined approach to the assessment and collection of these revenues during that period. Management intends to maintain this focus throughout the remainder of 2005 and beyond. CBI realized gains of $10,000 from sales of available-for-sale securities in the 2004 three-month period. There were no sales of securities in the 2005 quarter.

Non-interest income for the 2005 nine month period increased $480,000, or 8.5%, over the 2004 amount. Most of the increase was attributable to a $394,000 or 15.8% increase in mortgage brokerage income. The Company's mortgage brokerage activities in 2005 have been affected positively by relatively stable mortgage interest rates which have allowed demand for mortgage loans to remain strong. CBI recorded securities losses of $10,000 in the 2005 nine month period compared with securities gains of $5,000 in the same 2004 period.

Noninterest Expenses

Noninterest expenses increased by $623,000, or 16.3%, for the third quarter of 2005 compared with the 2004 quarter. Salaries and employee benefits increased $427,000, or 20.1%, primarily due to additions made to the Company's executive management and staffing a new branch office of Florence National Bank that opened during the first quarter of 2005. Premises and equipment expenses increased $44,000, or 9.5%, primarily due to the opening of the new leased branch office.

During the first nine months of 2005, noninterest expenses increased $1,460,000, or 12.9%, as compared with the same 2004 period. Salaries and employee benefits increased $703,000, or 10.9%, due to additions made in 2005 to the Company's executive management, the opening of a new office of Florence National Bank in the first quarter of 2005 and normal periodic wage and salary adjustments. For the first nine months of 2005, premises and equipment expenses were up $166,000, or 11.3%, as compared with the 2004 period, primarily due to expenses resulting from the opening of the new banking office. Other expenses increased by $591,000 for the 2005 nine-month period due in large part to expenses related to the Company's efforts to prepare to comply with the requirements of the Sarbanes-Oxley Act of 2002 that will apply to the Company in the near future.

Management believes that noninterest expenses will continue to increase for the remainder of 2005 and through 2006 as a result of continuing growth and expansion of the Company's network of banking offices. In addition, noninterest expenses will be increased in the future by depreciation of the new corporate headquarters building, which is currently under construction and is expected to be completed by late November, and amortization and other costs of the new core management information system, which will be implemented during the second quarter of 2006.

Income Tax Expense

Income tax expense increased $24,000 and $140,000 for the third quarter and nine months ended September 30, 2005, respectively, due to increased taxable income. The average income tax rates applied to year-to-date income before income taxes during 2005 and 2004 were approximately 36.2% and 35.5%,

respectively.

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 CBI's market areas. Individual and commercial deposits are the primary source of funds for credit activities, along with long-term borrowings from the Federal Home Loan Bank of Atlanta and the proceeds of issuing $10,000,000 of subordinated debentures. Cash and amounts due from banks and federal funds sold are CBI's primary sources of asset liquidity. These funds provide a cushion against short-term fluctuations in cash flow from both loans and deposits. Securities available-for-sale are CBI's principal source of secondary asset liquidity. However, the availability of this source is influenced by legal requirements that CBI pledge investment securities as collateral for any local government deposits not covered by FDIC insurance, repurchase agreement collateral and by market conditions.

Total deposits at September 30, 2005 were $455,298,000, an increase of $31,840,000 or 7.5% over the amount at December 31, 2004. As of September 30, 2005, the loan to deposit ratio, excluding loans held for sale, was 91.0%, compared with 93.0% at December 31, 2004 and 97.3% as of September 30, 2004.

Management believes CBI's and its subsidiaries' liquidity sources are adequate to meet their current and projected operating needs.

CAPITAL RESOURCES

CBI and its banking subsidiaries are subject to regulatory risk-based capital adequacy standards. Under these standards, bank holding companies and banks are required to maintain certain minimum ratios of capital to risk-weighted assets and average total assets. Under the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), federal bank regulatory authorities are required to implement prescribed "prompt corrective actions" upon the deterioration of the capital position of a bank. If the capital position of an affected institution were to fall below certain levels, increasingly stringent regulatory corrective actions are mandated.

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The September 30, 2005 risk based capital ratios for CBI and its banking subsidiaries are presented in the following table, compared with the minimum required ratios and, in the case of the banks, the minimum "well capitalized" ratios under the regulatory definitions and guidelines:

	Tier 1
Community Bankshares, Inc.	13.40%
Orangeburg National Bank	12.05%
Sumter National Bank	9.47%
Florence National Bank	10.20%
Bank of Ridgeway	12.35%
Minimum "well capitalized" requirement*	6.00%
Minimum requirement	4.00%

*This requirement only applies to the banks.

As shown in the table above, each of the banks' capital ratios exceed the regulatory requirement for being considered "well capitalized." In the opinion of management, the CBI and the banking subsidiaries' current and projected capital positions are adequate.

OFF-BALANCE-SHEET ACTIVITIES

In the normal course of business, CBI engages in transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements (generally commitments to extend credit) or are recorded in amounts that differ from their notional amounts (generally derivatives). These transactions involve elements of credit, interest rate and liquidity risk of varying degrees. Such transactions are used by CBI for general corporate purposes.

Variable Interest Entity

As discussed in the notes to unaudited consolidated financial statements under "Variable Interest Entities," as of September 30, 2005, CBI held an interest in, and guarantees the liabilities of, a non-consolidated variable interest entity.

Commitments

CBI's banking and mortgage brokerage subsidiaries are parties to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve varying degrees of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Exposure to credit loss is represented by the contractual, or notional, amounts of these commitments. The same credit policies are used in making commitments as for on-balance-sheet instruments.

The following table sets forth the contractual amounts of commitments which represent credit risk:

	September 30, 2005
	(Dollars in thousands)

Loan commitments	$52,267
Standby letters of credit	2,144

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by management upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include personal residences, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support private borrowing arrangements. All letters of credit are short-term guarantees. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Generally, collateral supporting those commitments is held if deemed necessary. Since many of the standby letters of credit are expected to expire without being drawn upon, the total letter of credit amounts do not necessarily represent future cash requirements.

On March 22, 2005, CBI entered into a contract for the construction of an approximately 16,000 square foot two-story office building to house its corporate headquarters and operations center. The contract price for this project is $1,476,000. Through October 31, 2005, $1,162,000 has been expended for this project and related architectural and engineering fees. Management expects completion of the building in late November 2005 and the Company will relocate shortly thereafter.

On June 30, 2005, CBI reached an agreement with Jack Henry & Associates, Inc. to obtain licensing rights for a new core management information software system, known as Silverlake, to be used by the company and each of its subsidiaries. The cost of this core system conversion will be approximately $1,000,000. The agreement also requires CBI to pay various support and maintenance costs throughout the license period. CBI estimates that during the next five years costs will range from approximately $200,000 to $300,000 per year. However, the exact amounts will be determined by future events, such as asset growth, and cannot be determined precisely at this time. Management expects to complete the conversion process during the second quarter 2006.

Derivative Financial Instruments

In April, 2003, the Financial Accounting Standards Board issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Among other requirements, this Statement provides that loan commitment contracts entered into or modified after June 30, 2003 that relate to the origination of mortgage loans that will be held for sale shall be accounted for as derivative instruments by the issuer of the loan commitment. In March, 2004, the SEC issued its Staff Accounting Bulletin No 105 "Application of Accounting Principles to Loan Commitments," which resulted in no changes in CBI's accounting for such commitments. CBI issues mortgage loan rate lock

commitments to potential borrowers to facilitate its origination of home mortgage loans that are intended to be sold. Between the time that CBI issues its commitments and the time that the loans close and are sold, CBI is subject to variability in the selling prices related to those commitments due to changes in market rates of interest. However, CBI offsets this variability through the use of so-called "forward sales contracts" to investors in the secondary market. Under these arrangements, an investor agrees to purchase the closed loans at a predetermined price. CBI generally enters into such forward sales contracts at the same time that rate lock commitments are issued. These arrangements effectively insulate CBI from the effects of changes in interest rates during the time the commitments are outstanding, but the arrangements do not qualify as fair value hedges. These derivative financial instruments are carried in the balance sheet at estimated fair value and changes in the estimated fair values of these derivatives are recorded in the statement of income in net gains or losses on loans held for sale.

Derivative financial instruments are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties and do not represent amounts to be exchanged between parties or a measure of financial risk. The following table includes the notional principal amounts of rate lock commitments and forward sales contracts as of September 30, 2005, and the estimated fair values of those financial instruments included in other assets and liabilities in the balance sheet as of that date.

	September 30, 2005	
	Notional Amount	Estimated Fair Value Asset (Liability)
	(Dollars in thousands)	
Rate lock commitments to potential borrowers to originate mortgage loans to be held for sale	$21,540	$ (119)
Forward sales contracts with investors of mortgage loans to be held for sale	21,540	119

ACCOUNTING AND REPORTING CHANGES

The American Institute of Certified Public Accountants' Accounting Standards Executive Committee issued its Statement of Position ("SOP") 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," which is effective generally for loans acquired in fiscal years beginning after December 15, 2004. The SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in business combinations and applies to all nongovernmental organizations, including not-for-profit organizations. The SOP does not apply to loans originated by the entity. For loans acquired in fiscal years prior to this SOP's effective date and within the scope of Practice Bulletin 6, the SOP also amends the application of Practice Bulletin 6 with regard to accounting for decreases in cash flows expected to be collected. The adoption of this SOP as of January 1, 2005 had no impact on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). SFAS No. 154 establishes retrospective application as the

required method for reporting a change in accounting principle, unless it is impracticable, in which case the changes should be applied to the latest practicable date presented. SFAS No. 154 also requires that a correction of an

error be reported as a prior period adjustment by restating prior period interim statements. SFAS No. 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005.

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 September 30, 2005, CBI is positioned so that net interest income would increase $263,000 and net income would increase $159,000 in the next twelve months if interest rates rose 100 basis points. Conversely, net interest income would decline $263,000 and net income would decline $159,000 in the next twelve months if interest rates declined 100 basis points. In the current interest rate environment, it appears 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, its customers and the issuers of its investment securities could undertake in response to changes in interest rates.

As of September 30, 2005, there was no significant change from the interest rate sensitivity analysis for the various changes in interest rates calculated as of December 31, 2004. 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 2004 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the Company's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the Company's chief executive officer and chief financial officer concluded that such controls and procedures, as of the end of the period covered by this quarterly report, were effective.

There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company qualifies for the extended compliance period provided for in SEC Release 33-8392 for implementing Section 404 of the Sarbanes Oxley Act by non-accelerated filers.

PART II--OTHER INFORMATION

Item 6. Exhibits

Exhibits 31-1. Rule 13a-14(a)/15d-14(a) Certification of principal executive officer

31-2. Rule 13a-14(a)/15d-14(a) Certification of principal financial officer

32. Certifications Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

DATED: November 14, 2005

COMMUNITY BANKSHARES, INC.

By: s/ Samuel L. Erwin

Samuel L. Erwin
Chief Executive Officer

By: s/ William W. Traynham

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

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EXHIBIT INDEX

31-1	Rule 13a-14(a)/15d-14(a) Certification of principal executive officer
31-2	Rule 13a-14(a)/15d-14(a) Certification of principal financial officer
32	Certifications Pursuant to 18 U.S.C. Section 1350

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