COOPERATIVE BANKSHARES INC
Form 10-Q
May 11, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to ______________

Commission File Number: 0-24626

COOPERATIVE BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

North Carolina	56-1886527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
201 Market Street, Wilmington, North Carolina	28401
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (910) 343-0181

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 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.

[X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 2,800,975 shares at April 13, 2001

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PART 1-FINANCIAL INFORMATION-ITEM 1-FINANCIAL STATEMENTS
COOPERATIVE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	MARCH 31,
	(Unaudi
ASSETS	
Cash and due from banks, noninterest-bearing	$ 2,49
Interest-bearing deposits in other banks	8,49
Total cash and cash equivalents	10,99
Securities:	
Available for sale (amortized cost of $34,516,775 in March 2001	

and $16,000,677 in December 2000)	34,76
Held to maturity (estimated market value of $7,912,189 in March 2001	
and $18,553,526 in December 2000)	8,00
FHLB stock	3,75
Loans	351,34
Less allowance for loan losses	2,20
Net loans	349,13
Other real estate owned	23
Accrued interest receivable	2,96
Premises and equipment, net	6,27
Prepaid expenses and other assets	1,03
Total assets	$417,15
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$328,56
Borrowed funds	55,10
Escrow deposits	75
Accrued interest payable	9
Accrued expenses and other liabilities	1,26
Total liabilities	385,78
Stockholders' equity:	
Preferred stock, $1 par value, 3,000,000 shares authorized,	
no shares issued and outstanding	-
Common stock, $1 par value, 7,000,000 shares authorized,	
2,800,975 and 2,714,610 shares issued and outstanding	2,80
Additional paid-in capital	2,15
Accumulated other comprehensive income	15
Retained earnings	26,26
Total stockholders' equity	31,37
Total liabilities and stockholders' equity	$417,15
Book value per common share	$

The accompanying notes are an integral part of the consolidated financial statements.

COOPERATIVE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONT
	MARCH 31, 2001
INTEREST INCOME:	
Loans	$ 7,145,394
Securities	535,320

Other	170,206
Dividends on FHLB stock	67,132
Total interest income	7,918,052
INTEREST EXPENSE:	
Deposits	4,125,279
Borrowed funds	846,806
Total interest expense	4,972,085
Net interest income	2,945,967
Provision for loan losses	90,000
Net interest income after provision for loan losses	2,855,967
NONINTEREST INCOME:	
Net loss on sale of securities	-
Service charges and fees on loans	158,716
Deposit-related fees	259,234
Gain on sale of branch	-
Other income (loss), net	(2,974)
Total noninterest income	414,976
NONINTEREST EXPENSE:	
Compensation and fringe benefits	1,296,628
Occupancy and equipment	543,818
Advertising	46,461
Real estate owned expenses and losses	911
Other	485,647
Total other operating expenses	2,373,465
Income before income taxes	897,478
Income tax expense	323,126
NET INCOME	$ 574,352
NET INCOME PER SHARE:	
Basic	$ 0.21
Diluted	$ 0.20
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:	
Basic	2,747,512
Diluted	2,816,068

The accompanying notes are an integral part of the consolidated financial statements.

COOPERATIVE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETA EARN
Balance, December 31, 2000	$ 2,714,610	2,234,936	29,707	25,8
Exercise of stock options	105,763	156,660	--	
Stock traded to exercise options (19,398 shares)	(19,398)	(237,500)	--	
Other comprehensive income, net of taxes	--	--	122,887	
Net income for period	--	--	--	57
Cash dividend ($.05 per share)	--	--	--	(14
Balance, March 31, 2001	$ 2,800,975	2,154,096	152,594	26,26

The accompanying notes are an integral part of the consolidated financial statements.

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COOPERATIVE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	TH 2001
OPERATING ACTIVITIES:	
Net income	$ 574,352
Adjustments to reconcile net income to net cash provided by operating activities:	
Net accretion, amortization, and depreciation	162,528
Net (gain) loss on sale of securities	-
Benefit from deferred income taxes	(47,711
Loss (gain) on sale of premises and equipment	3,318
Loss on sales of foreclosed real estate	-
Gain on sale of branch office	-
Provision for loan losses	90,000
Changes in assets and liabilities:	
Accrued interest receivable	(184,929
Prepaid expenses and other assets	195,681
Accrued interest payable	46,231
Accrued expenses and other liabilities	388,935
Net cash provided by operating activities	1,228,405
INVESTING ACTIVITIES:	
Purchases of securities available for sale	(14,553,138
Proceeds from sale of securities available for sale	-
Proceeds from maturity of securities available for sale	2,013,112

Proceeds from maturity of securities held to maturity	5,000,000
Loan originations, net of principal repayments	(1,737,803
Proceeds from disposals of foreclosed real estate	-
Purchases of premises and equipment	(176,084
Proceeds from sale of premises and equipment	5,375
Net cash paid related to sale of branch office	-
Net cash used in investing activities	(9,448,538
FINANCING ACTIVITIES:	
Net increase in deposits	1,253,997
Proceeds from borrowed funds	-
Principal payments on borrowed funds	(1,058
Proceeds from issuance of common stock	5,525
Purchase and retirement of common stock	-
Dividends paid	(140,049
Net change in escrow deposits	195,566
Net cash provided by financing activities	1,313,981
DECREASE IN CASH AND CASH EQUIVALENTS	(6,906,152
CASH AND CASH EQUIVALENTS:	
BEGINNING OF PERIOD	17,898,568
END OF PERIOD	$ 10,992,416

(Continued)

COOPERATIVE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	THREE MONTHS END MARCH 31, 2001
Cash paid for:	
Interest	$ 4,925,854
Income taxes	64,583
Summary of noncash investing and financing activities:	
Transfer from loans to foreclosed real estate	-
Unrealized gain (loss) on securities available for sale, net of taxes	122,887

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies: The significant accounting policies followed by Cooperative Bankshares, Inc. (the "Company") for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. These unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X, and, in management's opinion, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The accompanying financial statements do not purport to contain all the necessary financial disclosures that might otherwise be necessary in the circumstances and should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual report for the year ended December 31, 2000. The results of operations for the three-month period ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year.

2. Basis of Presentation: The accompanying unaudited consolidated financial statements include the accounts of Cooperative Bankshares, Inc., Cooperative Bank For Savings, Inc., SSB and its wholly owned subsidiary, CS&L Services, Inc. All significant intercompany items have been eliminated. Certain items for prior periods have been reclassified to conform to the current period presentation. These reclassifications have no effect on the net income or stockholders' equity as previously reported.

3. Earnings Per Share: Earnings per share are calculated by dividing net income by the sum of the weighted average number of common shares outstanding and the dilutive common equivalent shares outstanding. Common equivalent shares consist of stock options issued and outstanding. In determining the number of equivalent shares outstanding, the treasury stock method was applied. This method assumes that the number of shares issuable upon exercise of the stock options is reduced by the number of common shares assumed purchased at market prices with the proceeds from the assumed exercise of the common stock options plus any tax benefits received as a result of the assumed exercise.

4. Comprehensive Income: Comprehensive income includes net income and all other changes to the Company's equity, with the exception of transactions with shareholders ("other comprehensive income"). The Company's only components of other comprehensive income relate to unrealized gains and losses on available for sale securities. The following table sets forth the components of other comprehensive income and total comprehensive income for the three months ended March 31:

	2001	2000
Net income	$ 574,352	$ 274,0
Other comprehensive income, net of tax:		
Reclassification to realized losses on available for sale securities	-	287,2
Unrealized gain (loss) on available for sale securities	201,454	(165,9
Income tax expense	(78,567)	(47,3
Other comprehensive income	122,887	74,0

Comprehensive income	$ 697,239	$ 348,0
	==========	========

5. Statement of Financial Accounting Standards No. 133: On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The statement is effective for fiscal years beginning after June 15, 2000, with earlier adoption permitted, as amended by SFAS No. 137. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. The statement requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. On January 1, 2001, the Company transferred held-to-maturity investment securities with an amortized cost of approximately $5,978,000 to the available-for-sale category at fair value as allowed by SFAS No. 133. The unrealized loss at the time of transfer of approximately $32,000 before tax has been included in other comprehensive income, net of tax. Such transfers from the held-to-maturity category at the date of initial adoption shall not call into question the Company's intent to hold other debt securities to maturity in the future. The Company does not engage in any hedging activities, and, other than the aforementioned transfer of securities, the adoption of the statement had no impact on the Company.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Cooperative Bankshares, Inc. (the "Company") is a registered bank holding company incorporated in North Carolina in 1994. The Company was formed for the purpose of serving as the holding company for Cooperative Bank for Savings, Inc., SSB ("Cooperative Bank" or the "Bank"), a North Carolina chartered savings bank. The Company's primary activities consist of holding the stock of Cooperative Bank and operating the business of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to Cooperative Bank.

Cooperative Bank was chartered in 1898. The Bank's headquarters are located in Wilmington, North Carolina. Cooperative operates 16 financial centers throughout the coastal and inland communities of eastern North Carolina. These centers extend from Corolla, located on the Outer Banks of North Carolina, to Tabor City, located on the South Carolina border. The Bank's deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC").

Through its financial centers, the Bank provides a wide range of banking products, including interest bearing and non-interest bearing checking accounts, certificates of deposit and individual retirements accounts. It offers an array of loan products: overdraft protection, commercial, consumer, agricultural, real estate, residential mortgage and home equity loans. Also offered are safe deposit boxes and automated banking services through ATMs and Access24 Phone Banking. In addition, the Bank offers discount brokerage services, annuity sales and mutual funds through a third party arrangement with UVEST Investment Services.

MANAGEMENT STRATEGY

It is the mission of the company to provide the maximum in safety and security for our depositors, an equitable rate of return for our stockholders, excellent service for our customers, and to do so while operating in a fiscally sound and conservative manner, with fair pricing of our products and services, good working conditions, outstanding training and opportunities for our staff, along with a high level of corporate citizenship.

Cooperative Bank's lending activities have concentrated on the origination of loans for the purpose of constructing, financing or refinancing residential properties. As of March 31, 2001, approximately $285.8 million, or 81.1%, of the Bank's loan portfolio consisted of loans secured by residential properties. To a lesser extent, the Bank originates nonresidential real estate loans, home equity line of credit loans, and secured and unsecured consumer and business loans. While continuing to place emphasis on residential mortgage loans, the Bank is taking a more aggressive position in pursuing business lending and nonresidential real estate lending

involving loans secured by small commercial properties with balances generally ranging from $100,000 to $1,000,000. The Bank originates adjustable rate and fixed rate loans. As of March 31, 2001, adjustable rate and fixed rate loans totaled approximately 61% and 39%, respectively, of the Bank's total loan portfolio.

The Bank has chosen to begin selling a larger percentage of its fixed rate mortgage loan originations through broker dealer arrangements. This enables the Bank to invest its funds in higher yielding commercial loans, while increasing fee income. This is part of the continuing effort to restructure the balance sheet and operations to be more reflective of a commercial bank.

The Bank has received permission from regulators to open a branch in Whiteville, North Carolina, which is located in Columbus County. The branch will be a full-service facility, including an ATM, with two full-time employees and one part-time employee. This financial center opened in April, 2001.

INTEREST RATE SENSITIVITY ANALYSIS

Interest rate sensitivity refers to the change in interest spread resulting from changes in interest rates. To the extent that interest income and interest expense do not respond equally to changes in interest rates, or that all rates do not change uniformly, earnings will be affected. Interest rate sensitivity, at a point in time, can be analyzed using a static gap analysis that measures the match in balances subject to repricing between interest-earning assets and interest-bearing liabilities. Gap is considered positive when the amount of interest rate sensitive assets exceed the amount of interest rate sensitive liabilities.

Gap is considered negative when the amount of interest rate sensitive liabilities exceed the amount of interest rate sensitive assets. At March 31, 2001, Cooperative had a one-year positive gap position of 2.1%. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to adversely affect net interest income. It is important to note that certain shortcomings are inherent in static gap analysis. Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. For example, a large part of the Company's adjustable-rate mortgage loans are indexed to the National Monthly Median Cost of Funds to SAIF-insured institutions. This index is considered a lagging index that may lag behind changes in market rates. The one-year or less interest-bearing liabilities also include checking, savings, and money market deposit accounts. Experience has shown that the Company sees relatively modest repricing of these transaction accounts. Management takes this into consideration in determining acceptable levels of interest rate risk.

LIQUIDITY

The Company's goal is to maintain adequate liquidity to meet potential funding needs of loan and deposit customers, pay operating expenses, and meet regulatory liquidity requirements. Maturing securities, principal repayments of loans and securities, deposits, income from operations and borrowings are the main sources of liquidity. The Bank has been granted a line of credit by the Federal Home Loan Bank of Atlanta in an amount of up to 25 % of the Bank's total assets. At March 31, 2001, the Bank's borrowed funds equaled 13.2% of its total assets. Scheduled loan repayments are a relatively predictable source of funds, unlike deposits and loan prepayments that are significantly influenced by general interest rates, economic conditions and competition.

At March 31, 2001, the estimated market value of liquid assets (cash, cash equivalents, and marketable securities) was approximately $53.7 million, which represents 14.0% of deposits and borrowed funds as compared to $52.5 million or 13.7% of deposits and borrowed funds at December 31, 2000. The increase in liquid assets was primarily due to investment of cash from operating activities and the unrealized gain in marketable securities.

The Company's primary uses of liquidity are to fund loans and to make investments. At March 31, 2001, outstanding off-balance sheet commitments to extend credit totaled $24.6 million, and the undisbursed portion of construction loans was $19.4 million. Management considers current liquidity levels adequate to meet the Company's cash flow requirements.

CAPITAL

Stockholders' equity at March 31, 2001, was $31.4 million, up 1.8% from $30.8 million at December 31, 2000. Stockholders' equity at March 31, 2001 and December 31, 2000, includes unrealized gains net of tax, of $152,594 and $29,707, respectively, on securities available for sale marked to estimated fair market value.

Under the capital regulations of the FDIC, the Bank must satisfy minimum leverage ratio requirements and risk-based capital requirements. Banks supervised by the FDIC must maintain a minimum leverage ratio of core (Tier I) capital to average adjusted assets ranging from 3% to 5%. At March 31, 2001, the Bank's ratio of Tier I capital was 7.5%. The FDIC's risk-based capital rules require banks supervised by the FDIC to maintain risk-based capital to risk-weighted assets of at least 8.00%. Risk-based capital for the Bank is defined as Tier I capital plus the balance of allowance for loan losses. At March 31, 2001, the Bank had a ratio of qualifying total capital to risk-weighted assets of 12.1%.

The Company, as a bank holding company, is also subject, on a consolidated basis, to the capital adequacy guidelines of the Board of Governors of the Federal Reserve (the "Federal Reserve Board"). The capital requirements of the Federal Reserve Board are similar to those of the FDIC governing the Bank.

The Company currently exceeds all of its capital requirements. Management expects the Company to continue to exceed these capital requirements without altering current operations or strategies.

On March 15, 2001, the Company's Board of Directors approved a quarterly cash dividend of $.05 per share. The dividend was paid on April 16, 2001 to stockholders of record as of April 2, 2001. Any future payment of dividends is dependent on the financial condition, and capital needs of the Company, requirements of regulatory agencies, and economic conditions in the marketplace.

FINANCIAL CONDITION AT MARCH 31, 2001, COMPARED TO DECEMBER 31, 2000

The Company's total assets increased 0.6% to $417.2 million at March 31, 2001, as compared to $414.7 million at December 31, 2000. The major changes in the assets are as follows: a decrease of $6.9 million (38.6%) in cash and cash equivalents, an increase of $18.7 million (116.6%) in securities available for sale, a decrease of $11.0 million (57.8%) in securities held to maturity and an increase of $1.7 million (0.5%) in loans. Available liquid assets were used in part to fund the increase in securities. Although the Company has concentrated its lending activities on the origination of loans for the purpose of the constructing, financing or refinancing of residential properties, it is becoming more active in the origination of small loans secured by commercial properties. At March 31, 2001, approximately 18.9% of the Company's loan portfolio were loans secured by collateral other than residential properties, compared to 15.3% at December 31, 2000.

The Bank funded the increase in loans with a $1.3 million (0.4%) increase in retail deposits, and other available liquid assets. Borrowed funds, collateralized through an agreement with the FHLB for advances, are secured by the Bank's investment in FHLB stock and qualifying first mortgage loans. At March 31, 2001, $15.0 million in borrowed funds mature in 1 year and $30.0 million of funds mature in 2 to 5 years. The remaining amount of borrowed funds matures in 2010.

The Company's non-performing assets (loans 90 days or more delinquent and foreclosed real estate) were $966 thousand, or 0.23% of assets, at March 31, 2001, compared to $925 thousand, or 0.22% of assets, at December 31, 2000. The Company assumes an aggressive position in collecting delinquent loans and disposing of

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foreclosed assets to minimize balances of non-performing assets and continues to evaluate the loan and real estate portfolios to provide loss reserves as considered necessary. While there can be no guarantee, in the opinion of management, the loan loss reserve of $2.2 million at March 31, 2001, is adequate to cover probable losses.

COMPARISON OF OPERATING RESULTS

OVERVIEW

The net income of the Company depends primarily upon net interest income. Net interest income is the difference between the interest earned on loans, the securities portfolios and interest earning deposits and the cost of funds, consisting principally of the interest paid on deposits and borrowings. The Company's operations are materially affected by general economic conditions, the monetary and fiscal policies of the Federal government, and the policies of regulatory authorities.

NET INCOME

Net income for the three-month period ended March 31, 2001, of $574,352 represents a 109.6% increase as compared to the same period last year. The increase in net income for the period ended March 31, 2001 can be attributed to a $610 thousand decrease in provision for loan losses, and, in the period ending March 31, 2000, a $287 thousand loss on sales of mortgage-backed securities. These increases were partially offset by a reduction in net interest income of $246 thousand for the period ended March 31, 2001. In addition, during the first quarter of 2000, a $582 thousand gain on the sale of a branch office was recognized. No similar gain was recognized during the current period.

INTEREST INCOME

For the three-month period ended March 31, 2001, interest income increased 3.4% as compared to the same period a year ago. The average balance of interest-earning assets increased 1.3% and the average yield increased 16 basis points as compared to the same period a year ago. The yield on average interest-earning assets increased to 7.92% as compared to 7.76% for the same period a year ago. The increase in the average balance of interest-earning assets and yield had a positive effect on interest income.

INTEREST EXPENSE

Interest expense increased 11.3% for the three-month period ended March 31, 2001, as compared to the same period a year ago. This increase was due to the average balance of interest-bearing liabilities increasing 1.3% and the average cost increasing 51 basis points as compared to the same period a year ago. The cost of interest-bearing liabilities increased to 5.38% as compared to 4.87% for the same period last year.

NET INTEREST INCOME

Net interest income for the three-month period ended March 31, 2001, as compared to the same period a year ago, decreased 7.7%. During the three-month period, the yield on average interest-earning assets increased 16 basis points and the cost of average interest-bearing liabilities increased 51 basis points as compared to the same period a year ago. The decrease was due to a larger increase in the cost of liabilities versus the yield on assets. This difference can be attributed to the fact that more assets repriced within 30 days as compared to liabilities as a result of the rapidly declining interest rate environment during the three-month period ended March 31, 2001. Once interest rates stabilize, management expects the spread between the average yield on interest-earning assets and the average cost on interest-bearing liabilities to return to normal levels.

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AVERAGE YIELD/COST ANALYSIS

The following table contains information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such annualized yields and costs are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. The average loan portfolio balances include nonaccrual loans.

	For the quarter ended	
	March 31, 2001	Marc

(DOLLARS IN THOUSANDS)	Average Balance	Interest	Average Yield/ Cost	Average Balance
Interest-earning assets:				
Securities and other interest-earning assets	$ 51,805	$ 750	5.79%	$ 51,941
Mortgage-backed and related securities	1,416	23	6.50%	3,992
Loan portfolio	346,766	7,145	8.24%	338,986
Total interest-earning assets	399,987	$7,918	7.92%	394,919
Non-interest earning assets	13,780			13,358
Total assets	$413,767			$408,277
Interest-bearing liabilities:				
Deposits	314,341	4,125	5.25%	295,259
Borrowed funds	55,101	847	6.15%	71,918
Total interest-bearing liabilities	369,442	$4,972	5.38%	367,177
Non-interest bearing liabilities	12,900			11,185
Total liabilities	382,342			378,362
Stockholders' equity	31,425			29,915
Total liabilities and stockholders' equity	$413,767			$408,277
Net interest income		$2,946		
Interest rate spread			2.54%	
Net yield on interest-earning assets			2.95%	
Percentage of average interest-earning assets to average interest-bearing liabilities			108.3%	

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RATE/VOLUME ANALYSIS

The table below provides information regarding changes in interest income and interest expense for the period indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in volume multiplied by old rate) and (ii) changes in rates (change in rate multiplied by old volume). The change attributable to changes in rate-volume has been allocated to the two categories based on their relative values.

For the three months ended

(DOLLARS IN THOUSANDS)	March 31, 2000 vs. March 31, 2001 Increase (Decrease) Due to		
	Volume	Rate	Total
Interest income:			
Securities and other interest-earning assets	$ (2)	$ (6)	$ (8)
Mortgage-backed and related securities	(42)	3	(39)
Loan portfolio	159	146	305
Total interest-earning assets	115	143	258
Interest expense:			
Deposits	226	550	776
Borrowed funds	(259)	(13)	(272)
Total interest-bearing liabilities	(33)	537	504
Net interest income	$ 148	$ (394)	$ (246)

PROVISION AND RESERVE FOR LOAN LOSSES

During the three-month period ended March 31, 2001 the Bank had net charge-offs against the allowance for loan losses of $45,000. The Bank added $90,000 to the allowance for loan losses for the current three-month period increasing the balance to $2.2 million at March 31, 2001. The $700,000 provision in the three month period ended March 31, 2000 included an increase of approximately $625,000 made in response to a detailed review of the Bank's loan portfolio. Management's decision to increase the loan loss reserve was considered appropriate in light of the successful expansion in the commercial loan portfolio in recent months and was not in response to any significant increase in non-performing assets. Management considers the current level to be appropriate based on lending volume, the current level of delinquencies and other non-performing assets, overall economic conditions and other factors. Future increases to the allowance may be necessary, however, due to changes in loan composition or loan volume, changes in economic or market area conditions and other factors. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the recognition of additions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

NONINTEREST INCOME

Noninterest income decreased by 30.0% for the three-month period ended March 31, 2001, as compared to the same period a year ago. The change in noninterest income can be attributed to a $582 thousand gain on the sale of a branch office offset by a $287 thousand loss on the sale of mortgage back securities which occurred during the three-month period ended March 31, 2000. No similar transactions occurred during the three months ended March 31, 2001. For the three-month period ended March 31, 2001, as compared to the same period a year ago, service charges on deposit accounts increased 20.8% and loan fees and service charges increased 92.9%. The increase in service charges on deposit accounts was due to an increase in number of accounts, and an increase in checking related fees. The increase in loan fees was mainly due to an increase in loan settlement service fees for loans processed for others.

NONINTEREST EXPENSES

For the three-month period ended March 31, 2001, noninterest expense decreased 10.6% as compared to the same period last year. Compensation and related costs decreased 15.2%. The major decrease was due to a modification to the defined benefit plan in 2000, which caused a reduction in expense associated with the defined benefit plan of $274 thousand. There was also a decrease in compensation of 4.7% due to the early retirement of certain employees at December 31, 2000. In addition, compensation and related expenses for the three months ended March 31, 2000 included a $31 thousand payment to a director upon his retirement. There was an increase of $38 thousand due to employee medical insurance premiums. Occupancy and equipment expense increased by 4.2%. This increase can be attributed to additional maintenance necessary to keep the buildings and equipment in good repair, property tax increases, increases in the cost of data processing services and normal increases in utility expenses. The reduction of $56 thousand in advertising can be attributed to a more conservative advertising campaign. Real estate owned expenses and losses were reduced by $33 thousand due to a small inventory of property that did not change during the three-month period ended March 31, 2001.

INCOME TAXES

The effective tax rates for the three-month period ended March 31, 2001 and 2000, respectively, approximate the statutory rate after giving effect to nontaxable interest and other permanent tax differences.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information contained herein, the discussion contains forward-looking statements that involve risks and uncertainties. Economic circumstances, the Company's operations, and the Company's actual results could differ significantly from those discussed in the forward-looking statements. Some of the factors that could cause or contribute to such differences are discussed herein, but also include changes in the economy and interest rates in the nation, changes in the Company's regulatory environment and the Company's market area.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) Not applicable

(b) Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits
Exhibit 11. Computation of Earnings Per Share

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.

COOPERATIVE BANKSHARES, INC.

Dated: May 11, 2001 /s/ Frederick Willetts, III

President and Chief Executive Officer

Dated: May 11, 2001 /s/ Todd L. Sammons

Treasurer and Chief Financial Officer