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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 September 30, 2004

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.

N/A

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

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

/_/ Yes /X/ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
2,860,764 shares at November 4, 2004

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COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	SEPTEMBER 30, 2004	Decem
	(unaudited)	
ASSETS		
Cash and due from banks, noninterest-bearing	$ 13,476,445	$
Interest-bearing deposits in other banks	4,823,264	
Total cash and cash equivalents	18,299,709	
Securities:		
Available for sale (amortized cost of $45,170,362 in September 2004 and $43,180,913 in December 2003)	45,340,879	
Held to maturity (estimated market value of $2,926,745 in September 2004 and $3,889,736 in December 2003)	2,893,844	
FHLB stock	4,554,200	
Loans held for sale	5,623,811	
Loans	448,052,870	4
Less allowance for loan losses	4,155,967	
Net loans	443,896,903	4
Other real estate owned	-	
Accrued interest receivable	2,110,976	
Premises and equipment, net	8,370,030	
Goodwill	1,461,543	
Other assets	12,143,677	
Total assets	$ 544,695,572	$ 5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 399,462,616	$ 3
Short-term borrowings	38,419,161	
Escrow deposits	226,539	
Accrued interest payable	200,962	

Accrued expenses and other liabilities	2,500,187	
Long-term obligations	58,083,976	
Total liabilities	498,893,441	4
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, 2,860,764 and 2,849,447 shares issued and outstanding	2,860,764	
Additional paid-in capital	2,673,233	
Accumulated other comprehensive income	112,541	
Retained earnings	40,155,593	
Total stockholders' equity	45,802,131	
Total liabilities and stockholders' equity	$ 544,695,572	$ 5
Book value per common share	$ 16.01	$

*Derived from audited consolidated financial statements.
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30, 2004	2003	
INTEREST INCOME:			
Loans	$ 6,409,154	$ 6,421,021	$
Securities	557,179	451,502	
Other	12,356	14,410	
Dividends on FHLB stock	37,653	29,554	
Total interest income	7,016,342	6,916,487	
INTEREST EXPENSE:			
Deposits	1,635,174	1,756,670	
Borrowed funds	713,094	882,897	
Total interest expense	2,348,268	2,639,567	
NET INTEREST INCOME	4,668,074	4,276,920	
Provision for loan losses	225,000	180,000	

Net interest income after provision for loan losses	4,443,074	4,096,920	
NONINTEREST INCOME:			
Gain on sale of loans	682,115	1,179,517	
Service charges and fees on loans	159,359	123,202	
Deposit-related fees	418,910	354,046	
Bank-owned life insurance earnings	73,182	91,506	
Other income, net	61,750	52,940	
Total noninterest income	1,395,316	1,801,211	
NONINTEREST EXPENSE:			
Compensation and fringe benefits	2,349,614	2,333,605	
Occupancy and equipment	834,037	690,012	
Professional and examination fees	87,276	38,058	
Advertising	140,476	169,590	
Other	503,713	524,396	
Total noninterest expense	3,915,116	3,755,661	
Income before income taxes	1,923,274	2,142,470	
Income tax expense	636,845	712,063	
NET INCOME	$ 1,286,429	$ 1,430,407	$
NET INCOME PER SHARE:			
Basic	$ 0.45	$ 0.50	$
Diluted	$ 0.44	$ 0.49	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	2,860,764	2,848,197	
Diluted	2,907,011	2,901,844	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	R E

Balance, December 31, 2003	$ 2,849,447	$ 2,638,044	$ 285,251	$ 37
Exercise of stock options	14,000	104,625	--	
Stock traded to exercise options (2,683 shares)	(2,683)	(69,436)		
Other comprehensive loss, net of deferred tax benefit	--	--	(172,710)	
Net income	--	--	--	3
Cash dividends ($.19 per share)	--	--	--	
Balance, September 30, 2004	$ 2,860,764	$ 2,673,233	$ 112,541	$ 40

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

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COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	NINE M SEPT 2004
OPERATING ACTIVITIES:	
Net income	$ 3,328,482
Adjustments to reconcile net income to net cash used in operating activities:	
Net accretion, amortization, and depreciation	740,770
Gain on sale of loans	(1,959,574
Deferred income taxes	(308,065
Loss on sale of premises and equipment	3,412
Loss (gain) on sales of foreclosed real estate	(6,486
Valuation losses on foreclosed real estate	-
Provision for loan losses	745,000
Proceeds from sale of loans	137,240,700
Loan originations held for sale	(134,534,052
Changes in assets and liabilities:	
Accrued interest receivable	(258,610
Other assets	994,754
Accrued interest payable	20,895
Accrued expenses and other liabilities	693,184
Net cash provided in operating activities	6,700,410
INVESTING ACTIVITIES:	
Purchases of securities available for sale	(15,500,296
Purchases of securities held to maturity	-
Purchase of Lumina Mortgage Company	(400,000
Proceeds from maturity of securities available for sale	10,200,000
Proceeds from maturity of securities held to maturity	-
Repayments of mortgage-backed securities available for sale	3,276,592

Repayments of mortgage-backed securities held to maturity	912,882
Net sales (purchases) of FHLB stock	(399,800
Loan originations, net of principal repayments	(43,288,953
Proceeds from disposals of foreclosed real estate	40,773
Additions to other real estate owned	(9,487
Purchases of premises and equipment	(416,809
Proceeds from sale of premises and equipment	2,200
Net cash used in investing activities	(45,582,898
FINANCING ACTIVITIES:	
Net increase in deposits	32,260,183
Net change in short-term borrowings	(2,997,624
Net change in long-term obligations	9,996,206
Proceeds from issuance of common stock, net	46,506
Dividends	(543,545
Net change in escrow deposits	27,106
Net cash provided (used) by financing activities	38,788,832
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(93,656
CASH AND CASH EQUIVALENTS:	
BEGINNING OF PERIOD	18,393,365
END OF PERIOD	$ 18,299,709

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	NINE MONTHS ENDE SEPTEMBER 30, 2004	
Cash paid for:		
Interest	$ 6,970,565	$
Income taxes	1,520,400	
Summary of noncash investing and financing activities:		
Transfer from loans to foreclosed real estate	325,886	
Loans to facilitate the sale of foreclosed real estate	301,086	
Unrealized loss on securities available for sale, net of taxes	(172,710)	
Accrual of goodwill for purchase of Lumina Mortgage Company	-	
Reclassifications between long-term obligations and short-term borrowings	10,000,000	

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 consolidated 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, 2003 (the "Annual Report"). The results of operations for the nine-month period ended September 30, 2004 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 (the "Bank") and its wholly owned subsidiaries, Lumina Mortgage Company, Inc. ("Lumina") and CS&L Holdings, Inc. ("Holdings"), and Holdings' majority owned subsidiary, CS&L Real Estate Trust, Inc. (the "REIT"). 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 (EPS) are calculated by dividing net income by the weighted average number of common shares outstanding (basic EPS) and the sum of the weighted average number of common shares outstanding and potential common stock (diluted EPS). Potential common stock consists of stock options issued and outstanding. In determining the number of shares of potential common stock, 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. The following table provides a reconciliation of income available to common stockholders and the average number of shares outstanding for the periods below:

	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003

Net income (numerator)	$ 1,286,429	$ 1,430,407
Shares for basic EPS (denominator)	2,860,764	2,848,197
Dilutive effect of stock options	46,247	53,647
Shares for diluted EPS (denominator)	2,907,011	2,901,844

For the nine months ended September 30, 2004 and 2003, there were 4,000 and 0 options outstanding respectively that were antidilutive since the exercise price exceeds the average market price. The options have been omitted from the calculation of the dilutive effect of stock options.

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 and nine months ended September 30:

	THREE MONTHS ENDED SEPTEMBER 30, 2004	2003	
Net income	$ 1,286,429	$ 1,430,407	$
Other comprehensive income			
Realized (gains) losses on available for sale securities	-	-	
Unrealized gains (losses) on available for sale securities	491,801	(145,278)	
Income taxes	(167,213)	49,395	
Other comprehensive income (loss)	324,588	(95,883)	
Comprehensive income	$ 1,611,017	$ 1,334,524	$

5. Stock-Based Compensation: On January 1, 1996 the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS No. 123, the Company has chosen to continue to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The option exercise price is the market price of the common stock on the date the option is granted. Accordingly, no compensation cost has been recognized for options granted under the

Option Plan. Had compensation cost for the Company's Option Plan been determined based on the fair value at the grant dates for awards under the option plan consistent with the method of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MO SEPT
	2004	2003	2004
Net income, as reported	$ 1,286,429	$ 1,430,407	$ 3,328,482
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	-	(23,054)
Pro forma net income	$ 1,286,429	$ 1,430,407	$ 3,305,428
Earnings per share:			
Basic-as reported	$ 0.45	$ 0.50	$ 1.16
Basic-pro forma	$ 0.45	$ 0.50	$ 1.16
Diluted-as reported	$ 0.44	$ 0.49	$ 1.14
Diluted-pro forma	$ 0.44	$ 0.49	$ 1.14

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 is the parent company of Cooperative Bank (the "Bank"), a North Carolina chartered commercial bank. Cooperative Bank, headquartered in Wilmington, North Carolina, was chartered in 1898. The Bank provides financial services through 21 offices in Eastern North Carolina. One of the Bank's subsidiaries, Lumina Mortgage Company, Inc. ("Lumina") is a mortgage banking firm originating and selling residential mortgage loans through offices in Wilmington, North Carolina, North Myrtle Beach, South Carolina, and Virginia Beach, Virginia. The Bank's other subsidiary, CS&L Holdings, Inc. ("Holdings"), is a holding company incorporated in Virginia for CS&L Real Estate Trust, Inc. (the "REIT"), which is a real estate investment trust.

Through its offices, the Bank provides a wide range of banking products, including interest-bearing and noninterest-bearing checking accounts, certificates of deposit and individual retirement accounts which are insured up to the applicable limits of the Federal Deposit Insurance Corporation ("FDIC"). It offers an array of loan products: commercial, consumer, agricultural, real estate, residential mortgage and home equity loans. Also offered are safe deposit boxes, ATMs and Access24 Phone Banking, as well as, Online Banking and Bill Payment. In addition, the Bank offers discount brokerage services, annuity sales and mutual funds through a third party arrangement with UVEST Investment Services.

The Bank is planning to move the location of two of its Wilmington branches to more desirable locations in 2005.

Mission Statement

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.

Management Strategy

Cooperative Bank's lending activities have traditionally concentrated on the origination of loans for the purpose of constructing, financing or refinancing residential properties. In recent years however, the Bank has emphasized the origination of nonresidential real estate loans and secured and unsecured consumer and business loans. As of September 30, 2004, approximately $302 million, or 67%, of the Bank's loan portfolio, which excludes loans held for sale, consisted of loans secured by residential properties. This compared to approximately $267 million, or 66% at December 31, 2003. The Bank originates adjustable rate and fixed rate loans. As of September 30, 2004, adjustable rate and fixed rate loans totaled approximately 67% and 33%, respectively, of the Bank's total loan portfolio.

The Bank has chosen to sell a large percentage of its fixed rate mortgage loan originations in the secondary market and through brokered arrangements. This enables the Bank to reinvest these funds in commercial loans, while increasing fee income and reducing interest rate risk.

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 exceeds the amount of interest rate sensitive liabilities. Gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. At September 30, 2004, the Bank had a one-year positive gap position of 5.5%. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to adversely affect net interest income. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. It is important to note that certain shortcomings are inherent in using a 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 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.

When Lumina gives a rate lock commitment to a customer, there is a concurrent "lock in" for the loan with a secondary market investor under a best efforts delivery mechanism. Therefore, interest rate risk is mitigated because any commitments to fund a loan available for sale are concurrently hedged by a commitment from an investor to purchase the loan under the same terms. Loans are usually sold within 60 days after closing.

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 ("FHLB") in an amount of up to 25% of the Bank's total assets. At September 30, 2004, the Bank's borrowed funds from the FHLB equaled 16.7% 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 September 30, 2004, the estimated market value of liquid assets (cash, cash equivalents, marketable securities and loans held for sale) was approximately $72.2 million, which represents 14.6% of deposits and borrowed funds as compared to $72.3 million or 15.8% of deposits and borrowed funds at December 31, 2003.

The Company's primary uses of liquidity are to fund loans and to make investments. Management considers current liquidity levels adequate to meet the Company's cash flow requirements.

Off-Balance Sheet Arrangements and Contractual Commitments

At September 30, 2004, outstanding off-balance sheet commitments to extend credit totaled $44.5 million, and the undisbursed portion of construction loans was $53.3 million. The Bank continued to be obligated to make future payments under contracts, such as debt and lease agreements, the amounts of which were consistent with the amounts at December 31, 2003 other than the increase in borrowed funds of $7.0 million and the increase in deposits of $32.3 million at September 30, 2004 as compared to December 31, 2003.

Capital

Stockholders' equity at September 30, 2004, was $45.8 million, up 6.2% from

$43.1 million at December 31, 2003. Stockholders' equity at September 30, 2004, includes an unrealized gain net of tax, of $113,000 as compared to an unrealized gain net of tax at December 31, 2003, of $285,000 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 September 30, 2004, the Bank's ratio of Tier I capital was 8.16%. 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 September 30, 2004, the Bank had a ratio of qualifying total capital to risk-weighted assets of 11.72%.

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 September 20, 2004, the Company's Board of Directors approved a quarterly cash dividend of $.07 per share. The dividend was paid on October 16, 2004 to stockholders of record as of October 1, 2004. This brings the total dividend for the year to $.19 per share. 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.

Critical Accounting Policy

The Bank's most significant critical accounting policy is the determination of its allowance for loan losses and goodwill. A critical accounting policy is one that is both very important to the portrayal of the Company's financial condition and results, and requires a difficult, subjective or complex judgment by management. What makes these judgments difficult, subjective and/or complex is the need to make estimates about the effects of matters that are inherently uncertain. For further information on the allowance for loan losses, see the "Critical Accounting Policy" and the "Financial Condition" in Management's Discussion and Analysis and Note 3 of "Notes to Consolidated Financial Statements" included in the 2003 Annual Report. For further information on goodwill, see the "Critical Accounting Policy" in Management's Discussion and Analysis and Note 13 of "Notes to Consolidated Financial Statements" included in the 2003 Annual Report.

FINANCIAL CONDITION AT SEPTEMBER 30, 2004, COMPARED TO DECEMBER 31, 2003

The Company's total assets increased 8.4% to $544.7 million at September 30, 2004, as compared to $502.4 million at December 31, 2003. The major change in the assets is an increase of $43.2 million (10.7%) in loans which was funded by an increase in deposits of $32.3 million (8.8%) and an increase of $8.0 million in FHLB advances which is included in long-term obligations. The increase in loans and deposits can be attributed to opening four new branches since May 2003 and being located in vibrant markets.

The Company's nonperforming assets (loans 90 days or more delinquent and foreclosed real estate) were $490,000 or .09% of assets, at September 30, 2004, compared to $267,000, or .05% of assets, at December 31, 2003. The Company assumes an aggressive position in collecting delinquent loans and disposing of foreclosed assets to minimize balances of nonperforming assets and continues to evaluate the loan and real estate portfolios to provide loss reserves as considered necessary. For further information see "Comparison of Operating Results - Provision and Allowance for Loan 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 portfolio 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. Yields and costs have declined because of the actions the Federal Reserve has

taken since 2001 to reduce interest rates in hopes of spurring the economy. This trend may reverse in the future as the Federal Reserve has started to increase rates since June of 2004.

Net Income

Net income for the three and nine-month periods ended September 30, 2004, decreased 10.1% to $1.3 million and 21.5% to $3.3 million respectively, as compared to the same periods last year. The decrease in net income for the three and nine-month periods ended September 30, 2004, can be attributed to a decrease in noninterest income of $406,000 and $1.3 million respectively and an increase in noninterest expense of $159,000 and $486,000 respectively. For further information see the captions "Noninterest Income" and "Noninterest Expense."

Interest Income

For the three-month period ended September 30, 2004, interest income increased 1.4% as compared to the same period a year ago. The average balance of interest-earning assets increased 4.9% but the average yield decreased 19 basis points as compared to the same period a year ago. Interest income decreased 4.8% for the nine-month period ended September 30, 2004, as compared to the same period a year ago. The decrease in interest income can be attributed to the yield on average interest-earning assets decreasing to 5.51% as compared to 5.94% for the same period a year ago. The average balance of interest-earning assets increased 2.6% for the nine-month period ended September 30, 2004, as compared to the same period a year ago. The increase in the average balance of interest-earning assets had a positive effect on interest income while the reduction in yield had a negative impact on interest income.

Interest Expense

Interest expense decreased 11.0% for the three-month period ended September 30, 2004, as compared to the same period a year ago. This decrease was due to the average cost of interest-bearing liabilities decreasing 32 basis points as compared to the same period a year ago. In the nine-month period ended September

30, 2004, interest expense decreased 20.0% as compared to the same period a year ago. The cost of interest-bearing liabilities decreased to 2.02% for the nine-month period ended September 30, 2004 as compared to 2.54% for the same period last year.

Net Interest Income

Net interest income for the three and nine-month periods ended September 30, 2004, as compared to the same period a year ago, increased 9.1% and 5.0% respectively. The increase was due to interest-earning assets increasing more than interest-bearing liabilities. In addition, there was a larger decrease in the cost of liabilities versus the yield on assets. This can be attributed to the Bank's success in obtaining both low and no cost deposits. See "Average Yield/Cost Analysis" table for further information on interest income and interest expense.

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AVERAGE YIELD/COST ANALYSIS

The following tables contain 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			
	SEPTEMBER 30, 2004			SEPT
(DOLLARS IN THOUSANDS)	Average Balance	Interest	Average Yield/ Cost	Average Balance
Interest-earning assets:				
Interest-bearing deposits in other banks	$ 3,845	$ 12	1.25%	$ 5,487
Securities:				
Available for sale	46,125	520	4.51%	40,949
Held to maturity	2,969	37	4.98%	5,681
FHLB stock	4,288	38	3.54%	3,614
Loan portfolio	447,644	6,409	5.73%	425,569
Total interest-earning assets	504,871	7,016	5.56%	481,300
Non-interest earning assets	27,434			28,449
Total assets	$532,305			$509,749
Interest-bearing liabilities:				

Deposits	360,823	1,635	1.81%	342,492
Borrowed funds	91,119	713	3.13%	96,694
Total interest-bearing liabilities	451,942	$2,348	2.08%	439,186
Non-interest bearing liabilities	35,141			28,685
Total liabilities	487,083			467,871
Stockholders' equity	45,222			41,878
Total liabilities and stockholders' equity	$532,305			$509,749
Net interest income		$4,668		
Interest rate spread			3.48%	
Net yield on interest-earning assets			3.70%	
Percentage of average interest-earning assets to average interest-bearing liabilities			111.7%	

(DOLLARS IN THOUSANDS)	For the nine months en SEPTEMBER 30, 2004 Average Balance	Interest	Average Yield/ Cost	Aver Bala
Interest-earning assets:				
Interest-bearing deposits in other banks	$ 3,897	$ 30	1.03%	$
Securities:				
Available for sale	46,545	1,548	4.43%	3
Held to maturity	3,346	127	5.06%	
FHLB stock	4,241	111	3.49%	
Loan portfolio	432,178	18,446	5.69%	42
Total interest-earning assets	490,207	$20,262	5.51%	47
Non-interest earning assets	27,021			2
Total assets	$517,228			$50

Interest-bearing liabilities:				
Deposits	351,052	4,614	1.75%	34
Borrowed funds	89,907	2,077	3.08%	9
Total interest-bearing liabilities	440,959	$ 6,691	2.02%	43
Non-interest bearing liabilities	32,613			2
Total liabilities	473,572			46
Stockholders' equity	43,656			4
Total liabilities and stockholders' equity	$517,228			$50
Net interest income		$13,571		
Interest rate spread			3.49%	
Net yield on interest-earning assets			3.69%	
Percentage of average interest-earning assets to average interest-bearing liabilities			111.2%	

Provision and Allowance for Loan Losses

During the nine-month period ended September 30, 2004 the Bank had net charge-offs against the allowance for loan losses of $36,000 compared to $213,000 for the same period in 2003. This decrease was primarily due to one credit relationship being charged off during the first quarter of 2003. The Bank added $745,000 to the allowance for loan losses for the current nine-month period increasing the balance to $4.2 million at September 30, 2004. This brings the ratio of allowance for loan losses to total loans up to .92% at September 30, 2004 as compared to .84% at December 31, 2003. This percentage continues to rise because of the increase in retail banking loans in the Bank's

portfolio. The Bank's loan portfolio increased $43.2 million during the nine-month period ended September 30, 2004 as compared to a decrease of $1.7 million during the same period a year ago. This, in turn, contributed to the increase of the provision for loan losses for the nine-month period ended September 30, 2004 over the same period last year. Management considers the current level of the allowance to be appropriate based on loan composition, the current level of delinquencies and other nonperforming 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 adjustments 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 24.3% for the nine-month period ended September 30, 2004, as compared to the same period a year ago. The change in noninterest income can be primarily attributed to the gain on sale of loans and service charges and fees on loans decreasing $1.4 million and $74,000 respectively. These changes were primarily caused by a reduction in mortgage banking activities caused by lower refinancing volumes. Deposit related fees increased $190,000 mainly due to a new service the Bank offered beginning in April 2003, for checking accounts with non-sufficient funds and new accounts associated with the new branches.

In the three-month period ended September 30, 2004, noninterest income decreased 22.5% as compared to the same period last year. The gain on sale of loans decreased $497,000 for the three-month period ended September 30, 2004, as compared to the same period a year ago. The reason for the decrease is the same as stated above for the nine-month period. Service charges and fees on loans and deposits-related fees increased by $36,000 (29.3%) and $65,000 (18.3%) respectively for the three-month period ended September 30, 2004, as compared to the same period a year ago. The increase in service charges and fees on loans was largely due to an increase in broker loan fees at Lumina Mortgage. The reason for the increase in deposit-related fees is the same as stated above for the nine-month period.

Noninterest Expense

For the nine-month period ended September 30, 2004, noninterest expense increased 4.3% as compared to the same period last year. Occupancy and equipment and professional and examination fees increased $471,000, and $60,000 respectively. The increase in occupancy and equipment was primarily caused by the opening of four new branches since May of 2003. The professional and examination fees increase was due to higher audit and consulting fees.

In the three-month period ended September 30, 2004, noninterest expense increased 4.2% as compared to the same period last year. This increase can be attributed to occupancy and equipment and professional and examination fees increasing $144,000 and $49,000 respectively. The reasons for these changes are identical to the nine-month period ended September 30, 2004.

Income Taxes

The effective tax rate for the nine-month periods ended September 30, 2004 and 2003, was 33.2% and 32.3% respectively. The lower rate in 2003 was the result of the formation of Holdings and the REIT in December 2002, which caused an adjustment to taxes. The effective tax rate for the three-month periods ended September 30, 2004 and 2003 was 33.1% and 33.2% respectively.

Note Regarding Forward-Looking Statements

This document, as well as other written communications made from time to time by Cooperative Bankshares, Inc. and subsidiaries (the "Company") and oral communications made from time to time by authorized officers of the Company, may contain statements relating to the future results of the Company (including certain projections, such as earnings projections, and business trends) that are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 (the PSLRA). Such forward-looking statements may be identified by the use of such words as "believe," "expect," "should," "planned," "estimated" and "potential." For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the PSLRA. The Company's ability to predict future results is inherently uncertain and cautions you that a number of important factors could cause actual results to differ materially from those currently anticipated in any forward-looking statement. These factors include among others, changes in market interest rates and general and regional economic conditions, changes in government regulations, changes in accounting principles and the quality or composition of the loan and investment portfolios and other factors that may be described in the Company's quarterly reports on Form 10-Q and in its annual report on Form 10-K, each filed with the Securities and Exchange Commission, which are available at the Securities and Exchange Commission's Internet website (www.sec.gov) and to which reference is hereby made.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk is interest rate risk. Interest rate risk is the result of differing maturities or repricing intervals of interest-earning assets and interest-bearing liabilities and the fact that rates on these financial instruments do not change uniformly. These conditions may impact the earnings generated by the Company's interest-earning assets or the cost of its interest-bearing liabilities, thus directly impacting the Company's overall earnings. The Company's management actively monitors and manages interest rate risk. One way this is accomplished is through the development of, and adherence to, the Company's asset/liability policy. This policy sets forth management's strategy for matching the risk characteristics of the Company's interest-earning assets and interest-bearing liabilities so as to mitigate the effect of changes in the rate environment. The Company's market risk profile has not changed significantly since December 31, 2003.

ITEM 4 - CONTROLS AND PROCEDURES

The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) 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

3.1 Articles of Incorporation/1/

3.2 Bylaws, as amended/2/

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer

32 Certificate pursuant to 18 U.S.C. Section 1350

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1 Incorporated by reference to the Registrant's Registration Statement on Form S-4 (Reg. No. 33-79206) filed with the SEC.
2 Incorporated by reference to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2003, filed with the SEC.

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 9, 2004	Cooperative Bankshares, Inc.
	/s/ Frederick Willetts, III
	Frederick Willetts, III President/Chief Executive Officer
Dated: November 9, 2004	/s/ Todd L. Sammons
	Todd L. Sammons Senior Vice President/Chief Financial Officer