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 June 30, 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. [ ] 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. 2,807,535 shares at July 31, 2001

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	JUNE 30, 200
	(UNAUDITED)
ASSETS	
Cash and due from banks, noninterest-bearing	$ 7,956,7
Interest-bearing deposits in other banks	3,229,9
Total cash and cash equivalents	11,186,6
Securities:	
Available for sale (amortized cost of $43,506,431 in June 2001 and $16,000,677 in December 2000)	43,649,8
Held to maturity (estimated market value of $8,040,939 in June 2001 and $18,553,526 in December 2000)	8,000,0
FHLB stock	3,755,3
Loans	353,393,9
Less allowance for loan losses	2,289,7
Net loans	351,104,2
Other real estate owned	60,0
Accrued interest receivable	2,643,5
Premises and equipment, net	6,304,0

Prepaid expenses and other assets	1,056,6
Total assets	$427,760,3
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	$338,984,8
Borrowed funds	55,099,3
Escrow deposits	754,5
Accrued interest payable	38,4
Accrued expenses and other liabilities	1,010,5
Total liabilities	395,887,6
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	2,800,9
Additional paid-in capital	2,154,0
Accumulated other comprehensive income	87,4
Retained earnings	26,830,0
Total stockholders' equity	31,872,6
Total liabilities and stockholders' equity	$427,760,3
Book value per common share	$ 11.

*Derived from audited consolidated financial statements.

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS END JUNE 30,	
	2001	2000	2001	
INTEREST INCOME:				
Loans	$ 7,006,622	$ 7,199,594	$ 14,152,016	$ 14
Securities	696,892	570,675	1,232,212	1
Other	58,129	82,133	228,335	
Dividends on FHLB stock	63,197	72,361	130,329	
Total interest income	7,824,840	7,924,763	15,742,892	15
INTEREST EXPENSE:				
Deposits	3,967,552	3,674,005	8,092,831	7
Borrowed funds	855,064	1,070,179	1,701,870	2

Total interest expense	4,822,616	4,744,184	9,794,701	9
NET INTEREST INCOME	3,002,224	3,180,579	5,948,191	6
Provision for loan losses	90,000	90,000	180,000	
Net interest income after provision for loan losses	2,912,224	3,090,579	5,768,191	5
NONINTEREST INCOME:				
Net gains on sale of loans	2,420	--	2,420	
Net gains (losses) on sale of securities	12,399	--	12,399	
Service charges and fees on loans	176,498	114,237	335,215	
Deposit-related fees	264,660	217,739	523,894	
Gain on sale of branch	--	--	--	
Other income, net	6,145	124	3,171	
Total noninterest income	462,122	332,100	877,099	
NONINTEREST EXPENSE:				
Compensation and fringe benefits	1,269,547	1,333,059	2,566,176	2
Occupancy and equipment	521,985	460,224	1,065,802	
Advertising	64,485	111,358	110,945	
Real estate owned	(1,548)	5,601	(638)	
Other	421,001	448,440	906,651	
Total noninterest expenses	2,275,470	2,358,682	4,648,936	5
Income before income taxes	1,098,876	1,063,997	1,996,354	1
Income tax expense	395,972	368,711	719,098	
NET INCOME	$ 702,904	$ 695,286	1,277,256	$
NET INCOME PER SHARE:				
Basic	$ 0.25	$ 0.26	$ 0.46	$
Diluted	$ 0.25	$ 0.25	$ 0.45	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	2,800,975	2,708,990	2,774,243	2
Diluted	2,816,418	2,796,544	2,816,297	2

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

COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAI EARNI

Balance, December 31, 2000	$ 2,714,610	2,234,936	29,707	25,832
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	--	--	57,785	
Net income for period	--	--	--	1,277
Cash dividends ($.10 per share)	--	--	--	(280
Balance, June 30, 2001	$ 2,800,975	2,154,096	87,492	26,830

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)

	Six Months Ended June 30, 2001	2000
OPERATING ACTIVITIES:		
Net income	$ 1,277,256	$ 969,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion, amortization, and depreciation	329,044	331,974
Net (gain) loss on sale securities	(12,399)	287,282
Gain on sale of loans	(2,420)	--
Benefit from deferred income taxes	(106,739)	(387,489)
Loss on sale of premises and equipment	3,318	2,634
Loss (gain) on sales of foreclosed real estate	(6,086)	30,542
Valuation losses on foreclosed real estate	2,807	--
Gain on sale of branch office	--	(582,583)
Provision for loan losses	180,000	790,000
Proceeds from sale of loans	27,115	34,685
Changes in assets and liabilities:		
Accrued interest receivable	132,890	(217,551)
Prepaid expenses and other assets	273,381	962,219
Accrued interest payable	(12,092)	42,119
Accrued expenses and other liabilities	136,908	54,363
Net cash provided by operating activities	2,222,983	2,317,501
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(37,518,037)	--
Proceeds from sale of securities available for sale	5,994,375	6,277,957
Proceeds from maturity of securities available for sale	10,004,133	189,762
Proceeds from maturity of securities held to maturity	5,000,000	--
Loan originations, net of principal repayments	(3,823,008)	(19,368,031)
Proceeds from disposals of foreclosed real estate	177,990	217,510
Purchases of premises and equipment	(365,250)	(476,613)
Proceeds from sale of premises and equipment	5,375	3,450
Net cash paid related to sale of branch office	--	(5,156,761)

Net cash used in investing activities	(20,524,422)	(18,312,726)
FINANCING ACTIVITIES:		
Net increase in deposits	11,672,525	23,431,050
Proceeds from borrowed funds	--	28,000,000
Principal payments on borrowed funds	(2,131)	(35,002,017)
Proceeds from issuance of common stock, net	5,525	209,406
Purchase and retirement of common stock	--	(480,657)
Dividends	(280,098)	(135,454)
Net change in escrow deposits	193,736	665,280
Net cash provided by financing activities	11,589,557	16,687,608
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,711,882)	692,383
CASH AND CASH EQUIVALENTS:		
BEGINNING OF PERIOD	17,898,568	15,592,010
END OF PERIOD	$ 11,186,686	$ 16,284,393

(Continued)

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

	SIX MONTHS EN JUNE 30, 2001
Cash paid for:	
Interest	$ 9,806,793
Income taxes	764,583
Summary of noncash investing and financing activities:	
Transfer from loans to foreclosed real estate	-
Unrealized gain on securities available for sale, net of taxes	57,785
Transfer of securities from held to maturity to available for sale - fair value	5,946,000

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 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 and six-month periods ended June 30, 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 and six months ended June 30, 2001 and 2000:

	THREE MONTHS ENDED JUNE 30,		SIX
	2001	2000	
Net income	$ 702,904	$ 695,286	$ 1,
Other comprehensive income			
Realized (gain) losses on available for sale securities	(12,399)	--	
Unrealized gain (losses) on available for sale securities	(94,326)	66,759	
Income tax (expense) benefit	41,623	(26,036)	
Other comprehensive income (loss)	(65,102)	40,723	
Comprehensive income	$ 637,802	$ 736,009	$ 1,

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 17 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 retirement 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.

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 origination of nonresidential real estate loans, home equity lines of credit loans, and secured and unsecured consumer and business loans. As of June 30, 2001, approximately $273.6 million, or 77.2%, of the Bank's loan portfolio consisted of loans secured by residential properties. This was down from approximately $291 million, or 82.9% at December 31, 2000. The Bank originates adjustable rate and fixed rate loans. As of June 30, 2001, adjustable rate and fixed rate loans totaled approximately 60.3% and 39.7%, 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.

In April 2001, the Bank opened a branch in Whiteville, North Carolina, which is located in Columbus County. The branch is a full-service facility, including an ATM, with two full-time employees and one part-time employee.

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 June 30, 2001, Cooperative had a one-year negative gap position of 3.9%. 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 declining 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 June 30, 2001, the Bank's borrowed funds equaled 12.9% 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 June 30, 2001, the estimated market value of liquid assets (cash, cash equivalents, and marketable securities) was approximately $62.9 million, which represents 16.0% 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 the investment of cash from increased retail deposits.

The Company's primary uses of liquidity are to fund loans and to make investments. At June 30, 2001, outstanding off-balance sheet commitments to extend credit totaled $26.0 million, and the undisbursed portion of construction loans was $27.8 million. Management considers current liquidity levels adequate to meet the Company's cash flow requirements.

CAPITAL

Stockholders' equity at June 30, 2001, was $31.9 million, up 3.4% from $30.8 million at December 31, 2000. Stockholders' equity at June 30, 2001 and December 31, 2000, includes unrealized gains net of tax, of $87,492 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 June 30, 2001, the Bank's leverage ratio of Tier I capital to average adjusted assets was 7.6%. 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 June 30, 2001, the Bank had a ratio of qualifying total capital to risk-weighted assets of 12.0%.

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 June 21, 2001, the Company's Board of Directors approved a quarterly cash dividend of $.05 per share. The dividend was paid on July 16, 2001 to stockholders of record as of July 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 JUNE 30, 2001, COMPARED TO DECEMBER 31, 2000

The Company's total assets increased 3.1% to $427.8 million at June 30, 2001, as compared to $414.7 million at December 31, 2000. The major changes in the assets are as follows: a decrease of $6.7 million (37.5%) in cash and cash equivalents, an increase of $27.6 million (172.0%) in securities available for sale, a decrease of $11.0 million (57.8%) in securities held to maturity and an increase of $3.7 million (1.1%) in loans. 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 June 30, 2001, approximately 22.8% of the Company's loan portfolio were loans secured by collateral other than residential properties, compared to 17.1% at December 31, 2000.

The Bank funded the increase in loans and securities with an $11.7 million (3.6%) increase in retail deposits, and other available liquid assets. The increase in retail deposits was in certificates with terms no greater than 7 months which management priced aggressively to meet its funding needs. 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 June 30, 2001, $20.0 million in borrowed funds mature in 1 year and $25.0 million of funds mature in 2 to 5 years. The remaining amount of borrowed funds mature in 2010.

The Company's non-performing assets (nonaccrual loans, loans 90 days or more delinquent and still accruing interest and foreclosed real estate) were $2.2 million or 0.52% of assets, at June 30, 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 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 allowance for loan losses of $2.3 million at June 30, 2001, is adequate to cover probable losses inherent in the loan portfolio.

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 and six-month periods ended June 30, 2001, increased 1.1% to $702,904 and 31.8% to $1.3 million, respectively, as compared to the same periods last year. The increase in net income for the six-month period ended June 30, 2001 can be attributed to decreases of $610 thousand and $366 thousand in provision for loan losses and noninterest expense, respectively. These decreases were partially offset by a reduction in net interest income of $424 thousand.

INTEREST INCOME

For the three-month period ended June 30, 2001, interest income decreased 1.3% as compared to the same period a year ago. The average balance of interest-earning assets increased 1.5% but the average yield decreased 21 basis points as compared to the same period a year ago. Interest income increased 1.0% for the six-month period ended June 30, 2001, as compared to the same period a year ago. The increase in interest income can be attributed to an increase in the average balance of interest-earning assets of 1.4%. The average yield only decreased 3 basis points to 7.81% as compared to

7.84%, for 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 increased 1.7% for the three-month period ended June 30, 2001, as compared to the same period a year ago. This increase was due to the average balance of interest-bearing liabilities increasing 0.6% and the average cost increasing 5 basis points as compared to the same period a year ago. In the six-month period ended June 30, 2001, interest expense increased 6.3% as compared to the same period a year ago. The 0.6% increase in the average balance of interest-bearing liabilities and their subsequent increase in cost of funds principally contributed to the increase in interest expense. The average cost of interest-bearing liabilities increased 29 basis points to 5.28% as compared to 4.99% for the same period last year.

NET INTEREST INCOME

Net interest income for the three and six-month periods ended June 30, 2001, as compared to the same periods a year ago, decreased 5.6% and 6.7%, respectively. During these same periods, the yield on average interest-earning assets decreased 21 basis points and 3 basis points, respectively. For the same periods, the cost of average interest-bearing liabilities increased 5 basis points and 29 basis points, respectively. These differences 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 entire six-month period ended June 30, 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 improve.

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.

(DOLLARS IN THOUSANDS)	For the quarter ended JUNE 30, 2001 Average Balance	Interest	Average Yield/ Cost	JUNE 30, Average Balance	Interes
Interest-earning assets:					
Securities and other interest-earning assets	$ 49,037	$ 704	5.74%	$ 49,557	$ 72
Mortgage-backed and related securities	8,044	114	5.67%	0	
Loan portfolio	348,987	7,007	8.03%	350,478	7,20
Total interest-earning assets	406,068	$ 7,825	7.71%	400,035	$ 7,92
Non-interest earning assets	14,070			13,241	
Total assets	$420,138			$413,276	
Interest-bearing liabilities:					
Deposits	316,673	3,968	5.01%	304,464	3,67
Borrowed funds	56,410	855	6.06%	66,280	1,07
Total interest-bearing liabilities	373,083	$ 4,823	5.17%	370,744	$ 4,74
Non-interest bearing liabilities	15,013			12,557	
Total liabilities	388,096			383,301	
Stockholders' equity	32,042			29,975	
Total liabilities and stockholders' equity	$420,138			$413,276	
Net interest income		$ 3,002			$ 3,18
Interest rate spread			2.54%		
Net yield on interest-earning assets			2.96%		
Percentage of average interest-earning assets to average interest-bearing liabilities			108.8%		

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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.

(DOLLARS IN THOUSANDS)	For the six months ended JUNE 30, 2001			JUNE 30,	
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interes
Interest-earning assets:					
Securities and other interest-earning assets	$ 50,421	$ 1,454	5.77%	$ 50,749	$ 1,48
Mortgage-backed and related securities	4,730	137	5.79%	1,996	6
Loan portfolio	347,877	14,152	8.14%	344,732	14,03
Total interest-earning assets	403,028	$ 15,743	7.81%	397,477	$ 15,58
Non-interest earning assets	13,925			13,299	
Total assets	$416,953			$410,776	
Interest-bearing liabilities:					
Deposits	315,507	8,093	5.13%	299,862	7,02
Borrowed funds	55,756	1,702	6.11%	69,099	2,18
Total interest-bearing liabilities	371,263	$ 9,795	5.28%	368,961	$ 9,21
Non-interest bearing liabilities	13,956			11,870	
Total liabilities	385,219			380,831	
Stockholders' equity	31,734			29,945	
Total liabilities and stockholders' equity	$416,953			$410,776	
Net interest income		$ 5,948			$ 6,37
Interest rate spread			2.53%		
Net yield on interest-earning assets			2.95%		
Percentage of average interest-earning assets to average interest-bearing liabilities			108.6%		

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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 six months ended June 30, 2000 vs. June 30, 2001 Increase (Decrease) Due to		
	Volume	Rate	Total
(Dollars in thousands)			
Interest income:			
Securities and other interest-earning assets	$ (10)	$ (19)	$ (29)
Mortgage-backed and related securities	79	(4)	75
Loan portfolio	128	(15)	113
Total interest-earning assets	197	(38)	159
Interest expense:			
Deposits	378	692	1,070
Borrowed funds	(410)	(77)	(487)
Total interest-bearing liabilities	(32)	615	583
Net interest income	$ 229	$ (653)	$ (424)

PROVISION AND RESERVE FOR LOAN LOSSES

During the six-month period ended June 30, 2001 the Bank had net charge-offs against the allowance for loan losses of $55,000. The Bank added $180,000 to the allowance for loan losses for the current six-month period, increasing the balance to $2.3 million at June 30, 2001. The $790,000 provision in the six-month period ended June 30, 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. Due to the increases made to the provision last year, even though non-performing assets have increased, 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 increased by 39.2% for the three-month period ended June 30, 2001, as compared to the same period a year ago. This increase can be attributed to deposit-related fees increasing 21.5% and fees and service charges on loans increasing 54.5%. The increase in deposit-related fees was due to an increase in the 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. This program began in May 2000 and the volume has increased due to the favorable rate environment.

In the six-month period ended June 30, 2001, noninterest income decreased 5.2% 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 backed securities which occurred during the six months ended June 30, 2000. No similar transactions occurred during the six months ended June 30, 2001. In addition, deposit-related fees increased 21.2% and service charges and fees on loans increased 70.6% for the six-month period ended June 30, 2001, as compared to the same period a year ago.

NONINTEREST EXPENSES

For the six-month period ended June 30, 2001, noninterest expense decreased 7.3% as compared to the same period last year. Compensation and related costs decreased 10.3%. The decrease can be principally attributed to a modification to the defined benefit plan in 2000 and the early retirement of certain employees at December 31, 2000. Occupancy and equipment expense increased by 8.5%. This increase can be attributed to additional maintenance necessary to keep the buildings and equipment in good repair, rental increases, opening a new branch, property tax increases, increases in the cost of data processing services and normal increases in utility expenses. The reduction of $103 thousand in advertising can be attributed to a more conservative advertising policy. The reasons for the changes in the three-month period ended June 30, 2001 as compared to the same period last year are identical to the six-month period ended June 30, 2001.

INCOME TAXES

The effective tax rate for both the three and six- month periods ended June 30, 2001 and 2000 was 36.0% as compared to 34.7% and 35.1%, respectively, for the same periods last year.

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 the continued availability of commercial lending opportunities in the Company's market area, a change in the ability of the Company to sell fixed rate loan originations, an increase in nonperforming assets, changes in the economy and interest rates generally, changes in regulations affecting the Company or the Bank or changes in the economic conditions in 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

(1) Annual Meeting of Stockholders, April 27, 2001
(a) Election of Directors

	FOR		
	NUMBER OF VOTES	PERCENTAGE OF VOTES	NUMBER OF VOTE
Russell M. Carter	2,075,209	88.75	263,083
James D. Hundley, M.D.	2,075,209	88.75	263,083
O. Richard Wright, Jr.	2,073,209	88.66	265,083

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: August 13, 2001

/s/ Frederick Willetts, III

President and Chief Executive Officer

Dated: August 13, 2001

/s/ Todd L. Sammons

Treasurer and Chief Financial Officer