FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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COOPERATIVE BANKSHARES INC

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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, 1996

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. 1,491,698 shares at October 31, 1996

COOPERATIVE BANKSHARES, INC.

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PART 1- FINANCIAL INFORMATION - ITEM 1-FINANCIAL STATEMENTS
COOPERATIVE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
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ASSETS	September 30, 1996	December 31, 1995
<S>	<C>	<C>
Cash and cash equivalents (including interest-bearing deposits: September 1996 - $6,121,129; December 1995 - $8,202,722)	$ 8,957,130	$ 11,889,473
Securities:		
Available for sale	4,008,126	0
Held to maturity (market value September 1996 - $19,348,440; December 1995 - $19,885,820)	21,056,048	21,063,310
Mortgage-backed and related securities:		
Available for sale	29,161,133	30,907,341
Held to maturity	0	0
Other investments	2,435,401	2,587,101
Loans receivable, net	253,278,025	234,008,085
Real estate owned:		
Foreclosed	42,147	329,338
Other	0	206,885
Accrued interest receivable	1,944,314	1,742,589
Premises and equipment, net	4,790,325	5,025,587
Goodwill	0	3,602,189
Prepaid expenses and other assets	1,525,630	481,362
TOTAL	$327,198,279	$311,843,260
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	$276,799,934	$270,070,661
Borrowed funds	20,146,415	10,089,017
Escrow deposits	1,096,317	352,668
Accrued interest payable on deposits	551,026	862,377
Deferred income taxes, net	937,747	857,500
Accrued expenses and other liabilities	2,459,470	528,147
Total liabilities	301,990,909	282,760,370
STOCKHOLDERS' EQUITY		
Preferred stock, $1 par value, 3,000,000 shares authorized, none issued and outstanding	0	0
Common stock, $1 par value, 7,000,000 shares authorized, 1,491,698 shares issued and outstanding	1,491,698	1,491,698
Additional paid-in capital	6,003,111	6,003,111
Net unrealized loss on securities available for sale	(394,360)	(297,938)
Retained earnings	18,106,921	21,886,019
Total stockholders' equity	25,207,370	29,082,890
TOTAL	$327,198,279	$311,843,260

</TABLE>

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

COOPERATIVE BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME
<TABLE>
<CAPTION>

<S>	Three Months Ended September 30, 1996 <C>	Three Months Ended September 30, 1995 <C>	Nine Months Ended September 30, 1996 <C>	Nine Months Ended September 30, 1995 <C>
INTEREST INCOME:				
Loans receivable	$4,796,711	$4,253,081	$13,921,737	$13,008,471
Mortgage-backed and related securities	507,065	543,526	1,548,876	1,656,673
Securities	452,303	557,870	1,323,246	1,794,838
Total interest income	5,756,079	5,354,477	16,793,859	16,459,982
INTEREST EXPENSE:				
Deposits	3,156,209	3,286,240	9,500,562	9,349,466
Borrowed funds	251,500	165,062	578,361	892,827
Total interest expense	3,407,709	3,451,302	10,078,923	10,242,293
NET INTEREST INCOME	2,348,370	1,903,175	6,714,936	6,217,689
Provision for loan losses	79,689	0	119,689	0
Net interest income after provision for loan losses	2,268,681	1,903,175	6,595,247	6,217,689
NONINTEREST INCOME:				
Gain on sale of securities	0	0	0	22,629
Gain on sale of other investments	45,941	0	45,941	0
Gain on sale of loans and mortgage-backed and related securities	0	34,374	0	204,497
Loss on real estate owned	(4,261)	(44,442)	(38,223)	(138,160)
Other income, net	148,934	142,677	413,573	395,470
Total noninterest income	190,614	132,609	421,291	484,436
OTHER OPERATING EXPENSES:				
Compensation and fringe benefits	892,605	896,917	2,741,945	2,735,849
Occupancy and equipment	313,518	289,109	914,786	850,113
Federal insurance premiums	175,556	176,382	525,257	481,954
Federal insurance special assessment	1,782,810	0	1,782,810	0
Advertising	83,846	74,875	221,448	260,056
Amortization of goodwill	73,018	73,017	219,052	219,052
Charge-off impaired goodwill	3,359,791	0	3,359,791	0
Other	225,712	224,499	763,801	740,816
Total other operating expenses	6,906,856	1,734,799	10,528,890	5,287,840
INCOME (LOSS) BEFORE INCOME TAXES	(4,447,561)	300,985	(3,512,352)	1,414,285
Income tax expense (benefit)	(110,500)	123,000	266,746	570,400
NET INCOME (LOSS)	($4,337,061)	$ 177,985	($3,779,098)	$ 843,885
EARNINGS PER SHARE:				
Net income (loss)	($2.73)	$0.11	($2.38)	$0.53
Weighted average common shares and common equivalent shares outstanding	1,586,879	1,584,212	1,587,839	1,581,042

</TABLE>

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

COOPERATIVE BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
<TABLE>
<CAPTION>

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995

<S> <C> <C>

OPERATING ACTIVITIES:		
Net income (loss)	($3,779,098)	$843,885
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net accretion, amortization, and depreciation	3,969,408	573,770
Gain on sale of securities	0	(22,629)
Gain on sale of other investments	(45,941)	0
Gain on sale of loans and mortgage-backed and related securities	0	(204,497)
Provision (benefit) for deferred income taxes	168,400	(148,100)
Loss (gain) on sales of foreclosed real estate	12,831	38,873
Valuation losses on foreclosed real estate	12,800	77,335
Provision for loan losses	119,689	0
Changes in assets and liabilities:		
Accrued interest receivable	(201,725)	316,157
Prepaid expenses and other assets	(1,028,890)	(21,082)
Escrow deposits	743,649	533,690
Accrued interest payable on deposits	(311,351)	552,553
Accrued expenses and other liabilities	1,931,323	215,151
Net cash provided by operating activities	1,591,095	2,755,106
INVESTING ACTIVITIES:		
Proceeds from principal repayments of mortgage-backed and related securities available for sale	1,481,764	209,797
Purchases of securities available for sale	(3,994,062)	0
Proceeds from sale of securities	0	14,698,750
Proceeds from principal repayments of mortgage-backed and related securities held to maturity	0	921,309
Proceeds from sales of loans	0	22,562,611
Loan originations, net of principal repayments	(19,521,943)	(13,502,551)
Change in foreclosed real estate	437,524	12,393
Purchases of premises and equipment	(117,918)	(372,034)
Purchases of other investments	0	(38,600)
Proceeds from sales of other investments	404,526	0
Net cash provided by (used in) investing activities	(21,310,109)	24,491,675
FINANCING ACTIVITIES:		
Net increase in deposits	6,729,273	4,647,171
Net increase (decrease) in borrowings	10,057,398	(19,910,915)
Net cash provided by (used in) financing activities	16,786,671	(15,263,744)
INCREASE IN CASH AND CASH EQUIVALENTS	(2,932,343)	11,983,037
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,889,473	2,933,255
CASH AND CASH EQUIVALENTS, END OF PERIOD	$8,957,130	$14,916,292

</TABLE>

(Continued)

COOPERATIVE BANKSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONCLUDED)

<TABLE>
<S> <C> <C>

SUPPLEMENTAL DISCLOSURES:		
Net change in market value - securities available for sale	$96,422	$1,123,675
Transfer from loans to foreclosed real estate	$239,729	$215,467
Loans to facilitate the sale of foreclosed real estate	$0	$182,250

</TABLE>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. <u>Accounting Policies</u>: 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, 1995. The results of operations for the nine month period ended September 30, 1996 are not necessarily indicative of the results to be expected for the full year.

2. <u>Basis of Presentation</u>: 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.

3. <u>Earnings Per Share</u>: Earnings per share are calculated by dividing net income by the weighted average number of common and 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 a portion of the proceeds from the assumed exercise of the common stock options.

4. <u>Deposit Insurance</u>: Pursuant to recently enacted legislation, the FDIC has levied an assessment on institutions with deposits insured by the Savings Association Insurance Fund (the "SAIF") in order to recapitalize the SAIF. The assessment, set by the FDIC at 0.657% of SAIF-insured deposits as of March 31, 1995, will be paid on November 27, 1996. The effect of this assessment was to reduce the Company's net income for the quarter ended September 30, 1996 by $1.8 million. As a result of this legislation, the Company's deposit insurance premiums will decline substantially commencing on January 1, 1997.

In addition to numerous regulatory relief provisions contained in the recent legislation, the legislation provides for a merger of the SAIF and the Bank Insurance Fund effective January 1, 1999 if there are no insured savings associations remaining on that date, and directs the Secretary of Treasury to make recommendations to the Congress by March 31, 1997 with respect to establishment of a common charter for banks and thrift institutions.

5. <u>Write-off of Goodwill</u>: The Company continually evaluates the realizability of its unamortized goodwill relating to the 1983 purchase of a savings and loan. During the three month period ended September 30, 1996, this evaluation process indicated that the related branches are continuing to experience decreased profitability that has permanently impaired the goodwill. It is Management's opinion that the impairment of the goodwill can not be reversed based on the Company's long-term strategy for this market area. Due to this permanent impairment the Company recognized a charge-off of impaired goodwill of $3.4 million to non-interest expense during the quarter ended September 30, 1996.

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

General

Cooperative Bankshares, Inc. (the "Company") is a registered savings bank holding company incorporated in North Carolina in 1994. The Company was formed for the purpose of serving as the holding company of Cooperative Bank For Savings, Inc., SSB, ("Cooperative Bank" or the "Bank") a North Carolina chartered stock 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 is primarily engaged in the business of attracting deposits from the general public and using those funds to originate mortgage loans for the purchase or construction of one- to four-family homes. To a lesser extent, the Bank also originates multi-family residential mortgage loans, nonresidential real estate loans, consumer loans, and home equity lines of credit. Cooperative Bank is a community-oriented financial institution and, in addition to loans, offers a wide variety of financial services to meet the needs of the communities it serves. As a savings bank, Cooperative Bank's deposit accounts are insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC").

The Company conducts its operations through its main office in Wilmington, North Carolina and 16 offices throughout eastern North Carolina. The Company considers its primary market for savings and lending activities to be the communities of eastern North Carolina extending from the Virginia to the South Carolina borders.

The following management's discussion and analysis is presented to assist in understanding the Company's financial condition and results of operations. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes presented in this report.

Management Strategy

The Company's management strategy is to maintain profitability and a strong capital position while adhering to sound loan underwriting and investment standards. The Company has historically focused on the origination of one- to four-family mortgage loans. During the nine months ended September 30, 1996, the Company originated $47.6 million in mortgage loans. The Company's primary focus is to offer one-year adjustable-rate mortgages. As an alternative, fixed-rate mortgages with varying terms are offered, with rate reduction incentives for 15 year fixed-rate mortgages. To a lesser extent, the Company offers secured and unsecured consumer loans.

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 September 30, 1996, Cooperative had a one-year negative gap position of 7%. 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 period of repricing, they may react in different degrees to changes in market interest rates. For example, most 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.

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. 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, 1996, the estimated market value of liquid assets (cash, cash equivalents, and marketable securities) was approximately $63.9 million, which represents 21.5% of deposits and borrowed funds as compared to $65.3 million or 23.3% of deposits and borrowed funds at December 31, 1995. The decrease in liquid assets during the nine months ended September 30, 1996, was primarily due to the funding of new mortgage loans.

Security Portfolio

The Company's security portfolio consists of U. S. Government agency, mortgage-backed and other permissible securities. The mortgage-backed securities are guaranteed by the following agencies: Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), and the Government National Mortgage Association ("GNMA"). Mortgage-backed securities entitle the Company to receive a pro rata portion of the cash flows from an identified pool of mortgages. Although mortgage-backed securities generally offer lesser yields than the loans for which they are exchanged, they present substantially lower credit risk by virtue of the guarantees that back them. Mortgage-backed securities are more liquid than individual mortgage loans, and may be used to collateralize borrowings or other obligations of the Company.

The Company's investment in mortgage-related securities includes collateralized mortgage obligations ("CMO"). CMOs are securities derived by reallocating the cash flows from mortgage-backed securities or pools of mortgage loans in order to create multiple classes, or tranches, of securities with coupon rates and average lives that differ from the underlying collateral as a whole. At September 30, 1996, the Company's investment in CMOs totaled $15 million, or 27.4% of the securities portfolio. Of the $15 million, a $10 million CMO is insured or guaranteed either directly or indirectly through mortgage-backed securities underlying the obligations of FNMA. This FNMA CMO has a 30 year term, floats at 155 basis points over the 30 day London Interbank Offered Rate ("LIBOR") on a monthly basis and has a lifetime interest rate cap of 8%. The remaining $5 million CMO securities were issued by Chase Mortgage Finance Corporation and represent a beneficial interest in a pool of fixed-rate one- to four-family mortgage loans. The Chase CMO has a 30 year term, floats at 180 basis points over the 30 day LIBOR on a monthly basis and has a lifetime interest rate cap of 8%.

The Company's investment in U. S. Government agency bonds includes $5 million in Federal Home Loan Banks' Dual Indexed Consolidated Bonds maturing August 4, 2003. These bonds had an 8% interest rate from August 4, 1993, through August 3, 1995, at which time the rate became adjustable based on an indexing formula. Subsequent interest rates will also be based on an indexing formula and will adjust on February 4 and August 4. The indexing formula states that the interest rate per annum will be equal to a rate determined by the 10-Year CMT less the 6 month LIBOR plus a margin of 2.9% for August 4, 1995, increasing 30 basis points annually to 5.0% for August 4, 2003.

The mortgage-backed and related securities owned by the Company are subject to repayment by the mortgagors of the underlying collateral at any time. These repayments may be affected by a rising or declining interest rate environment. During a rising or declining interest rate environment, repayments and the interest rate caps may subject the Company's mortgage-backed and related securities to yield and/or price volatility.

The Company's primary uses of liquidity are to fund loans and to make investments. At September 30, 1996, outstanding off-balance sheet commitments to extend credit totaled $12.1 million, and the undisbursed portion of construction loans was $10.1 million. Management considers current liquidity levels adequate to meet the Company's cash flow requirements.

Capital

Stockholders' equity at September 30, 1996, was $25.2 million, down 13.4% from $29.1 million at December 31, 1995. The total at September 30, 1996, and December 31, 1995, includes $394 thousand and $298 thousand respectively, net of tax, of unrealized losses on securities available for sale marked to estimated fair market value under Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"). 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, 1996, the Bank's ratio of Tier I capital was 7.81%.

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 1 capital plus the balance of allowance for loan losses. At September 30, 1996, the Bank had a ratio of qualifying total capital to risk-weighted assets of 15.3%.

For the capital regulations under North Carolina law, the Bank is required to maintain total tangible capital (total capital less goodwill) of not less than 5% of its tangible assets (total assets less goodwill). However, this calculation does permit the allowance for loan losses to be added to capital for the calculation. At September 30, 1996, the Bank's capital ratio, as calculated pursuant to North Carolina statutory requirements, was 8.3%.

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.

Other Information

Pursuant to recently enacted legislation, the FDIC has levied an assessment on institutions with deposits insured by the Savings Association Insurance Fund (the "SAIF") in order to recapitalize the SAIF. The assessment, set by the FDIC at 0.657% of SAIF-insured deposits as of March 31, 1995, will be paid on November 27, 1996. The effect of this assessment was to reduce the Company's net income for the quarter ended September 30, 1996 by $1.8 million. As a result of this legislation, the Company's deposit insurance premiums will decline substantially commencing on January 1, 1997.

In addition to numerous regulatory relief provisions contained in the recent legislation, the legislation provides for a merger of the SAIF and the Bank Insurance Fund effective January 1, 1999 if there are no insured savings associations remaining on that date, and directs the Secretary of Treasury to make recommendations to the Congress by March 31, 1997 with respect to establishment of a common charter for banks and thrift institutions.

The Company continually evaluates the realizability of its unamortized goodwill relating to the 1983 purchase of a savings and loan. During the three month period ended September 30, 1996, this evaluation process indicated that the related branches are continuing to experience decreased profitability that has permanently impaired the goodwill. It is Management's opinion that the impairment of the goodwill can not be reversed based on the Company's long-term strategy for this market area. Due to this permanent impairment the Company recognized a charge-off of impaired goodwill of $3.4 million to non-interest expense during the quarter ended September 30, 1996.

FINANCIAL CONDITION AT SEPTEMBER 30, 1996 COMPARED TO DECEMBER 31, 1995

Financial Condition

The Company's total assets increased 4.9% to $327.2 million at September 30, 1996, as compared to $311.8 million at December 31, 1995. The two major changes in the assets were the purchase of $4.0 million in available for sale securities and $19.3 million (8.2%) increase in loans receivable. The securities were Federal Home Loan Bank bonds with three and five year maturity dates. The security purchase and the increase in loans during the current period were funded by retail deposits, borrowed funds, and liquid assets. The Company concentrates its lending activities on the origination of conventional mortgage loans for the purpose of the construction, financing or refinancing of one- to four-family residential properties. At September 30, 1996, over 93% of the Company's loan portfolio consisted of loans secured by one- to four-family residential properties.

Of the $6.7 million increase in retail deposits during the nine month period ended September 30, 1996, $2.1 was a deposit to a checking account from a local municipality. The increase in retail deposits was used in part to fund the increase in loans receivable. Borrowed funds, collateralized through an agreement with the Federal Home Loan Bank ("FHLB") for advances, are secured by the Company's investment in FHLB stock and qualifying first mortgage loans. Borrowed funds at September 30, 1996, in the amount of $10.0 million, mature in May 1997 with the remaining amount maturing in later years.

The Company's nonperforming assets (loans 90 days or more delinquent and foreclosed real estate) were $1.4 million, or 0.43% of assets, at September 30, 1996, compared to $772 thousand, or 0.25% of assets, at December 31, 1995. An increase in delinquent single family loans caused nonperforming assets to be higher for the period ended September 30, 1996, as compared to December 31, 1995. The Company takes an aggressive position in collecting delinquent loans to keep nonperforming assets down and continues to evaluate the loan and real estate portfolios to provide loss reserves as considered necessary. In the opinion of management, the allowance for loan losses of $783 thousand at September 30, 1996, is adequate to cover potential losses.

Results of Operation

The net income of the Company depends primarily upon net interest income. Net interest income is the difference between the interest earned on loans and securities portfolios 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 (Loss)

The net loss of $3.8 million and $4.3 million for the nine and three month periods ended September 30, 1996, respectively, was the direct results of one-time special charges. Pursuant to recently enacted legislation, the FDIC has levied an assessment on institutions with deposits insured by the Savings

Association Insurance Fund (the "SAIF") in order to recapitalize the SAIF. The effect of this assessment was to reduce the Company's net income for the quarter ended September 30, 1996, by $1.8 million. As a result of this legislation, the Company's deposit insurance premiums will decline substantially commencing on January 1, 1997. In addition

to the SAIF assessment, the Company continually evaluates the realizability of its unamortized goodwill relating to the 1983 purchase of a savings and loan. During the three month period ended September 30, 1996, this evaluation process indicated that the related branches are continuing to experience decreased profitability that has permanently impaired the goodwill. Due to this permanent impairment the Company recognized a charge-off of impaired goodwill of $3.4 million to non-interest expense during the quarter ended September 30, 1996. Excluding the one-time special assessment for deposit insurance of $1.8 million and a charge-off of goodwill of $3.4 million, net income for the nine and three month periods ended September 30, 1996, would have been $965 thousand and $407 thousand respectively, compared to $570 and $178 thousand for the previous year.

Interest Income

Interest income increased 2% for the nine month period ended September 30, 1996, as compared to the nine month period ended September 30, 1995. The increase in income can be principally attributed to an increase in yield on the balance of average interest-earning assets as compared to the same period last year. Earning assets consisting of long-term investment securities of $14.7 million and fixed rate loans of $22.6 million were sold during the period between March 31, 1995, and January 1, 1996. The sales were made to generate funds for the repayment of short-term borrowed funds, increase short-term liquidity, and reduce the interest rate sensitive one-year negative gap. Because the interest rates on the loans and securities sold were relatively high (weighted average rate of 7.8%), the sales of these assets did adversely affect the yield on the Company's interest-earning assets. The impact on interest income due to the sale of interest-earning assets was minimized by an increase in yield on average interest-earning assets from 7.11% for the nine month period ended September 30, 1995, to 7.36% for the nine month period ended September 30, 1996.

For the three month period ended September 30, 1996, interest income increased 7.5% as compared to the same period in 1995. The increase in income can be attributed to two factors. The balance of average interest-earning assets for the three month period ended September 30, 1996, increased 3% and the yield on average interest-earning assets increased to 7.41% as compared to 7.10% for the same period a year ago.

Interest Expense

With higher interest rates on borrowed funds and rate sensitive interest-bearing deposits repricing upward the cost of average interest-bearing liabilities increase to 4.77% for the nine month period ended September 30, 1996, as compared to 4.73% for the same period last year. The increase in cost was offset by a 2.3% reduction in the average balance of interest-bearing liabilities resulting in a decrease in interest expense of 1.6% for the nine month period ended September 30, 1996, as compared to the same period last year. The repayment of short term borrowed funds was the main factor in the reduction of interest-bearing liabilities.

For the three month period ended September 30, 1996, as compared to the same period in 1995, interest expense decreased 1.2%. With a change in the interest rate environment, rate sensitive interest-bearing liabilities repricing downward caused the cost of average interest-bearing liabilities to decrease to 4.74% for the three month period ended September 30, 1996, as compared to 4.93% for the same period last year. The decrease in cost was offset by a 2.7% increase in the average balance of interest-bearing liabilities.

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 asset or liabilities, respectively, for the periods presented.

<TABLE>
<CAPTION>

	For the quarter ended	
	September 30, 1996	September 30, 1995
(Dollars in thousands)	Average	Average

	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Securities and other interest-earning assets	$ 31,968	$ 452	5.66%	$ 37,790	$ 558	5.91%
Mortgage-backed and related securities	30,097	507	6.74%	32,249	543	6.74%
Loan portfolio	248,767	4,797	7.71%	231,541	4,253	7.35%
Total interest-earning assets	310,832	$5,756	7.41%	301,580	$5,354	7.10%
Non-interest earning assets	12,675			13,156		
Total assets	$323,507			$314,736		
Interest-bearing liabilities:						
Deposits	272,040	3,156	4.64%	270,156	3,286	4.87%
Borrowed funds	15,631	252	6.45%	10,077	165	6.55%
Total interest-bearing liabilities	287,671	$3,408	4.74%	280,233	$3,451	4.93%
Non-interest bearing liabilities	6,102			5,658		
Total liabilities	293,773			285,891		
Stockholders' equity	29,734			28,845		
Total liabilities and stockholders' equity	$323,507			$314,736		
Net interest income		$2,348			$1,903	
Interest rate spread			2.67%			2.17%
Net yield on interest-earning assets			3.02%			2.52%
Percentage of average interest-earning assets to average interest-bearing liabilities			108.1%			107.6%

</TABLE>

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 asset or liabilities, respectively, for the periods presented.

<TABLE>
<CAPTION>

	For the nine month ended September 30, 1996			September 30, 1995		
(Dollars in thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Securities and other interest-earning assets	$ 31,945	$ 1,323	5.52%	$ 37,023	$ 1,795	6.46%
Mortgage-backed and related securities	30,657	1,549	6.74%	32,675	1,657	6.76%
Loan portfolio	241,706	13,922	7.68%	238,975	13,008	7.26%
Total interest-earning assets	304,308	$16,794	7.36%	308,673	$16,460	7.11%
Non-interest earning assets	12,843			12,397		

Total assets	$317,151			$321,070		
Interest-bearing liabilities:						
Deposits	269,951	9,501	4.69%	269,433	9,349	4.63%
Borrowed funds	11,938	578	6.46%	19,030	893	6.26%
Total interest-bearing liabilities	281,889	$10,079	4.77%	288,463	$10,242	4.73%
Non-interest bearing liabilities	5,777			4,581		
Total liabilities	287,666			293,044		
Stockholders' equity	29,485			28,026		
Total liabilities and stockholders' equity	$317,151			$321,070		
Net interest income		$6,715			$6,218	
Interest rate spread			2.59%			2.38%
Net yield on interest-earning assets			2.94%			2.69%
Percentage of average interest-earning assets to average interest-bearing liabilities			108.0%			107.0%

</TABLE>

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 asset and interest-bearing liabilities, information is provided on changes attributable to (I) changes in volume (changes in volume multiplied by old rate); (ii) changes in rates (change in rate multiplied by old volume); and (iii) changes in rate-volume (changes in rate multiplied by changes in volume).
<TABLE>
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(Dollars in thousands)	For the nine month ended September 30, 1995 vs. September 30, 1996 Increase (Decrease) Due to			
	Volume	Rate	Rate/Volume	Total
<S>	<C>	<C>	<C>	<C>
Interest income:				
Securities and other interest-earning assets	(246)	(262)	36	(472)
Mortgage-backed and related securities	(102)	(6)	0	(108)
Loan portfolio	148	757	9	914
Total interest-earning assets	(200)	489	45	334
Interest expense:				
Deposits	18	134	0	152
Borrowed funds	(333)	28	(10)	(315)
Total interest-bearing liabilities	(315)	162	(10)	(163)
Net interest income	115	327	55	497

</TABLE>

Net Interest Income

Net interest income for the nine and three month periods ended September 30, 1996, as compared to the same period a year ago, increased 8% and 23% respectively. A reduction in the Company's one-year negative gap position in which interest-bearing liabilities reprice faster than interest-earning assets had a positive effect on increasing the interest rate margin. The one-year negative gap has been reduced to 7% at September 30, 1996, as compared to 18% for the same period last year. During the nine and three month periods ended September 30, 1996, the yield on average interest-earning assets increased 25 basis points and 31 basis points respectively. The percentage of average interest-earning assets to average interest-bearing liabilities increased to 108.1% for the quarter ended September 30, 1996, as compared to 107.6% for the same quarter in 1995.

Provision for Loan Losses

During the nine month period ended September 30, 1996, the Company had a charge to the allowance for loan losses of $74 thousand consisting of $10 thousand for consumer loans and $64 thousand for loans on single family residential property. The Company added $120 thousand to the provision for loan losses for the nine month period September 30, 1996, bringing the balance up to $783 thousand. Management considers this level to be appropriate based on lending volume, 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.

Noninterest Income

During the nine month period ended September 30, 1995, the Company sold $14.7 million in securities and $22.6 million in fixed rate mortgage loans at a gain of $23 thousand and $204 thousand respectively. The proceeds from the 1995 sales were used to repay short-term borrowed funds, and improve the Company's interest rate sensitivity position by reducing its one-year negative gap. The gain on sale of other investments of $46 thousand for the quarter ended September 30, 1996, was the cash liquidation of equity securities. The corporation in which the Company had invested was purchased by a third party and the stock was redeemed. The balance in loss on real estate owned for both periods ended September 30, 1995 and 1996, represents operating expense and further reduction of the carrying amount of foreclosed real estate owned. Management continues to be committed to disposing of these properties in a timely manner. The net other income includes service fees on loans and fee income from the deposit operations. The increase in these fees for the nine month period ended September 30, 1996, as compared to the same period last year was due to several factors. Service fees on sold loans increased due to an increase in volume of loans serviced. Fee income from deposit operations increased due to a more aggressive position in offering checking accounts.

Other Operating Expenses

The Company continually evaluates the realizability of its unamortized goodwill relating to the 1983 purchase of a savings and loan. During the three month period ended September 30, 1996, this evaluation process indicated that the related branches are continuing to experience decreased profitability that has permanently impaired the goodwill. It is Management's opinion that the impairment of the goodwill can not be reversed based on the Company's long-term strategy for this market area. Due to this permanent impairment the Company recognized a charge-off of impaired goodwill of $3.4 million to non-interest expense during the quarter ended September 30, 1996.

Pursuant to recently enacted legislation, the FDIC has levied an assessment on institutions with deposits insured by the Savings Association Insurance Fund (the "SAIF") in order to recapitalize the SAIF. The assessment, set by the FDIC at 0.657% of SAIF-insured deposits as of March 31, 1995, will be paid on November 27, 1996. The effect of this assessment was to reduce the Company's net income for the quarter ended September 30, 1996 by $1.8 million. As a result of this legislation, the Company's deposit insurance premiums will decline substantially commencing on January 1, 1997.

For the nine month period ended September 30, 1996, compensation and related cost increased slightly due to additional new employees and normal cost of living increases for existing employees. Occupancy and equipment expense increased 7.6% during the nine month period ended September 30, 1996, as compared to the same period a year ago. The major part of this increase can be attributed to depreciation and operating cost of the new branch office opened in October 1995. The increase in Federal insurance premium can be attributed to higher premiums. Advertising decreased 14.8% for the period ended September 30, 1996, as compared to the same period last year. The higher advertising cost for the nine month period ended September 30, 1995, was due to promotional campaigns for the introduction of new retail banking products and a more aggressive advertising position. The other operating expense category was up 3.1% for the nine month period ended September 30, 1996, as compared to the same period last year. This was primarily due to normal increases in the purchase of paper, printing and dues.

Income taxes

The effective tax rates for the nine month periods ended September 30, 1996 and 1995 approximate the statutory rate after giving effect to nontaxable interest, amortization of goodwill and other permanent tax differences.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 2. Changes in Securities

(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

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended September 30, 1996.

EXHIBIT 11

STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE
<TABLE>
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	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
NET INCOME (LOSS)	($4,337,061)	$177,985	($3,779,098)	$843,885
<S>	<C>	<C>	<C>	<C>
PRIMARY				
Average shares outstanding	1,491,698	1,491,698	1,491,698	1,491,698
Net effect of dilutive stock options -- based on the treasury stock method using average market price	95,181	92,514	96,141	89,344
TOTAL	1,586,879	1,580,740	1,587,839	1,581,042
PER SHARE AMOUNT	($2.73)	$0.11	($2.38)	$0.53

FULLY DILUTED Average shares outstanding	1,491,698	1,491,698	1,491,698	1,491,698
Net effect of dilutive stock options -- based on the treasury stock method using the period-end market price, if it is dilutive more than 3%.	95,181	92,514	96,141	89,344
TOTAL	1,586,879	1,584,212	1,587,839	1,581,042
PER SHARE AMOUNT	($2.73)	$0.11	($2.38)	$0.53

</TABLE>

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: November 13, 1996

/s/ Frederick Willetts, III
President and Chief Executive Officer

Dated: November 13, 1996

/s/ Edward E. Maready
Treasurer and Chief Financial Officer

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