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COMMUNITY BANCSHARES INC /DE/
Form 10-K
April 16, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

COMMISSION FILE NO. 000-16461
COMMUNITY BANCSHARES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

63-0868361

(STATE OF INCORPORATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

68149 MAIN STREET
BLOUNTSVILLE, ALABAMA 35031

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(205) 429-1000

(REGISTRANT'S TELEPHONE NUMBER)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
-----	-----
NONE	NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, \$.10 PAR VALUE

(TITLE OF CLASS)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS:

YES X NO

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE

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BEST OF THE REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OF INFORMATION STATEMENTS INCORPORATED BY REFERENCE TO PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. []

AS OF MARCH 13, 2002, THE AGGREGATE MARKET VALUE OF THE REGISTRANT'S VOTING STOCK HELD BY NON-AFFILIATES WAS \$41,031,270 BASED UPON A SALE PRICE OF \$15.00 PER SHARE ON MARCH 13, 2002.

AS OF MARCH 13, 2002, THERE WERE 4,635,697 SHARES OF THE REGISTRANT'S COMMON STOCK, \$.10 PAR VALUE SHARES, OUTSTANDING.

DOCUMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K: PROXY STATEMENT FOR THE 2002 ANNUAL MEETING OF SHAREHOLDERS.

PART 1

ITEM 1 - BUSINESS

GENERAL

Community Bancshares, Inc. (the "Company") is a Delaware corporation and a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding Act of 1956, as amended (the "Bank Holding Company Act"). The Company was organized in 1983 and commenced business in 1985. The Company has one bank subsidiary, Community Bank, an Alabama banking corporation which conducts a general commercial banking business in north and west-central Alabama and south-central Tennessee. At December 31, 2001, the Company and its subsidiaries had total assets of approximately \$729,481,000, deposits of approximately \$617,706,000 and shareholders' equity of approximately \$40,665,000. The Company maintains its principal executive offices at 68149 Main Street, Blountsville, Alabama 35031, and its telephone number is (205) 429-1000.

SUBSIDIARY BANK

At December 31, 2001, Community Bank conducted business through 30 locations in nine counties in north Alabama, two counties in west-central Alabama and one county in south-central Tennessee. It offers a wide range of commercial and retail banking services, including savings and time deposit accounts, personal and commercial loans and personal and commercial checking accounts. The majority of loans by Community Bank are to individuals and small to mid-sized businesses in Alabama and Tennessee. Community Bank seeks to provide superior service to its customers and to become a vital component of each of the communities it serves.

Community Bank operates in small non-urban communities. At December 31, 2001 the Bank had locations in Blountsville, Cleveland, Oneonta, Snead and West Blount in Blount County, Alabama; Fort Payne and Rainsville in DeKalb County, Alabama; Rogersville in Lauderdale County, Alabama; Elkmont in Limestone County, Alabama; Gurley, Meridianville and New Hope in Madison County, Alabama; Demopolis in Marengo County, Alabama; Hamilton in Marion County, Alabama; Arab, Albertville, Boaz and Guntersville in Marshall County, Alabama; Falkville and Hartselle in Morgan County, Alabama; Uniontown in Perry County, Alabama; Double Springs and Haleyville in Winston County, Alabama; and Pulaski in Giles County, Tennessee. At December 31, 2001, Community Bank operated 26 full service offices as well as four paying and receiving offices located within Wal-Mart stores, which primarily open deposit accounts, cash checks and receive deposits and loan payments.

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In late 2001 and early 2002, Community Bank entered into agreements to sell its two Pulaski, Tennessee offices, its Rainsville and Ft. Payne, Alabama offices and its Marshall County, Alabama locations. The Marshall County locations include one banking office in Boaz, Alabama, one in Albertville, Alabama, two in Arab, Alabama, and two in Guntersville, Alabama. Two of the total ten offices under agreements to sell are paying and receiving offices located in Wal-Mart stores, one in Ft. Payne, Alabama and one in Guntersville, Alabama. On March 31, 2002, the Bank closed on the sale of its Pulaski, Tennessee offices and anticipates the sale of the others during the second quarter of 2002.

SUBSIDIARIES OF COMMUNITY BANK

1st Community Credit Corporation currently operates 12 finance company offices in 12 Alabama communities, including Albertville, Arab, Athens, Boaz, Cullman, Decatur, Gadsden, Hartselle, Huntsville, Fort Payne, Jasper and Oneonta, Alabama. 1st Community Credit Corporation provides loans to a market segment traditionally not pursued by Community Bank. These loans have typically generated higher yields and involved greater risk than standard commercial bank loans. At December 31, 2001, 1st Community Credit

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Corporation's loan portfolio totaled approximately \$24,765,000.

Community Insurance Corp. serves as an agent in the sale of title, property, casualty and life insurance products to individuals and businesses through an office in Huntsville, Alabama. Community Insurance Corp. owns 100% of the outstanding shares of capital stock of Southern Select Insurance, Inc., a managing general agency which brokers agricultural, commercial and personal insurance products. Both Community Insurance Corp. and Southern Select Insurance, Inc. are located in Huntsville, Alabama.

Community Appraisals, Inc., a subsidiary of Community Bank, operates a real estate appraisal business through its office located at the Company's headquarters complex in Blountsville, Alabama. This subsidiary provides appraisal services in connection with the lending activities of Community Bank and 1st Community Credit Corporation.

MARKET AREAS

At December 31, 2001, the Company's principal market areas were located in north Alabama (Blount, Cullman, DeKalb, Etowah, Lauderdale, Limestone, Madison, Marshall and Morgan Counties), northwest Alabama (Marion and Winston Counties), west-central Alabama (Marengo and Perry Counties) and in south-central Tennessee (Giles County). All of the Company's banking and finance company offices are located in relatively rural areas and place an emphasis on personal service.

With the exception of Blount, Marengo, Marion, Perry and Winston Counties in Alabama, the markets in which the Company operates share one common characteristic: each is close enough to Huntsville, Alabama, to share in the economic and employment benefits of that city. Huntsville is located in Madison County. Unemployment for Madison County was 3.7% for December 2001 as compared to 6.00% for Alabama during that period, as reported by the Alabama Department of Industrial Relations. The Huntsville Metropolitan Statistical Area ("MSA") possesses a diverse economic base with employers that include the military and aerospace industries, manufacturers of durable goods, machinery, transportation, as well as retailers and service industries. Agriculture, in the form of soybeans, hay, corn, cotton, tobacco, dairy and poultry farming, also makes up a

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significant portion of the Huntsville MSA's economy.

Similarly, Blount County is close enough to Birmingham, Alabama, to share in the economic and employment benefits of that city. Jefferson County, in which Birmingham is located, had a 4.3% unemployment rate for December 2001, according to the Alabama Department of Industrial Relations. The Birmingham area still retains some of the steel and related manufacturers that built the city, but the economy is now more diverse with the University of Alabama in Birmingham and the healthcare industry providing many jobs.

Marion and Winston Counties lie in northwest Alabama, near the Mississippi border. In both counties the manufacturing sector provides more jobs, and higher sales or receipts, than the wholesale, retail and service sectors. Manufactured housing and furniture production are two prominent industries in these counties, and both industries have experienced recent economic slowdowns. Marion County was reported to have an unemployment rate of 9.4% for December 2001, according to the Alabama Department of Industrial Relations. Winston County was reported to have an unemployment rate of 10.1% for December 2001 according to the Alabama Department of Industrial Relations.

Marengo and Perry Counties are located in west-central Alabama. Manufacturing provides more jobs in these counties than the wholesale, retail, and service sectors. In addition, catfish farming and the timber industry are important components in the economy of these counties. Marengo County's unemployment rate reported by the Alabama Department of Industrial Relations for December 2001 was 6.8%. Perry County was reported to have an unemployment rate of 13.4% for December 2001 as reported by the Alabama Department of Industrial Relations.

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As previously discussed, at December 31, 2001, Community Bank was under agreements to sell ten of its bank locations. The locations are located in DeKalb County, Alabama, Marshall County, Alabama and Giles County, Tennessee. The sale of these bank locations will not affect the presence of 1st Community Credit Corporation, a subsidiary of Community Bank, in its DeKalb and Marshall County market areas. The sale of the Tennessee operations was consummated on March 31, 2002, and the Company no longer has a presence in Tennessee.

While certain markets have experienced an economic downturn, overall, the Company remains optimistic about current economic prospects in its market areas, and the Company attempts to assist those local economies by returning the deposits of its customers to the communities from which they come in the form of loans.

LENDING ACTIVITIES

Community Bank's lending activities include commercial, real estate and consumer loans. Community Bank's commercial loan services include term-loans, lines of credit and agricultural loans. A broad range of short to medium term commercial loans, both secured and unsecured, are made available to businesses for working capital, business expansion and the purchase of equipment and machinery. Community Bank's real estate lending activities include fixed and adjustable rate residential mortgage loans, construction loans, second mortgages, home improvement loans and home equity lines of credit. Community Bank's consumer lending services include loans for automobiles, recreation vehicles and boats, as well as personal (secured and unsecured) and deposit account secured loans.

COMPETITION

The banking business in Alabama is highly competitive with respect to loans,

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deposits and other financial services and is dominated by a number of major banks and bank holding companies which have numerous offices and affiliates operating over wide geographic areas. Community Bank competes for deposits, loans and other business with these banks as well as with savings and loan associations, credit unions, mortgage companies, insurance companies and other local financial institutions. Many of the major commercial banks operating in Community Bank's service areas offer services such as international banking and investment and trust services, which are not offered by Community Bank. Additionally, the competitive environment for both the Company and Community Bank may be materially affected by the enactment of the Gramm-Leach-Bliley Financial Services Modernization Act (the "GLBA"). This law modified or eliminated many barriers between investment banking, commercial banking and insurance underwriting and sales. See "Supervision and Regulation". These changes in the law have created and may continue to create greater competition for the Company and Community Bank by increasing the number and types of competitors and by encouraging increased consolidation within the financial services industry.

EMPLOYEES

At December 31, 2001, the Company and its subsidiaries had approximately 383 full-time equivalent employees. The Company and its subsidiaries provide a variety of group life, health and accident insurance, retirement and stock ownership plans and other benefit programs for their employees. The Company maintains continuing education and training programs for its employees, designed to prepare the employees for positions of increasing responsibility in management or operations. Membership and participation by employees in professional and industry organizations is encouraged and supported by the Company.

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SUPERVISION AND REGULATION

The following is a brief summary of the regulatory environment in which the Company and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations, including those federal and state statutes and regulations specifically mentioned herein. Changes in the laws and regulations applicable to the Company and its subsidiaries can affect the operating environment of the Company and its subsidiaries in substantial and unpredictable ways. The Company cannot accurately predict whether legislation will ultimately be enacted, and, if enacted, the ultimate effect that it or implementing regulations would have on its or its subsidiaries financial condition or results of operations.

The Company is a bank holding company and is registered as such with the Federal Reserve. The Company is subject to regulation and supervision by the Federal Reserve and is required to file with the Federal Reserve annual reports and such other information as the Federal Reserve may require. The Federal Reserve also conducts examinations of the Company.

The Federal Reserve takes the position that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary bank and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's position that, in serving as a source of strength to its subsidiary bank, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary bank during periods of financial stress or adversity and should maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting its subsidiary bank.

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Community Bank is incorporated under the banking laws of the State of Alabama and is subject to the applicable provisions of Alabama banking laws and to regulation and examination by the Alabama State Banking Department. Examinations include a review of Community Bank's condition and resources, its mode of conducting and managing its affairs, the actions of its directors, the investment of its funds, the safety and prudence of its management, compliance with its charter and law in the administration of its affairs and other aspects of Community Bank's operations. State statutes in Alabama relate to such matters as loans, mortgages, consolidations, required reserves, allowable investments, issuance of securities, payment of dividends, establishment of branches, filing of periodic reports and other matters affecting the business of Community Bank.

Deposits in Community Bank are insured, up to applicable limits, by the Federal Deposit Insurance Corporation (the "FDIC") and, therefore, Community Bank is subject to provisions of the Federal Deposit Insurance Act ("FDIA"). Community Bank's primary federal regulator is the FDIC, and as a result, Community Bank is subject to examination and regulation by the FDIC. The FDIC is authorized to terminate the deposit insurance of any depository institution, such as Community Bank, whose deposits are insured by the FDIC if the FDIC determines, after a hearing, that the institution or its directors have engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations as an insured institution, or has violated any applicable law, regulation, order, condition imposed in writing by the FDIC in connection with the granting of any application or other request by the depository institution or any written agreement entered into with the FDIC.

Each federal banking regulatory agency is authorized to issue a cease and desist order to any financial institution or institution-affiliated party for which the agency is the primary federal banking regulator (which in the case of Community Bank, is the FDIC and, in the case of the Company, is the Federal Reserve) if the agency determines, after a hearing, that the institution or institution-affiliated party has engaged, is engaging or is reasonably believed to be about to engage, in unsafe or unsound practices, or has violated, is violating or is reasonably believed to be about to violate a law, rule or regulation, or any condition imposed in writing by the agency in connection with the granting of any application or other request by the institution or any

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written agreement entered into with the agency. The cease and desist order may require the institution or institution-affiliated party to cease and desist from the violation or practice, including requiring the institution or institution-affiliated party to make restitution or reimbursement against loss, restrict the institution's growth, dispose of loans or assets, rescind agreements or contracts, employ qualified officers or employees and take other actions determined to be appropriate by the agency. The order may also limit the activities of the institution.

The Company and Community Bank are subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). FDICIA expanded the regulatory powers of federal banking agencies to permit prompt corrective actions to resolve problems of insured depository institutions through the regulation of banks and their affiliates, including bank holding companies. The provisions are designed to minimize the potential loss to depositors and to FDIC insurance funds if financial institutions default on their obligations to depositors or become in danger of default. Among other things, FDICIA provides a framework for a system of supervisory actions based primarily on the capital levels of financial institutions.

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FDICIA also provides for a risk-based deposit insurance premium structure. The FDIC is an independent federal agency established originally to insure the deposits, up to prescribed statutory limits, of federally insured banks and to preserve the safety and soundness of the banking industry. The FDIC maintains two separate insurance funds: the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF"). Community Bank's deposit accounts are insured by the FDIC under the BIF to the maximum extent permitted by law. Community Bank pays deposit insurance premiums to the FDIC based on a risk-based assessment system established by the FDIC for all BIF-member institutions.

Under FDIC regulations, institutions are assigned to one of three capital groups for insurance premium purposes (well capitalized, adequately capitalized and undercapitalized). These three groups are then divided into subgroups which are based on supervisory evaluations by the institution's primary federal regulator, resulting in nine assessment classifications. Assessment rates vary depending upon the assessment classification. In addition, regardless of the potential risk to the insurance fund, federal law requires the FDIC to establish assessment rates that will maintain each insurance fund's ratio of reserves to insured deposits at 1.25%. During 2001 and for the first semiannual assessment period of 2002, assessment rates for BIF-insured institutions ranged from 0% of insured deposits for well-capitalized institutions with minor supervisory concerns to .27% of insured deposits for undercapitalized institutions with substantial supervisory concerns. The assessment rate schedule is subject to change by the FDIC and, accordingly, the assessment rate could increase or decrease in the future.

In addition to deposit insurance assessments, the FDIC is authorized to collect assessments against insured deposits to be paid to the Finance Corporation ("FICO") to service FICO debt incurred in the 1980s. The FICO assessment rate is adjusted quarterly. The average annual assessment rate in 2001 was 1.90 cents per \$100 of assessable deposits. For the first quarter of 2002, the FICO assessment rate for such deposits will be 1.82 cents per \$100.

Community Bank's assessment expense for the year ended December 31, 2001 equaled approximately \$207,000.

The federal banking regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards pursuant to FDICIA. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an

executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If the institution fails to submit an acceptable compliance plan or fails to implement an accepted plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions be taken, including restricting asset growth, restricting interest rates paid on deposits, and requiring an increase in the bank's ratio of tangible equity to assets. If an institution

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fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

FDICIA establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulatory agencies are required to rate supervised institutions on the basis of five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three under-capitalized categories, the severity of which will depend upon the capital category in which the institution is placed. Under certain circumstances, an institution may be downgraded to a category lower than that warranted by its capital levels, and subjected to the supervisory restrictions applicable to institutions in the lower capital category. Generally, subject to a narrow exception, FDICIA requires a federal banking regulatory agency to appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking regulatory agencies have specified by regulation the relevant capital level for each category.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. A depository institution's holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution's total assets at the time it becomes undercapitalized or the amount necessary to bring the institution into compliance with all applicable capital standards. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator. At December 31, 2001, Community Bank was well capitalized for prompt corrective action purposes.

The Company is required to comply with the risk-based capital guidelines established by the Federal Reserve, and other tests relating to capital adequacy which the Federal Reserve adopts from time to time. Under the risk-based capital assessment system, assets are weighted by a risk factor and a ratio is calculated by dividing the qualifying capital by the risk-weighted assets. Tier I capital generally includes common stock and retained earnings. Total capital is comprised of Tier I capital and Tier II capital, which includes certain allowances for loan losses and certain subordinated debt. The Company's Tier I and total capital ratios exceeded the required minimum levels as of December 31, 2001.

The Company is a legal entity which is separate and distinct from its subsidiaries. There are various legal limitations on the extent to which Community Bank may extend credit, pay dividends or otherwise supply funds to the Company or its affiliates. In particular, Community Bank is subject to certain restrictions imposed by federal law on any extensions of credit to the Company or, with certain exceptions, other affiliates.

The primary source of funds for dividends paid to the Company's shareholders is dividends paid to the Company by Community Bank. Various federal and state

laws limit the amount of dividends that Community Bank may pay to the Company without regulatory approval. Under Alabama law, an Alabama state bank, such as Community Bank, may not pay a dividend in excess of 90% of its net earnings until the bank's surplus is equal to at least 20% of its capital. Community Bank is also required by Alabama law to obtain the prior approval of the Superintendent of the Alabama State Banking Department in order to pay a dividend if the total of all the dividends declared by Community Bank in any calendar year will exceed the total of Community Bank's net earnings (as defined by statute) for that year and its retained net earnings for the preceding two years, less any required transfers to surplus. At December 31, 2001, Community Bank could not have declared or paid any dividend without such approval. In addition, no dividends may be paid from Community Bank's surplus without the prior written approval of the Superintendent of the Alabama State Banking Department. Under FDICIA, Community Bank may not pay any dividends, if after paying the dividend it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit Community Bank from engaging in business practices which the FDIC considers to be unsafe or unsound, which, depending on the financial condition of Community Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a bank holding company, such as the Company, if its actions constitute unsafe or unsound practices. In 1985, the Federal Reserve issued a policy statement on the payment of cash dividends by bank holding companies, which outlined the Federal Reserve's view that a bank holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve indicated that, in some instances, it may be appropriate for a bank holding company to eliminate its dividends.

The federal Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("IBBEA") permits adequately capitalized and managed bank holding companies to acquire control of banks in states other than their home states, subject to federal regulatory approval, without regard to whether such a transaction is prohibited by the laws of any state. IBBEA permits states to continue to require that an acquired bank have been in existence for a certain minimum time period, which may not exceed five years. A bank holding company may not, following an interstate acquisition, control more than 10% of the nation's total amount of bank deposits or 30% of bank deposits in the relevant state (unless the state enacts legislation to raise the 30% limit). States retain the ability to adopt legislation to effectively lower the 30% limit. Federal banking regulators may approve merger transactions involving banks located in different states, without regard to laws of any state prohibiting such transactions; except that, mergers may not be approved with respect to banks located in states that, prior to June 1, 1997, enacted legislation prohibiting mergers by banks located in such state with out-of-state institutions. Also, states may continue to require that an acquired bank have been in existence for a certain minimum period of time, which may not exceed five years. Federal banking regulators may permit an out-of-state bank to open new branches in another state if such state has enacted legislation permitting interstate branching. Affiliated institutions are authorized to accept deposits for existing accounts, renew time deposits and close and service loans for affiliated institutions without being deemed an impermissible branch of the affiliate.

The federal Community Reinvestment Act of 1977 ("CRA") and its implementing regulations are intended to encourage regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of

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such financial institutions. The regulations provide that the appropriate regulatory authority will assess CRA reports in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving bank holding companies. An unsatisfactory CRA rating may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. At December 31, 2001, the Company had a "satisfactory" CRA rating.

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The federal Gramm-Leach-Bliley Act of 1999 (the "GLBA") eliminated prohibitions in the Glass-Steagall Act against a bank associating with a company engaged principally in securities activities. The GLBA also permits a bank holding company to elect to become a "financial holding company," which would expand the powers of the bank holding company. The repeal of the Glass-Steagall Act provisions and the availability of financial holding company powers became effective on March 11, 2000. Financial holding company powers relate to financial activities that are determined by the Federal Reserve to be financial in nature, incidental to an activity that is financial in nature, or complementary to a financial activity (provided that the complementary activity does not pose a safety and soundness risk). The GLBA itself defines certain activities as financial in nature, including lending activities, underwriting and selling insurance, providing financial or investment advice, underwriting, dealing and making markets in securities and merchant banking. In order to qualify as a financial holding company, a bank holding company's depository subsidiaries must be both well capitalized and well managed, and must have at least a satisfactory rating under the CRA. The bank holding company must also declare its intention to become a financial holding company to the Federal Reserve and certify that its depository subsidiaries meet the capitalization and management requirements. The GLBA establishes the Federal Reserve as the umbrella regulator of financial holding companies, with subsidiaries of the financial holding company being more specifically regulated by other regulatory authorities, such as the Securities and Exchange Commission, the Commodity Futures Trading Commission and state securities and insurance regulators, based upon the subsidiaries' particular activities. The GLBA also provides for minimum federal standards of privacy to protect the confidentiality of personal financial information of customers and to regulate use of such information by financial institutions. A bank holding company that does not elect to become a financial holding company remains subject to the Bank Holding Company Act. The Company has not determined whether it will elect to become a financial holding company.

Community Bank is subject to regulatory oversight under various consumer protection and fair lending laws. These laws govern, among other things, truth-in-lending disclosure, equal credit opportunity and fair credit reporting.

Community Insurance Corp. is a licensed insurance agent and broker for various insurance companies, and is subject to regulation by the Alabama Insurance Commission.

The Federal Reserve regulates money, credit and interest rate conditions in order to influence general economic conditions, primarily through open market operations in U.S. Government securities, changes in the discount rate, reserve requirements on member bank's deposits and funds availability regulations. The earnings and growth of the Company and its subsidiaries are subject to the influence of economic conditions generally and to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The nature and timing of any changes in such conditions and policies, and their impact on the Company, cannot be predicted.

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On April 9, 2001, the Company's Board of Directors entered into a Memorandum of Understanding (the "Memorandum") with the Federal Reserve Bank of Atlanta (the "Reserve Bank"), which outlines actions to be taken by the Company to address concerns identified by the Reserve Bank. In the Memorandum, the Company agreed that, without the prior written approval of the Reserve Bank, it would not declare or pay any dividends, repurchase shares of its common stock, incur any additional indebtedness, alter the terms of existing indebtedness or increase the amount of management fees paid to the Company by Community Bank. In addition, the Company agreed to maintain a quarterly Tier I leverage ratio (the ratio of Tier I capital to average assets, less goodwill) of at least 6.5% during the period in which the Memorandum is in effect, and to periodically update the Company's plan for maintaining capital and earnings at adequate levels. The Company also agreed to establish a policy that provides for target levels of capital and guidelines for payment of dividends and a plan to strengthen the Company's internal audit program. The Company further agreed that a committee of non-employee directors of the Company will review and report on the appropriateness of the compensation provided under the employment agreement of Kennon R. Patterson, Sr., the Chairman of the Board, Chief Executive Officer and President of the Company. In addition, the Company agreed to provide

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the Reserve Bank with a contingency plan for conserving or raising cash and information about loans extended by Community Bank to facilitate purchases of the Company's common stock, and to periodically provide the Reserve Bank with certain financial and other information and a report of actions taken by the Company to ensure compliance with the Memorandum. On March 8, 2002, the Reserve Bank requested that the Company agree to an amendment of the Memorandum that would disallow the Company from making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank. The Company expects to agree to the amendment on or before May 3, 2002. In the interim, the Company elected to defer the March 2002 interest payment on its junior subordinated deferrable interest debentures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations, Borrowed Funds - Maturities of Long-term Debt". Management of the Company cannot currently estimate the period during which the Company will remain subject to the terms of the Memorandum, or the effect of the Memorandum on the Company's financial condition, liquidity and results of operations.

On April 18, 2001, the Board of Directors of Community Bank, the Company's subsidiary bank, also entered into a Memorandum of Understanding (the "Bank Memorandum") with the Regional Director of the FDIC's Atlanta Regional Office and the Alabama Superintendent of Banks ("State"). Major provisions of the Bank Memorandum include requirements to reduce classified assets, restrict expansion, adopt revised policies in the areas of lending, liquidity, interest rate risk, loan documentation, asset/liability management and ethics, review duties and responsibilities of key officers, review compliance with investment, liquidity and funds management policies, reconstitute membership of its Board of Directors, develop internal loan review and internal audit functions, maintain capital ratio requirements, restrict dividend payments, provide to the regulators updates on the status of litigation, other financial and managerial information and quarterly progress reports detailing efforts to comply with the requirements of the Bank Memorandum.

Based on an examination as of June 30, 2001, the FDIC and the State requested the Community Bank Board of Directors to adopt a Safety and Soundness Compliance Plan ("Plan"). The Board adopted the Plan on March 5, 2002. If accepted by the FDIC/State, the Plan (initiated by the FDIC) would replace the Bank Memorandum (initiated by the State).

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Pursuant to the terms of the Plan, the Board will review the bank's organizational structure and staffing requirements and hire and train any additional personnel needed to comply with the Plan. Also the Board will review and revise the bank's loan policy and underwriting standards, loan collection plan, allowance for loan losses methodology, interest rate risk policy and asset liability management policy. The Plan also provides that the Board will adopt an internal audit program, an internal controls program, a plan to reduce classified assets and internal and external loan documentation review procedures. Also, pursuant to the Plan, the Board will engage an outside firm to perform the loan review function and will adopt an internal loan review program. The Plan also places restrictions on extending credit to borrowers who have classified loans with the bank. Under the Plan, prior to submission of Reports of Condition and Income, the Board must review the adequacy of the allowance for loan losses and provide for an adequate balance. Under the Plan, the Board committed to maintaining a Tier I capital ratio of at least 7% and to obtain the prior approval of the regulators before paying dividends. In addition, the Plan requires the submission of a budget and profit plan and the engagement of an outside accounting firm to perform the bank's internal audit function and the formation of a bank administration department to strengthen internal controls. Finally, the Plan requires management to make monthly reports to the Board of Directors regarding the status in meeting the requirements of the Plan, and to submit quarterly progress reports to the regulators.

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STATISTICAL DISCLOSURE

Statistical and other information regarding the following items are set forth in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" on the pages indicated below.

Loan Portfolio and Selected Loan Maturity.....	
Investment Portfolio.....	
Investment Portfolio Maturity Schedule.....	
Average Deposit Balances and Rates Paid.....	
Maturities of Large Time Deposits.....	
Short-term Borrowings.....	
Maturities of Long-term Debt	
Rate Shock Analysis.....	
Interest Sensitivity.....	

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Capital Adequacy Ratios and Return on Equity and Assets.....	
Yields, Rates, Interest Rate Spread and Net Interest Margin.....	
Consolidated Average Balances, Interest Income/Expense and Yields/Rates.....	
Rate/Volume Variance Analysis.....	
Summary of Loan Loss Experience.....	
Allocation of the Allowance for Loan Losses.....	
Nonperforming Assets.....	
Noninterest Income.....	
Noninterest Expense.....	

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ITEM 2 - PROPERTIES

The corporate headquarters of the Company is owned by Community Bank and located at 68149 Main Street (U.S. Highway 231) in Blountsville, Alabama. Community Bank's administrative, operational, accounting and legal functions are housed in three buildings constructed in 1997, all of which are located on the same property as the corporate headquarters.

The main banking office of Community Bank is located at 69156 Main Street, Blountsville, Alabama. The premises are owned by Community Bank.

At December 31, 2001, Community Bank owned or leased buildings that were used in the normal course of business in 11 counties in Alabama, including Blount, DeKalb, Lauderdale, Limestone, Madison, Marengo, Marion, Marshall, Morgan, Perry and Winston Counties, and in Giles County, Tennessee. 1st Community Credit Corporation owned or leased buildings that were used in the normal course of business in ten counties in Alabama, including Blount, Cullman, Marshall, Morgan, Limestone, Lawrence, Etowah, Madison, DeKalb and Walker Counties. Community Insurance Corp. and its subsidiary, Southern Select Insurance, Inc., owned a building that is used in the normal course of business in Madison County, Alabama.

For information about the amounts at which bank premises, equipment and other real estate are recorded in the Company's financial statements and information relating to commitments under leases, see the Company's Consolidated Financial Statements included elsewhere in this Report.

ITEM 3 - LEGAL PROCEEDINGS

Background

At a meeting of Community Bank's Board of Directors on June 20, 2000, a director brought to the attention of the Board the total amount of money Community Bank had paid subcontractors in connection with the construction of a new Community Bank office. Management of the Company commenced an investigation of the expenditures. At the request of management, the architects and subcontractors

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involved in the construction project made presentations to the Boards of Directors of the Company and Community Bank on July 15 and July 18, 2000, respectively. At the July 18, 2000 meeting of the Board of Directors of Community Bank, another director made a presentation alleging that Community Bank had been overcharged by subcontractors on that construction project and another current construction project. On July 18, 2000, the Boards of Directors of the Company and Community Bank appointed a joint committee comprised of independent directors of the Company and of Community Bank to investigate the alleged overcharges. The joint committee has informed the Boards of Directors of the Company and Community Bank of its findings and recommendations. The joint committee retained legal counsel and an independent accounting firm to assist the committee in its investigation. Management has also been informed that the directors of Community Bank who alleged the construction overcharges have contacted bank regulatory agencies and law enforcement authorities. Management believes that these agencies and authorities either have conducted or are currently conducting investigations regarding this matter.

Benson Litigation

On July 21, 2000, three shareholders of the Company, M. Lewis Benson, Doris E. Benson and John M. Packard, Jr., filed a lawsuit in the state Circuit Court of Marshall County, Alabama against the Company, Community Bank, certain directors and officers of the Company and Community Bank, an employee of Community Bank and two construction subcontractors. The plaintiffs purported to file the lawsuit as a shareholder derivative action, which relates to the alleged construction overcharges being investigated by the joint committee of the Boards of Directors of the Company and Community Bank. The complaint alleges that the directors, officers and employee named as defendants in the complaint breached their fiduciary duties, failed to properly supervise officers and agents of the Company and Community Bank, and permitted waste of

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corporate assets by allegedly permitting the subcontractor defendants to overcharge Community Bank in connection with the construction of two new Community Bank offices, and to perform the construction work without written contracts, budgets, performance guarantees and assurances of indemnification. In addition, the complaint alleges that Kennon R. Patterson, Sr., the Chairman, President and Chief Executive Officer of the Company, breached his fiduciary duties by allegedly permitting the two named subcontractors to overcharge for work performed on the two construction projects in exchange for allegedly discounted charges for work these subcontractors performed in connection with the construction of Mr. Patterson's residence. The complaint further alleges that the director defendants knew or should have known of this alleged arrangement between Mr. Patterson and the subcontractors. The complaint also alleges that Mr. Patterson, the Community Bank employee and the two subcontractor defendants made false representations and suppressed information about the alleged overcharges and arrangement between Mr. Patterson and the subcontractors.

On August 15, 2000, the plaintiffs filed an amended complaint adding Andy C. Mann, a shareholder of the Company, as a plaintiff and adding a former director of the Company and Community Bank as a defendant. The amended complaint generally reiterates the allegations of the original complaint. In addition, the amended complaint alleges that Community Bank was overcharged on all construction projects from January 1997 to the present. The amended complaint also alleges that the defendants breached their fiduciary duties and are guilty of gross financial mismanagement, including allegations concerning the making or approval of certain loans and taking allegedly improper actions to conceal the

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fact that certain loans were uncollectible. On September 18, 2000 the plaintiffs filed a second amended complaint. The second amended complaint generally reiterates the allegations of the original and first amended complaints. In addition, the second amended complaint alleges that the plaintiffs were improperly denied their rights to inspect and copy certain records of the Company and Community Bank. The second amended complaint also alleges that the directors of the Company abdicated their roles as directors either by express agreement or as a result of wantonness and gross negligence. The second amended complaint asserts that the counts involving inspection of corporate records and director abdication are individual, nonderivative claims. The second amended complaint seeks, on behalf of the Company, an unspecified amount of compensatory damages in excess of \$1 million, punitive damages, disgorgement of allegedly improperly paid profits and appropriate equitable relief. Upon motion of the defendants, the case was transferred to the state Circuit Court in Blount County, Alabama by order dated September 21, 2000, as amended on October 12, 2000.

On August 24, 2000, the Board of Directors of the Company designated the directors of the Company who serve on the joint investigative committee as a special litigation committee to investigate and evaluate the allegations and issues raised in this lawsuit and to arrive at such decisions and take such action as the special litigation committee deems appropriate. On June 8, 2001, the special litigation committee filed its report under seal with the court. On June 18, 2001, the court entered an order affirming the confidentiality of the special committee's report. On June 28, 2001, the Company, Community Bank and various other defendants filed a motion with the court to adopt the report of the special committee, for partial summary judgment and to realign the Company and Community Bank as plaintiffs in the lawsuit. Following a hearing on August 29, 2001, the court denied these motions on November 8, 2001. The court also ruled that the plaintiffs were entitled to conduct discovery except as it related to one of the subcontractor defendants and granted the plaintiffs' motion to unseal the report of the special litigation committee. On November 14, 2001, the directors of the Company filed a motion for the court to alter, amend or vacate its November 8, 2001 rulings. On February 7, 2002, the Company and Community Bank filed a motion to disqualify Maynard, Cooper & Gale, P.C., the law firm representing the plaintiffs, due to conflicts of interest. The court held a hearing on these motions on February 22, 2002 and the parties are awaiting a ruling. On February 25, 2002, the Company and Community Bank filed a motion for limited discovery relating to its motion to disqualify the plaintiffs' law firm. As a result of the inherent uncertainties of the litigation process, the Company is unable at this time to predict the outcome of this lawsuit and its effect on the Company's financial condition and results of operations. Regardless of the outcome, however, this lawsuit could be costly, time-consuming and a diversion of management's attention.

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Towns Derivative Litigation

On November 19, 1998, Mr. William Towns, a shareholder of the Company, filed a shareholder derivative action against the directors of the Company in the state Circuit Court of Blount County, Alabama. Mr. Towns amended his complaint on January 14, 1999 to add the Company and Community Bank as defendants in the action. On February 11, 1999, the complaint was again amended to add Mr. Pat Bellew and Mrs. Mary Bellew, who are also shareholders of the Company, as additional plaintiffs. The complaint alleged that the directors of the Company breached their fiduciary duty to the Company and its shareholders, engaged in fraud, fraudulent concealment, suppression of material fact and suppression of the plaintiff shareholders, failed to supervise management, and conspired to conceal wrongful acts from the Company's shareholders and paid themselves

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excessive director fees. The complaint also alleged that the Board of Directors acquiesced in mismanagement and misconduct by Kennon R. Patterson, Sr., the Chairman of the Board, Chief Executive Officer and President of the Company, including alleged self dealing, payment of excessive compensation, misappropriation of corporate opportunities and misappropriation of funds. The complaint sought an unspecified amount of compensatory and punitive damages, removal of the current directors, appointment of a new Board of Directors, and attorneys fees and costs.

On December 21, 1998, the Company and its directors filed a motion with the court seeking to have the complaint dismissed. On March 1, 1999, the Company's Board of Directors appointed a special Board committee, comprised of non-employee directors of the Company, to review the plaintiffs' allegations in accordance with Delaware law. On April 6, 1999, each of the parties to the action requested that the court stay the litigation and related discovery, motions and hearings, pending completion of the special committee's review. On April 30, 1999, the court entered an order staying the litigation and related discovery, motions and hearing in accordance with the parties' request. On October 15, 1999, the special committee filed its final report with the court. On October 21, 1999, the parties forwarded to the court an agreed-upon order governing the confidentiality of the special committee's report, which the court entered on January 2, 2000. On August 3, 2000, the Company, Community Bank and the Company's directors filed a motion to stay the proceedings until the Company's and Community Bank's joint investigative committee had completed its investigation of the alleged construction overcharges discussed above. At the request of the Company and the other defendants in the action, the court continued a hearing on the motion to dismiss. On February 23, 2001, the court indicated that there was no reason to continue the stay of this action. The parties are awaiting a hearing on the defendants' motion to dismiss the case.

Management of the Company believes that the plaintiffs' allegations are false and that the action lacks merit. The Company and its directors intend to defend the action vigorously, and management of the Company believes that the action will not have a material adverse effect on the Company's financial condition or results of operations. Regardless of the outcome, however, this lawsuit could be costly, time consuming and a diversion of management's attention.

Corr Family Litigation

On September 14, 2000, another action was filed in the state Circuit Court of Blount County, Alabama, against the Company, Community Bank and certain directors and officers of the Company and Community Bank by Bryan A. Corr and six other related shareholders of the Company alleging that the directors actively participated in or ratified the misappropriation of corporate income. The action was not styled as a shareholder derivative action. On January 3, 2001, the defendants filed a motion for summary judgment on the basis that these claims are derivative in nature and cannot be brought on behalf of individual shareholders. The court has not ruled on the motion. The Company and its directors believe that this lawsuit is without merit and intend to defend the action vigorously. Although management currently believes that this action will not have a material adverse effect on the Company's financial condition or results of operations, regardless of the outcome, the action could be costly, time consuming and a diversion of management's attention.

Auto Loan Litigation

On June 28, 2000, Community Bank filed an action in the United States District Court for the Northern District of Alabama against Carl Gregory Ford L-M, Inc.,

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an automobile dealership located in Ft. Payne, Alabama, Carl Gregory and Doug Broadus, the owners of the dealership, several employees and former employees of the dealership and Gerald Scot Parrish, a former employee of Community Bank, with respect to certain loans originated during 1998 in Community Bank's Wal-Mart office in Ft. Payne, Alabama. In the complaint Community Bank alleged that the defendants willingly and knowingly conducted, participated in, were employed by or associated with, or aided and abetted an enterprise within the meaning of the Racketeer Influenced and Corrupt Organizations Act ("RICO") for the purpose of defrauding Community Bank. The complaint also asserted that the defendants committed fraud, misrepresentation and deceit by submitting to Community Bank and/or approving applications for automobile loans which contained false and/or fraudulent information for the purpose of deceiving, influencing and persuading Community Bank to provide loans to customers of the automobile dealership who were otherwise not qualified to receive such loans, and suppressed material facts regarding the veracity of information contained in loan applications and the ability of persons seeking the loans to repay them. Community Bank also alleged in the complaint that the automobile dealership is responsible for the acts of its officers, agents and employees, and that the dealership and its management failed to adequately train and/or supervise its employees. The complaint stated that the defendants participated in a conspiracy to violate RICO and Alabama statutes dealing with fraud, misrepresentation and suppression of material facts, and asserted civil liability under Alabama law for violation of federal statutes dealing with financial institution fraud, mail and wire fraud and making false statements for the purpose of influencing the actions of a financial institution upon an application or loan.

On June 29, 2000 and August 31, 2000 the court granted Community Bank's motions to dismiss without prejudice two of the employees of the automobile dealership as defendants in the action. On September 13, 2000, the court granted Mr. Parrish's motion to dismiss the complaint, but granted Community Bank 15 days to amend the complaint. On September 27, 2000, Community Bank filed an amended complaint which generally reiterated the allegations of the original complaint and added specific information concerning the allegedly fraudulent activity and the use of the United States mail, telephone and other wire transmissions in the conduct of such activity. On December 1, 2000, the court dismissed Community Bank's claims based upon mail and wire fraud in the amended complaint but otherwise denied Mr. Parrish's motion to dismiss the complaint. On October 10, 2001, the court granted a joint motion to bifurcate the trial into separate stages of liability and damages. On October 23 and November 19, 2001, the court granted Community Bank's motion to dismiss without prejudice three of the employees of the automobile dealership as defendants in the action.

The defendants have filed answers to the amended complaint which generally deny the material allegations in the complaint and allege that any injury suffered by Community Bank was the result of the contributory negligence of Community Bank, its officers, employees and agents. In the lawsuit, Community Bank seeks damages of an unspecified amount to recover losses incurred in connection with the loans made at Community Bank's Wal-Mart office in Ft. Payne, Alabama, along with all costs associated with the lawsuit. Any amounts received by Community Bank as a result of this litigation will be treated as a recovery on loan losses. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Provision for Loan Losses, Net Charge-Offs and Allowance for Loan Losses."

Employee Litigation

On November 15, 2000, Michael W. Alred and Michael A. Bean, two former directors and executive officers of Community Bank, filed suit against Community Bank in the United States District Court for the Northern District of Alabama alleging that their employment was wrongfully terminated for allegedly providing information to bank regulatory and law enforcement authorities concerning possible violations of laws and regulations, gross mismanagement, gross waste of

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funds and abuse of authority by Community Bank, its directors, officers and employees. According to the complaint, the information which these two individuals provided to authorities concerned certain bank construction projects, specific loans, charge-offs, expenses and past due accounts. The

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complaint seeks reinstatement of the plaintiffs to their former positions as officers and directors of Community Bank as well as compensatory and punitive damages. Community Bank and its directors believe this lawsuit is without merit and intend to defend the action vigorously. Management of the Company believes that this action will not have a material adverse effect on the Company's financial condition or results of operations.

Conspiracy Litigation

On November 6, 2001 the Company and Community Bank filed a lawsuit in the United States District Court for the Northern District of Alabama against Bryan A. Corr, Doris J. Corr, individually and as executrix of the Estate of R.C. Corr, Jr., Tina M. Corr, Corr, Inc., George M. Barnett, Michael A. Bean, Michael W. Alred, R. Wayne Washam, M. Lewis Benson, Doris E. Benson, John M. Packard and Andy Mann seeking damages in excess of \$50 million. The complaint also alleges that, by knowingly making false statements and unsupported allegations to regulatory and law enforcement authorities and in certain lawsuits discussed above, the defendants abused the civil legal process to further their plan to discredit and dislodge the directors and management of the Company and Community Bank and gain control of those companies. The complaint further alleges that certain of the defendants who are former directors and/or executive officers of Community Bank breached their fiduciary duties to Community Bank by participating in, and taking action in the furtherance of, the conspiracy. Finally, the complaint alleges that the defendants failed to make filings which are required by the Federal securities laws to disclose that the group is acting in concert to acquire control of the Company. The complaint seeks compensatory and punitive damages as well as an order barring the defendants from voting their shares of Company stock, purchasing additional Company stock, soliciting proxies and submitting shareholder proposals for at least three years.

On December 5, 2001, the Company, Community Bank and R. Wayne Washam entered into a stipulation pursuant to which Mr. Washam would be dismissed as a defendant. The court granted the stipulation on December 6, 2001. During the time between December 3 and December 7, 2001 the other defendants filed various motions to dismiss, abate or stay the lawsuit. On January 4, 2002, the Company and Community Bank filed a motion to disqualify Maynard, Cooper & Gale, P.C. from representing M. Lewis Benson, Doris E. Benson, John M. Packard and Andy Mann due to a conflict of interest. On January 22, 2002 Maynard, Cooper & Gale, P.C. filed a motion to withdraw from the suit, which motion was granted by the court on January 24, 2002. On January 29, 2002 the Company and Community Bank filed an amended complaint to reflect the dismissal of Wayne Washam as a defendant and to add a claim for defamation against two of the defendants. As a result of the inherent uncertainties of the litigation process, the Company is unable at this time to predict the outcome of this lawsuit and its effect on the Company's financial condition and results of operations. Regardless of the outcome, however, this lawsuit could be costly, time-consuming and a diversion of management's attention.

Indemnification and Routine Proceedings

The Company's Certificate of Incorporation provides that, in certain

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circumstances, the Company will indemnify and advance expenses to its directors and officers for judgments, settlements and legal expenses incurred as a result of their service as officers and directors of the Company. Community Bank's Bylaws contain a similar provision for indemnification of directors and officers of Community Bank.

The Company and its subsidiaries are from time to time parties to other legal proceedings arising from the ordinary course of business. Management believes, after consultation with legal counsel, that no such proceedings, if resulting in an outcome unfavorable to the Company, will, individually or in the aggregate, have a material adverse effect on the Company's financial condition or results of operations.

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

No matter was submitted to a vote of security holders by solicitation of proxies or otherwise during the fourth quarter of 2001.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, their ages, the positions held by them with the Company and certain of its subsidiaries and their principal occupations for the last five years are as follows:

Name, Age and Position Currently Held with the Company and its Subsidiaries

Principal Experience

Kennon R. Patterson, Sr. (59)
Chairman, President and Chief Executive Officer of the Company; Chairman and Chief Executive Officer of Community Bank; Chairman of 1st Community Credit Corporation; Vice Chairman of Community Appraisals, Inc.; Director of Community Insurance Corp., and Southern Select Insurance, Inc.

Chairman, President and Chief Executive Officer of the Company (1985-present); Chairman and Chief Executive Officer of Community Bank

Bishop K. Walker, Jr. (70)*
Director, Vice Chairman, Secretary, Senior Executive Vice President and General Counsel of the Company; Director, Senior Executive Vice President and Secretary of Community Bank; Chairman of Community Insurance Corp. and Southern Select Insurance, Inc.

Vice Chairman, Senior Executive Vice President and General Counsel of the Company; Director, Senior Executive Vice President and Secretary of Community Bank

Denny G. Kelly (62)*
Director and Executive Vice President of the Company; Vice Chairman and President of Community Bank; Vice Chairman and President of

President of Community Bank

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1st Community Credit Corporation; Director of Community Appraisals, Inc., Community Insurance Corp. and Southern Select Insurance, Inc.

Loy McGruder (61)
Director of the Company; Director and President of Community Bank

President of Community
Executive Vice President
City President of Commu
Senior Vice President o

Kerri Newton (32)
Chief Financial Officer of the Company and Community Bank

Chief Financial Officer
Bank (2001-Present); Se
Bank, Birmingham, Alaba
Officer of Frontier Nat
Alabama (1998-2000); Ch
National Bank, Lanett,
and Controller of The C
Carolina (1993-1997)

*Mr. Walker and Mr. Kelly were executive officers of the Company on December 31, 2001, but retired in January, 2002.

The Company's bylaws provide that the term of office of an executive officer of the Company is as provided in the officer's employment agreement with the Company or, if the officer is not a party to an employment agreement or if the officer's employment agreement does not specify a term of office, as determined by the Company's Board of Directors and until the officer's successor is elected and qualified or until the officer's earlier resignation or removal. In May 2001, Mr. Patterson, Mr. Walker and Mr. Kelly were elected by the Company's Board of Directors to serve a term of one year and until his successor has been elected and qualified.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Shares of the common stock (the "Common Stock") of the Company were held by approximately 2,334 shareholders of record as of March 13, 2002. There is no established trading market for the Common Stock, which has been purchased and sold infrequently in private transactions. Therefore, no reliable information is available as to trades of the Common Stock, or as to the prices at which such Common Stock has traded. Management has reviewed the limited information available to the Company as to the ranges at which shares of the Common Stock has been sold. The following data regarding the Common Stock are provided for information purposes only, and should not be viewed as indicative of the actual or market value of the Common Stock.

Estima

High

2001:

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FIRST QUARTER.....	\$ 22.00
SECOND QUARTER.....	22.00
THIRD QUARTER.....	15.00
FOURTH QUARTER.....	18.00

2000:

First Quarter.....	\$ 25.00
Second Quarter.....	25.00
Third Quarter.....	25.00
Fourth Quarter.....	26.00

1999:

First Quarter.....	\$ 24.00
Second Quarter.....	24.00
Third Quarter.....	24.00
Fourth Quarter.....	24.00

Annual dividends were neither declared nor paid in 2001. Annual dividends of \$.75 per share were declared by the Board of Directors on the Company's Common Stock and paid on January 5, 2000. Generally, the payment of dividends on the Common Stock is subject to the prior payment of principal and interest on the Company's long-term debt, the retention of sufficient earnings and capital in the Company's operating subsidiaries and regulatory restrictions. The Board of Directors determined that it was in the Company's best interests not to declare or pay a dividend in the first quarter of 2002, due to regulatory constraints and the Company's results of operations and financial condition for 2001. Currently, the Company is under a memorandum of understanding with the Federal Reserve that, among other restrictions, disallows the declaration or payment of any dividends without the prior written approval of the Federal Reserve. The Board of Directors does not currently anticipate declaring or paying a dividend in 2002. There can be no assurance that the Company will pay any dividends in the foreseeable future. See "Item 1 - Business - Supervision and Regulation," "Item 7 - Management's Discussion of Financial Condition and Results of Operations - Liquidity Management" and Note 16 to the Company's Consolidated Financial Statements included elsewhere in this Report.

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ITEM 6 - SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the last five years. All averages are daily averages.

	2001	Years ended December 2000	1999	
	-----	-----	-----	
	(Dollars in thousands except p			
Interest income.....	\$ 58,486	\$ 61,075	\$ 52,194	\$

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Interest expense.....	31,588	33,856	25,522
Net interest income.....	26,898	27,219	26,672
Provision for loan losses.....	6,314	9,289	4,459
Non-interest income.....	9,538	9,906	9,155
Non-interest expense.....	31,972	31,755	29,208
Net income (loss).....	(1,100)	(2,215)	1,658

Per Share Data:

Earnings/(loss) per share - basic.....	\$ (0.24)	\$ (0.50)	\$ 0.37
Earnings/(loss) per share - diluted.....	(0.24)	(0.47)	0.36
Cash dividends.....	-	0.75	0.60

Balance Sheet:

Loans, net of unearned income.....	\$501,520	\$528,316	\$498,726
Deposits.....	617,706	600,901	573,261
FHLB borrowings.....	38,000	38,000	40,000
Capitalized lease obligations.....	5,766	5,850	-
Long-term debt.....	4,667	5,675	6,637
Guaranteed preferred beneficial interest in the Company's junior subordinated deferrable interest debentures.....	10,000	10,000	-
Average equity.....	42,938	41,776	44,203
Average assets.....	725,461	710,915	632,713
Period end assets.....	729,482	713,518	674,898

Ratios:

Return on average assets.....	(0.15)%	(0.31)%	0.26%
Return on average equity.....	(2.56)%	(5.30)%	3.75%
Dividend payout ratio.....	-	(150.00)%	162.16%
Average equity to average assets.....	5.92%	5.88%	6.99%
Total risk-based capital.....	11.59%	10.54%	9.37%
Leverage ratio.....	6.70%	6.44%	6.39%

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ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The purpose of this discussion is to focus on the significant changes in the financial condition and results of operations of the Company and its subsidiaries during 1999, 2000 and 2001. This discussion and analysis is intended to supplement and highlight information contained in the Company's consolidated financial statements and related notes and the selected financial data presented elsewhere in this Report.

The discussion of net interest income in this financial review is presented on a taxable equivalent basis to facilitate performance comparisons among various taxable and tax-exempt assets.

Certain statements in this Report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking

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statements are not based on historical facts and may be identified by their reference to a future period or by the use of forward-looking terminology, such as "anticipate," "estimate," "expect," "may" and "should." These forward-looking statements include, without limitation, those relating to the Company's future growth and profitability, economic prospects of market areas, dividends, pending litigation, branch office divestitures, non-compliant or impaired loans, capital requirements, operating strategy, deposits, consumer base, allowance for loan losses, non-performing assets, interest rate sensitivity, market risk and impact of inflation. We caution you not to place undue reliance on these forward-looking statements. Actual results could differ materially from those indicated in such forward-looking statements due to a variety of factors. These factors include, but are not limited to, changes in economic conditions and government fiscal and monetary policies, changes in prevailing interest rates and effectiveness of the Company's interest rate strategies, laws, regulations and regulatory authorities affecting financial institutions, changes in and effectiveness of the Company's operating or expansion strategies, geographic concentration of the Company's assets and operations, competition from other financial services companies, unexpected financial results or outcomes of legal proceedings, the Company's ability to obtain reimbursement from its fidelity bond insurance carrier or other persons responsible for originating non-compliant and impaired loans in Community Bank's Ft. Payne, Alabama office and other risks detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances occurring after the date of this Report.

SUMMARY

The Company's net loss of approximately \$1,100,000 for 2001 represented a \$1,115,000 decrease from its net loss of approximately \$2,215,000 for 2000 which represented a \$3,873,000 decline from 1999's net income of approximately \$1,658,000. When stated as changes in basic earnings per share, the 2001 basic loss per share of \$0.24 represented a \$0.26 decrease from the 2000 basic loss per share of \$0.50 which represented a \$0.87 decrease from the 1999 basic earnings per share of \$0.37. The decrease in loss per share for 2001 primarily resulted from a reduction in the provision for loan losses. The decline in 2000 primarily resulted from additional provisions to the Company's allowance for loan losses in connection with an increase in loans charged-off and certain loans originated in Community Bank's Double Springs, Alabama branch. In 2001, 2000 and 1999, the Company has experienced higher than normal legal and accounting fees associated with legal proceedings.

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In March 2000, the Company formed a wholly-owned Delaware statutory business trust, Community (AL) Capital Trust I (the "Trust"), which issued \$10,000,000 of guaranteed preferred securities representing undivided beneficial interests in the assets of the Trust ("Capital Securities"). All of the common securities of the Trust are owned by the Company. The proceeds from the issuance of the Capital Securities (\$10,000,000) and common securities (\$310,000) were used by the Trust to purchase \$10,310,000 of junior subordinated deferrable interest debentures of the Company which carry an annual interest rate of 10.875%. The debentures represent the sole asset of the Trust. The debentures and related income statement effects are eliminated in the Company's consolidated financial statements. The Company is entitled to treat the aggregate liquidation amount of the debentures as Tier I capital under Federal Reserve guidelines. See "Borrowed Funds--Maturities of Long-term Debt and Note 9 to the Company's Consolidated Financial Statements" included elsewhere in this Report.

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EARNING ASSETS

The Company's average earning assets in 2001 increased 3.1% over that for 2000, primarily as a result of increases in the investment portfolio and federal funds sold. Earning assets accounted for approximately 89.5% of the Company's average total assets for 2001. This growth of average earning assets in 2001 compared to a 12.2% increase during 2000 over that for 1999, primarily as a result of increases in the loan portfolio. During 1999, average earning assets increased 17.2%. Earning assets represented 88.6% and 88.7% of the Company's average total assets for 2000 and 1999 respectively.

Average loans, net of unearned income, represented 79.6%, 82.9% and 82.5% of average earning assets during 2001, 2000 and 1999, respectively. Average investment securities represented 17.6% of average earning assets in 2001, compared to 16.4% in 2000 and 16.9% in 1999. The change in the mix of loans and securities during 2001 compared to 2000 was primarily attributable to a decrease in loans during 2001. The other earning asset categories accounted for less than 3.0% of average earning assets for all three periods. The increased volume in earning assets during 2001 helped offset the decrease in interest income due to the fall in interest rates.

Total loans, net of unearned income, decreased approximately \$26,796,000, or 5.1%, to approximately \$501,520,000 at December 31, 2001, from \$528,316,000 at December 31, 2000, which represented an increase of \$29,590,000, or 5.9%, from \$498,726,000 at December 31, 1999. These decreases were spread across the loan type categories. Commercial, financial and agricultural loans decreased by approximately \$5,437,000, or 3.9%, to approximately \$146,210,000 at December 31, 2001, from approximately \$140,773,000 at December 31, 2000, which represented an increase of approximately \$16,528,000, or 13.3%, from approximately \$124,245,000 at December 31, 1999. Commercial, financial and agricultural loans represented 29.1% of total loans at December 31, 2001, compared to 26.6% at December 31, 2000 and 24.9% at December 31, 1999. Real estate - mortgage loans decreased by approximately \$3,376,000, or 1.4%, to approximately \$233,216,000 at December 31, 2001, from \$236,592,000 at December 31, 2000, which represented an increase of approximately \$12,463,000, or 5.6%, from approximately \$224,129,000 at December 31, 1999. As a percentage of total loans, real estate - mortgage loans increased to 46.5% at December 31, 2001, from 44.8% at December 31, 2000 and 44.9% at December 31, 1999. Consumer loans decreased by approximately \$26,642,000, or 18.3%, to approximately \$119,031,000 at December 31, 2001, from approximately \$145,673,000 at December 31, 2000, which represented an increase of approximately \$1,220,000, or 0.9%, from approximately \$144,453,000 at December 31, 1999. As a percentage of total loans, consumer loans decreased to 23.8% at December 31, 2001, from 27.6% at December 31, 2000 and 28.9% at December 31, 1999. Real estate - construction loans decreased by approximately \$2,303,000, or 42.4%, to approximately \$3,126,000 at December 31, 2001, from approximately \$5,429,000 at December 31, 2000, which represented a decrease of approximately \$1,041,000, or 16.1%, from approximately \$6,470,000 at December 31, 1999. As a percentage of total loans, real estate - construction loans decreased to 0.6% at December 31, 2001, from 1.0% at December 31, 2000 and 1.3% at December 31, 1999. The Company has

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experienced these decreases in loans because of economic downturns, the tightening of the Company's credit standards, and increased charge-offs of loans made in previous years.

The following table shows the classification of loans by major category at December 31, 2001, and at the end of each of the preceding four years.

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LOAN PORTFOLIO

	December 31,							
	2001		2000		1999		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)							
Commercial, financial and agricultural.....	\$146,210	29.1%	\$140,773	26.6%	\$124,245	24.9%	\$ 94,057	21.1%
Real estate - construction.....	3,126	0.6	5,429	1.0	6,470	1.3	6,153	1.3
Real estate - mortgage.....	233,216	46.5	236,592	44.8	224,129	44.9	205,457	47.2
Consumer.....	119,031	23.8	145,673	27.6	144,453	28.9	129,334	29.4
	501,583	100.0%	528,467	100.0%	499,297	100.0%	435,001	100.0%
Less: Unearned income.....	64		151		571		1,148	
Allowance for loan losses.....	7,292		7,107		2,603		2,971	
Net loans.....	\$494,227		\$521,209		\$496,123		\$430,882	

The following table provides maturities of certain loan classifications and an analysis of these loans maturing in over one year as of December 31, 2001.

SELECTED LOAN MATURITY AND INTEREST RATE SENSITIVITY

	Maturity				Pre I
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total	
	(In thousands)				
Commercial, financial and agricultural.....	\$58,454	\$ 41,815	\$ 45,941	\$ 146,210	\$
Real estate - construction.....	2,802	269	55	3,126	
Total.....	\$61,256	\$ 42,084	\$ 45,996	\$ 149,336	\$

INVESTMENT PORTFOLIO

The composition of the Company's investment securities portfolio reflects the Company's investment strategy of maximizing portfolio yields subject to risk and liquidity considerations. The Company's entire portfolio is classified as available for sale. The primary objectives of the Company's investment strategy are to maintain an appropriate level of liquidity and provide a tool to assist in controlling the Company's interest rate position

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while at the same time producing adequate levels of interest income. Management of the maturity of the portfolio is necessary to provide liquidity and to control interest rate risk. During 2001, gross investment securities sales were approximately \$85,134,000 and maturities were approximately \$2,500,000 representing 74.6% and 2.2%, respectively, of the average portfolio for the year, compared to gross investment securities sales of \$16,230,000 in 2000 and approximately \$11,628,000 in 1999 and maturities of approximately \$25,210,000 in 2000 and approximately \$10,778,000 in 1999. Net gains realized on the sales totaled approximately \$1,284,000 during 2001, compared to approximately \$5,000 in 2000 and approximately \$179,000 in 1999. At December 31, 2001, gross unrealized gains in the portfolio were approximately \$486,000, compared to approximately \$1,419,000 at December 31, 2000 and approximately \$72,000 at December 31, 1999, while gross unrealized losses amounted to approximately \$893,000 at December 31, 2001, compared to approximately \$756,000 at December 31, 2000 and approximately \$2,827,000 at December 31, 1999. These fluctuations in the gross unrealized gains and losses in the Company's investment portfolio resulted primarily from changing bond prices.

Mortgage-backed securities have varying degrees of risk of impairment of principal, as opposed to U.S. Treasury and U.S. government agency obligations, which are considered to contain virtually no default or prepayment risk. Impairment risk is primarily associated with accelerated prepayments, particularly with respect to longer maturities purchased at a premium and interest-only strip securities. The Company's mortgage-backed securities portfolio as of December 31, 2001 and 2000 contained no interest-only strips and the amount of unamortized premium on mortgage-backed securities at December 31, 2001, was \$928,710, compared to \$190,096 at December 31, 2000. The recoverability of the Company's investment in mortgage-backed securities is reviewed periodically by management, and if necessary, appropriate adjustments for impaired value are made to income.

The carrying amount of investment securities at the end of each of the last three years is set forth in the following table:

INVESTMENT PORTFOLIO

	December 31,	
	2001	2000
	(In thousands)	
U. S. Treasury and U.S. Government agencies.....	\$ 16,948	\$ 46,830

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Mortgage-backed securities.....	90,647	31,341
State and municipal securities.....	11,684	19,499
Equity securities.....	2,400	3,900
	-----	-----
Total investment securities.....	\$ 121,679	\$ 101,570
	=====	=====

Total investment securities increased approximately \$20,109,000, or 19.8%, to approximately \$121,679,000 at December 31, 2001, compared to approximately \$101,570,000 at December 31, 2000 and approximately \$96,847,000 at December 31, 1999. During 2001, non-taxable investment securities decreased \$7,815,000, or 40.1%, to approximately \$11,684,000 from \$19,499,000 at December 31, 2000, which represented an increase of \$11,143,000 or 133.4%, from \$8,356,000 at December 31, 1999. Taxable investment securities increased approximately \$27,924,000, or 34.0% during 2001 to \$109,995,000 from approximately \$82,071,000 at December 31, 2000, which represented a decline of \$6,420,000, or 7.3%, from approximately \$88,491,000 at December 31, 1999. The composition of the investment securities portfolio changed during 2001 primarily as excess funds were invested in mortgage-backed securities. At December 31, 2001, U.S. government and

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agency securities represented 13.9% of the total investment securities portfolio compared to 46.1% at year-end 2000, while state and municipal securities represented 9.6% and 19.2% of the investment securities portfolio at year-end 2001 and 2000, respectively. In 2001, as investable funds increased due to diminished loan demand and bonds redeemed prior to maturity, Community Bank invested more heavily in mortgage-backed securities to enhance cash flow and reduce call risk.

The maturities and weighted average yields of the investments in the year-end 2001 portfolio of investment securities are presented below. Taxable equivalent adjustments (using a 34% tax rate) have been made in calculating yields on tax-exempt obligations. The average maturity of the investment portfolio was 5.20 years at year-end 2001 compared to 6.71 years at year-end 2000 with an average yield of 6.22% and 6.71% at December 31, 2001 and 2000, respectively. Mortgage-backed securities have been included in the maturity table based upon the guaranteed payoff date of each security.

INVESTMENT PORTFOLIO MATURITY SCHEDULE

December 31, 2001				

Maturing				

Within One Year		After One But Within Five Years		After Within
-----		-----		-----
Amount	Yield	Amount	Yield	Amount
-----	-----	-----	-----	-----

(Dollars in thousand)

SECURITIES - ALL AVAILABLE-FOR-SALE:

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U. S. Government agencies.....	\$ 2,001	6.62%	\$ 57,003	5.93%	\$ 21,093
State and municipal securities.....	180	7.17	3,557	6.06	670
Equity securities.....	-	-	-	-	-
	-----		-----		-----
	\$ 2,181	6.67%	\$ 60,560	5.94%	\$ 21,763
	=====		=====		=====

With the exception of some securities issued by U.S. Government agencies, the Company held one municipal bond issued by Hartselle Utilities, whose amortized cost of \$4,854,027 exceeded 10% of the Company's consolidated shareholders' equity on December 31, 2001.

Federal Funds Sold increased 900.0% during 2001, from \$3,000,000 at December 31, 2000 to \$30,000,000 at December 31, 2001. This increase resulted from a decrease in loan demand coupled with an increase in deposit balances.

The average balance of interest-bearing deposits with other banks reflected a decrease of 62.4% during 2001, compared to a decrease of 31.9% during 2000 and an increase of 33.5% during 1999.

There has been no significant impact on the Company's financial statements as a result of the provisions of Statement of Financial Accounting Standards No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments.

DEPOSITS

Community Bank's primary source of funds is its deposits. Dividends from Community Bank are the Company's primary source of funds. Historically, continued enhancement of existing products, emphasis upon better customer service and expansion into new market areas have fueled the growth in Community Bank's deposit base. The Company does not presently anticipate further geographic expansion. Rather emphasis has been placed upon attracting consumer deposits and the Company's intent is to expand its consumer base in its market areas in order to continue to fund future asset growth.

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During 2001, the Company's average total deposits increased approximately \$6,247,000, or 1.0%, to approximately \$608,390,000 from approximately \$602,143,000 in 2000, which represented an increase of approximately \$56,921,000, or 10.4%, from approximately \$545,222,000 in 1999. At December 31, 2001, the Company's total deposits were approximately \$617,706,000, an increase of approximately \$16,805,000, or 2.8%, from approximately \$600,901,000 at December 31, 2000.

The following table presents the average deposit balances and the average rates paid for each of the major classifications of deposits for the 12 month periods ending December 31, 2001, 2000 and 1999:

Average Deposit Balances and Rates Paid	
2001	2000
-----	-----
Average	Average

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	Average Balance	Rate Paid	Average Balance	Rate Paid	Average Bal
	-----	-----	-----	-----	-----
	(Dollars in thousands)				
Noninterest-bearing demand.....	\$ 70,002	0.00%	\$ 68,785	0.00%	\$ 6
Interest-bearing demand.....	92,360	3.50	102,254	4.92	9
Savings.....	58,875	3.31	55,983	4.39	5
Time.....	387,153	5.70	375,121	5.92	32
	-----		-----		-----
Total (1).....	\$ 608,390	5.06%	\$ 602,143	5.57%	\$ 54
	=====		=====		=====

(1) The rate paid on total average deposits represents the rate paid on total average interest-bearing deposits only.

The Company's average interest-bearing deposits increased by 0.9%, 12.1% and 12.3% in 2001, 2000 and 1999, respectively. Average interest-bearing demand deposits decreased 9.7% compared to an increase of 7.9% during 2000 and 11.4% during 1999. Average savings and average time deposits increased 5.2% and 3.2%, respectively, during 2001 compared to increases of 4.2% and 14.5%, respectively, during 2000 and an increase of 15.9% and 12.0%, respectively, during 1999. Average noninterest-bearing demand deposits increased 1.8% during 2001 compared to a decrease of 0.7% during 2000 and an increase of 15.1% during 1999. Customer confidence and satisfaction are evidenced by the increase in total average deposits of 1.0% in 2001, the increase in total average deposits of 10.4% in 2000 and 12.7% in 1999. The two categories of lowest cost deposits, noninterest-bearing demand deposits and interest-bearing demand deposits, comprised the following percentages of total average deposits during 2001, 2000 and 1999, respectively: (i) Average noninterest-bearing demand deposits - 11.5%, 11.4%, and 12.7%; and (ii) average interest-bearing demand deposits - 15.2%, 17.0% and 17.4%. Community Bank experienced a shift in its deposit mix during 2001 as interest-bearing demand deposits increased \$14,619,000, or 17.1%, while savings and certificates of deposits increased \$1,776,000, or .4%. This is as compared to increases in interest-bearing demand deposits by \$7,491,000, or 7.9%, in 2000 and by \$8,589,000, or 9.6%, in 1999, increases in savings accounts by \$2,253,000, or 4.2%, in 2000 and by \$6,123,000, or 10.4%, in 1999, and increases in certificate of deposits by \$47,640,000, or 14.5%, in 2000 and by \$8,503,000, or 3.9%, in 1999. Of total time deposits at December 31, 2001, approximately 31.5 % were large denomination certificates of deposit and other time deposits of \$100,000 or more, up from 20.7% at December 31, 2000.

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The maturities of the time certificates of deposit and other time deposits of \$100,000 or more issued by the Company at December 31, 2001 are summarized in the table below.

MATURITIES OF TIME DEPOSITS OF \$100,000 OR MORE

	December 31, 2001

	Time Certificates of Deposit
	Other Time Deposits

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	-----	-----
		(In thousands)
Maturing in three months or less.....	\$ 5,864	\$ 19,148
Maturing in over three through six months.....	45,218	-
Maturing in over six through twelve months.....	28,671	-
Maturing in over twelve months.....	20,635	-
	-----	-----
Total.....	\$ 100,388	\$ 19,148
	=====	=====

BORROWED FUNDS

Community Bank also uses borrowed funds as a source of funds for asset growth in excess of deposit growth and for short-term liquidity needs. The mixture of borrowed funds and deposits as sources of funds depends on the relative availability and costs of those funds and Community Bank's need for funding.

Borrowed funds consist primarily of short-term borrowings, borrowings from the Federal Home Loan Bank of Atlanta, Georgia ("FHLB-Atlanta") and long-term debt. Short-term borrowings at year-end 2000 and 1999 consisted of the U. S. Treasury Tax and Loan Note Option account and securities sold under agreements to repurchase. Community Bank had \$5,000,000 at year end 2001 in available lines to purchase Federal Funds on a secured basis from a commercial bank and \$6,000,000 at year-end 2000 in available lines to purchase Federal Funds, on an unsecured basis, from a commercial bank. At December 31, 2001 and 2000, Community Bank had no funds advanced against these lines. In May 2001, Community Bank borrowed funds of \$8,000,000 under the FHLB "fixed rate credit" plan. The advance was for six months bearing interest at 4.15% and matured in November 2001.

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The following table sets forth, for the periods indicated, certain information about the Company's short-term borrowings:

SHORT-TERM BORROWINGS

	At December 31,			
	-----	-----	-----	-----
	Balance	Weighted Average Rate	Average Balance	Avera Rate
	-----	-----	-----	-----
	(Dollars in thousands)			
2001:				
FEDERAL FUNDS PURCHASED.....	\$ -	0.00%	\$ 74	6.1
SHORT-TERM FHLB BORROWINGS.....	-	0.00%	3,967	4.3

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SECURITIES SOLD UNDER AGREEMENT TO				
REPURCHASE.....	2,538	2.13%	2,274	3.5
U.S. TREASURY TAX AND LOAN, NOTE				
OPTION.....	1,822	1.51%	1,021	3.2
	-----		-----	
TOTAL.....	\$ 4,360	1.87%	\$ 7,336	3.9
	=====		=====	
2000:				
Federal funds purchased.....	\$ -	0.00%	\$ 402	6.4
Short-term FHLB borrowings.....	-	0.00%	325	6.8
Securities sold under agreement to				
repurchase.....	862	6.17%	818	6.1
U.S. Treasury Tax and Loan, note				
option.....	1,403	5.72%	1,044	6.1
	-----		-----	
Total.....	\$ 2,265	5.89%	\$ 2,589	6.3
	=====		=====	

In the fourth quarter of 1998, Community Bank became a member of the FHLB-Atlanta and was approved to borrow under various short-term and long-term programs offered by the FHLB-Atlanta. These borrowings are secured under a blanket lien agreement on certain qualifying mortgage instruments in Community Bank's loan and investment portfolios. Community Bank's maximum credit availability with FHLB-Atlanta is fixed at \$72,210,000. At December 31, 2000, Community Bank's maximum credit availability with FHLB-Atlanta was 10% of Community Bank's total assets, based upon the most recent quarterly financial information submitted to the FDIC. Based on Community Bank's Consolidated Report of Condition and Income as of the close of business on September 30, 2000, Community Bank's maximum credit availability at December 31, 2000 was approximately \$74,000,000.

Since June 1999, Community Bank has borrowed funds under the FHLB-Atlanta's "Convertible Advance Program." Community Bank had \$38,000,000 outstanding at both December 31, 2001 and 2000 under the FHLB-Atlanta's "Convertible Advance Program". This obligation has a final maturity of March 1, 2010 (120 months), a call feature every quarterly payment date during the life of the obligation, and a fixed interest rate of 5.93% per annum. The first call date for this advance was March 1, 2001; the advance was not called on that date nor has been since.

Advances obtained by Community Bank under the "Convertible Advance Program" are subject to the terms of an agreement for Advances and Security Agreement with Blanket Floating Lien. Among other things, this agreement provides that upon an event of default, the FHLB may declare all or any part of the indebtedness

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and accrued interest thereon, including any prepayment fees, to be immediately due and payable. Included in the list of "events of default" is where the FHLB reasonably and in good faith determines that a material adverse change has occurred in the financial condition of Community Bank from that disclosed at the time of the making of any advance or from the condition of Community Bank as most recently disclosed to the FHLB.

Long-term debt consisted of various commitments with scheduled maturities from one to 20 years. The following table sets forth expected debt service for the next five years based on interest rates and repayment provisions as of December 31, 2001. A more detailed explanation of long-term debt is included in Note 8 to the Company's Consolidated Financial Statements included elsewhere in this

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MATURITIES OF LONG-TERM DEBT

	2002	2003	2004	
	-----	-----	-----	
	(in Thousands)			
Interest on indebtedness.....	\$ 233	\$ 194	\$ 173	\$
Repayment of principal.....	1,089	398	420	-
	-----	-----	-----	-
	\$ 1,322	\$ 592	\$ 593	\$
	=====	=====	=====	=

In March 2000, the Company formed a wholly-owned Delaware statutory business trust, Community (AL) Capital Trust I (the "Trust"), which issued \$10,000,000 of guaranteed preferred securities representing undivided beneficial interests in the assets of the Trust ("Capital Securities"). All of the common securities of the Trust are owned by the Company. The proceeds from the issuance of the Capital Securities (\$10,000,000) and common securities (\$310,000) were used by the Trust to purchase \$10,310,000 of junior subordinated deferrable interest debentures of the Company which carry an annual interest rate of 10.875%. Under the terms of the indenture, the Company may elect to defer payments of interest for up to ten semiannual payment periods. The Company elected to defer its March 2002 interest payment and may elect to do so again based on the liquidity needs of the Company when future payments become due. For the duration of such deferral period, the Company is restricted from paying dividends to shareholders or paying debt that is junior to the debenture. The debentures represent the sole asset of the Trust. The debentures and related income statement effects are eliminated in the Company's consolidated financial statements. The Company is entitled to treat the aggregate liquidation amount of the debentures as Tier I capital under Federal Reserve guidelines.

The Capital Securities accrue and pay distributions semiannually at a rate of 10.875% per annum of the stated liquidation value of \$1,000 per capital security. The Company has entered into an agreement which fully and unconditionally guarantees payment of: (i) accrued and unpaid distributions required to be paid on the Capital Securities; (ii) the redemption price with respect to any Capital Securities called for redemption by the Trust; and (iii) payments due upon a voluntary or involuntary liquidation, winding up or termination of the Trust.

The Capital Securities are mandatorily redeemable upon the maturity of the debentures on March 8, 2030, or upon earlier redemption as provided in the indenture pursuant to which the debentures were issued. The Company has the right to redeem the debentures purchased by the Trust: (i) in whole or in part, on or after March 8, 2010; and (ii) in whole (but not in part) at any time within 90 days following the occurrence and during the continuation of a tax event, capital treatment event or investment company event (each as defined in the indenture). As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be a percentage of the principal amount, ranging from 105.438% in 2010 to 100.00% in and after 2020, plus accrued but unpaid interest.

LIQUIDITY MANAGEMENT

Liquidity is defined as the ability of a company to convert assets into cash or cash equivalents without significant loss. Liquidity management involves maintaining the Company's ability to meet the day-to-day cash flow requirements of Community Bank's customers, whether they are depositors wishing to withdraw funds or borrowers requiring funds to meet their credit needs. Without proper liquidity management, the Company would not be able to perform the primary function of a financial intermediary and would, therefore, not be able to meet the production and growth needs of the communities it serves.

The primary function of asset and liability management is not only to assure adequate liquidity in order for the Company to meet the needs of its customer base, but to maintain an appropriate balance between interest-sensitive assets and interest-sensitive liabilities so that the Company can also meet the investment objectives of its shareholders. Daily monitoring of the sources and uses of funds is necessary to maintain an acceptable cash position that meets both its customers' needs and its shareholders' objectives. In a banking environment, both assets and liabilities are considered sources of liquidity funding and both are, therefore, monitored on a daily basis.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments or sales, maturities, calls and pay downs of investment securities. Real estate-construction and commercial, financial and agricultural loans that mature in one year or less totaled approximately \$61,256,000, or 12.2% of loans, net of unearned income, at December 31, 2001, and investment securities maturing in one year or less totaled approximately \$2,181,000, or 1.8% of the investment portfolio, at December 31, 2001. Other sources of liquidity include cash on deposit with other banks and short-term investments such as Federal Funds sold and maturing interest-bearing deposits with other banks.

The liability portion of the balance sheet provides liquidity through various customers' interest-bearing and noninterest-bearing deposit accounts. Funds are also available through the purchase of Federal Funds from other commercial banks and borrowings against Community Bank's credit availability through the FHLB-Atlanta. Liquidity management involves the daily monitoring of the sources and uses of funds to maintain an acceptable Company cash position.

As disclosed elsewhere in this report, Community Bank has entered into agreements to sell ten of its banking offices in the first half of 2002. Under each agreement the purchaser will receive the assets of each banking office mostly consisting of loans and fixed assets and will assume the liabilities, most of which are deposits. The cash transaction will be based upon the assets, liabilities and premium due to Community Bank at the time of each closing. Since these offices, as a whole, carry more deposits than loans and other assets, Bank management expects to disburse funds as a result of the transactions. Although the disbursement amount will not be known until the closing of each sale, management expects to disburse as much as \$25 to \$30 million as a result of the transactions. As of December 31, 2001, the federal funds sold balance was \$30,000,000. Management expects the federal funds sold balance to remain at levels high enough to provide the funding of any cash disbursements upon the closing of any branch sales; however, these transactions will decrease the availability of liquid funds.

Dividends paid by Community Bank are the primary source of funds available to the Company for debt repayment, payment of dividends to its shareholders and other needs. Certain restrictions exist regarding the ability of Community Bank to transfer funds to the Company in the form of cash dividends, loans or advances. The approval of the Alabama Banking Department is required to pay

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dividends in excess of Community Bank's net earnings in the current year plus retained net earnings for the preceding two years less any required transfers to surplus. At December 31, 2001, Community Bank could not have declared any dividends without approval of regulatory authorities. See Note 16 to the Company's Consolidated Financial Statements elsewhere in this Report and "Item 1 - Business - Supervision and Regulation."

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The Company relies on dividends from Community Bank in order to pay expenses, service debt and pay dividends to shareholders. Although dividends from Community Bank are the primary source of funding, the Company also receives cash from Community Bank in the form of management fee income and generally retains cash for its portion of tax benefit on intercompany income tax settlements. Without dividends or management fee income from Community Bank, the Company would not be able to pay expenses or service debt. Management fees for 2001 were \$300,000 and no dividends were paid for 2001. Community Bank is unable to pay a dividend to the Company without prior approval of the regulatory authorities nor is the Company able to increase the management fee charged to Community Bank without the prior written approval of the Federal Reserve. See "Item 1 - Business - Supervision and Regulation." Upon the sale of the branch offices and recognition of projected income for Community Bank in 2002, Community Bank expects to request approval for dividends to be paid to the Company; however, the amount or approval of such is not yet determinable.

INTEREST RATE SENSITIVITY

Community Bank's net interest income, and the fair value of its financial instruments, are influenced by changes in the level of interest rates. Community Bank manages its exposure to fluctuations in interest rates through policies established by its Asset/Liability Committee ("ALCO"). The ALCO meets periodically to monitor its interest rate risk exposure and implement strategies that might improve its balance sheet positioning and/or earnings. Management utilizes an Interest Rate Simulation model to estimate the sensitivity of the Bank's net interest income and net income to changes in interest rates. Such estimates are based upon a number of assumptions for each scenario, including balance sheet growth, deposit repricing characteristics and prepayment rates.

The estimated impact on Community Banks net interest income sensitivity over a one year time horizon at December 31, 2001 is shown below. Such analysis assumes an immediate and sustained parallel shift in interest rates and the Bank's estimates of how interest bearing transaction accounts will reprice.

RATE SHOCK ANALYSIS

	-100 Basis Points	Level
	-----	-----
	(Dollars in thousand)	
Prime Rate.....	3.75%	4.75%
Interest Income.....	\$ 47,508	\$ 50,612
Interest Expense.....	18,102	20,094
	-----	-----
Net Interest Income.....	\$ 29,406	\$ 30,519

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Dollar change from Level.....	=====	=====
	\$ (1,113)	\$
Percentage change from Level.....		-3.65%

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INTEREST SENSITIVITY

Percentage Increase
in I