

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-5735

**PROVIDENT COMMUNITY BANCSHARES, INC.**

(Exact name of registrant as specified in its Charter)

Delaware  
(State or other Jurisdiction of  
Incorporation or Organization)

57-1001177  
(I.R.S. Employer  
Identification No.)

2700 Celanese Road, Rock Hill, South Carolina 29732  
(Address of Principal Executive Offices)

(803)-325-9400  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes  No

The Corporation had 1,790,599 shares, \$0.01 par value, of common stock issued and outstanding as of November 10, 2010.

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PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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Part 1. Financial Information  
PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
September 30, 2010 and December 31, 2009

ASSETS	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
(DOLLARS IN THOUSANDS)		
Cash and due from banks	\$ 5,492	\$ 5,103
Interest earning balances with the Federal Reserve	5,494	5,241
Federal funds sold	28,231	5,287
Cash and cash equivalents	39,217	15,631
Investment and mortgage-backed securities		
Held to maturity (market value of \$3,976,000 at December 31, 2009)	--	3,934
Available for sale	135,145	147,816
Total investment and mortgage-backed securities	135,145	151,750
Loans, net of unearned fees	219,595	255,999
Allowance for loan losses (ALL)	(5,834)	(5,579)
Loans, net of ALL	213,761	250,420
Real estate acquired through foreclosure	9,855	5,917
Office properties and equipment, net	5,205	5,447
Federal Home Loan Bank stock, at cost	3,664	3,947
Federal Reserve Bank stock, at cost	832	832
Accrued interest receivable	1,508	2,238
Cash surrender value of life insurance	8,768	9,332
Other assets	10,895	11,489
<b>TOTAL ASSETS</b>	<b>\$ 428,850</b>	<b>\$ 457,003</b>
<b>LIABILITIES</b>		
Demand and savings deposits	\$ 165,585	\$ 161,911
Time deposits	152,313	170,851
Total deposits	317,898	332,762
Advances from the Federal Home Loan Bank	59,500	64,500
Securities sold under agreements to repurchase	12,601	18,520
Floating rate junior subordinated deferrable interest debentures	12,372	12,372
Accrued interest payable	544	581
Other liabilities	3,813	2,147
<b>TOTAL LIABILITIES</b>	<b>406,728</b>	<b>430,882</b>
Commitments and contingencies-Note 5		
<b>SHAREHOLDERS' EQUITY</b>		
Serial preferred stock - \$0.01 par value authorized - 500,000 shares issued and outstanding - 9,266 shares at September 30, 2010 and December 31, 2009, respectively	9,249	9,245
Common stock - \$0.01 par value, authorized - 5,000,000 shares, issued and outstanding - 1,790,599 shares at September 30, 2010 and 1,790,599 at December 31, 2009	20	20
Common stock warrants	25	25
Additional paid-in capital	12,919	12,919
Accumulated other comprehensive loss	(1,197)	(972)
Retained earnings, substantially restricted	7,406	11,184
Treasury stock, at cost	(6,300)	(6,300)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>22,122</b>	<b>26,121</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 428,850</b>	<b>\$ 457,003</b>

See notes to consolidated financial statements.

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF LOSS  
Three and Nine Months Ended September 30, 2010 and 2009 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE)		(DOLLARS IN THOUSANDS EXCEPT PER SHARE)	
<b>Interest Income:</b>				
Loans	2,841	\$ 3,640	\$ 8,836	\$ 10,881
Deposits and federal funds sold	9	5	23	18
Interest and dividends on mortgage-backed securities	346	897	992	2,929
Interest and dividends on investment securities	938	810	2,923	2,006
<b>Total interest income</b>	<b>4,134</b>	<b>5,352</b>	<b>12,774</b>	<b>15,834</b>
<b>Interest Expense:</b>				
Deposit accounts	1,171	2,010	4,012	6,214
Floating rate junior subordinated deferrable interest debentures	123	125	359	410
Advances from the FHLB and other borrowings	637	763	2,012	2,304
<b>Total interest expense</b>	<b>1,931</b>	<b>2,898</b>	<b>6,383</b>	<b>8,928</b>
<b>Net Interest Income</b>	<b>2,203</b>	<b>2,454</b>	<b>6,391</b>	<b>6,906</b>
Provision for loan losses	3,947	1,425	6,030	5,050
<b>Net interest income (loss) after provision for loan losses</b>	<b>(1,744)</b>	<b>1,029</b>	<b>361</b>	<b>1,856</b>
<b>Non-Interest Income:</b>				
Fees for financial services	723	757	2,119	2,166
Other fees, net	18	14	52	68
Other-than-temporary-impairment write-down on securities	(660)	(739)	(1,127)	(1,830)
Net gain on sale of investments	619	381	1,824	760
<b>Total non-interest income</b>	<b>700</b>	<b>413</b>	<b>2,868</b>	<b>1,164</b>
<b>Non-Interest Expense:</b>				
Compensation and employee benefits	1,057	1,090	3,239	3,424
Occupancy and equipment	630	729	1,833	1,953
Deposit insurance premiums	147	127	438	457
Professional services	127	95	325	272
Advertising and public relations	5	8	35	65
Loan operations	475	38	733	216
Intangible amortization	--	76	--	247
Items processing	102	93	262	260
Telephone	44	46	131	147
Other	180	178	568	572
<b>Total non-interest expense</b>	<b>2,767</b>	<b>2,480</b>	<b>7,564</b>	<b>7,613</b>
<b>Net loss before income taxes</b>	<b>(3,811)</b>	<b>(1,038)</b>	<b>(4,335)</b>	<b>(4,593)</b>
Benefit for income taxes	(548)	(402)	(793)	(1,696)
<b>Net loss</b>	<b>(3,263)</b>	<b>(636)</b>	<b>(3,542)</b>	<b>(2,897)</b>
Accretion of preferred stock to redemption value and preferred dividends accrued	120	118	355	263
<b>Net loss to common shareholders</b>	<b>(3,383)</b>	<b>(754)</b>	<b>(3,897)</b>	<b>(3,160)</b>
<b>Net loss per common share (basic)</b>	<b>(1.89)</b>	<b>(0.42)</b>	<b>(2.18)</b>	<b>(1.77)</b>
<b>Net loss per common share (diluted)</b>	<b>(1.89)</b>	<b>(0.42)</b>	<b>(2.18)</b>	<b>(1.77)</b>
<b>Cash dividend per common share</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>0.060</b>
<b>Weighted average number of common shares outstanding</b>				
<b>Basic</b>	<b>1,790,599</b>	<b>1,790,599</b>	<b>1,790,599</b>	<b>1,789,455</b>
<b>Diluted</b>	<b>1,790,599</b>	<b>1,790,599</b>	<b>1,790,599</b>	<b>1,789,455</b>

See notes to consolidated financial statements.

**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Nine Months Ended September 30, 2010 and 2009 (unaudited)**

**Nine Months Ended**  
**September 30,                      September 30,**  
**2010                                      2009**  
**(IN THOUSANDS)**

**OPERATING ACTIVITIES:**

Net loss	\$	(3,542)	\$	(2,897)
Adjustments to reconcile net loss to				
net cash provided by operating activities:				
Provision for loan losses		6,030		5,050
Amortization of intangibles		--		247
Depreciation expense		349		404
Recognition of deferred income, net of costs		(142)		(271)
Deferral of fee income, net of costs		26		218
Other than temporary impairment charge on AFS securities		1,127		1,830
Adjustment to goodwill		--		1,172
Gain on investment transactions		(1,824)		(760)
Gain on sale of assets acquired from foreclosed loans		(15)		(2)
Changes in operating assets and liabilities:				
(Increase) decrease in accrued interest receivable		730		(146)
Increase in real estate acquired through foreclosure		(5,900)		(5,460)
Increase in cash surrender value of life insurance		(283)		(300)
(Increase) decrease in other assets		594		(2,003)
Increase in other liabilities		1,666		685
Increase in accrued interest payable		(37)		(34)
Net cash provided (used) by operating activities		<u>(1,221)</u>		<u>(2,267)</u>

**INVESTING ACTIVITIES:**

Purchase of investment and mortgage-backed securities:				
Available for sale		(190,384)		(119,123)
Held to maturity		--		(1,504)
Proceeds from sale of investment and mortgage-backed securities:				
Available for sale		84,450		35,747
Held to maturity		3,934		--
Proceeds from maturity of investment and mortgage-backed securities:				
Available for sale		104,583		24,477
Held to maturity		--		250
Principal repayments on mortgage-backed securities:				
Available for sale		14,493		18,391
Net decrease in loans		30,772		10,370
(Purchase) redemption of FHLB/FRB stock		283		(251)
Proceeds from sales of foreclosed assets, net of costs and improvements		1,950		69
Purchase of office properties and equipment		(106)		(89)
Net cash provided (used) by investing activities		<u>49,975</u>		<u>(31,663)</u>

**FINANCING ACTIVITIES:**

Proceeds from the dividend reinvestment plan		--		16
Proceeds from issuance of preferred stock		--		9,240
Proceeds from issuance of warrants		--		25
Proceeds from redemption of life insurance		847		645
Dividends paid in cash		--		(107)
Dividends paid on preferred stock		(232)		(196)
Decrease in other borrowings		(10,919)		(6,640)
Increase (decrease) in deposit accounts		(14,864)		29,859
Net cash provided (used) by financing activities		<u>(25,168)</u>		<u>32,842</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 23,586 (1,088)

**CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** 15,631 21,370

**CASH AND CASH EQUIVALENTS AT END OF PERIOD** \$ 39,217 \$ 20,282

**SUPPLEMENTAL DISCLOSURES:**

Cash paid for:				
Income taxes	\$	28	\$	510
Interest		6,420		8,962
Non-cash transactions:				
Loans foreclosed	\$	6,091	\$	5,868
Unrealized gain (loss) on securities available for sale, net of income tax		(657)		1,774

See notes to consolidated financial statements.

PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS  
Nine Months Ended September 30, 2010 and 2009 (unaudited)

	Preferred Stock		Common Stock		Warrants	Additional Paid-in Capital	Retained Earnings, Substantially Restricted	Accumulated Other Comprehensive Income (loss)	Treasury Stock at Cost	Total Shareholders' Equity
	Shares	Amount	Shares	Amount						
BALANCE AT DECEMBER 31, 2008	--	\$ --	1,787,092	\$ 20	\$ --	\$ 12,903	\$ 18,997	\$ (1,696)	\$ (6,300)	\$ 23,924
<i>(Dollars in Thousands, Except Share Data)</i>										
Net loss							(2,897)			(2,897)
Other comprehensive loss, net of tax on unrealized holding losses on securities available for sale arising during period								1,774		1,774
Less reclassification adjustment for gains and other than temporary investment charge in net loss								(667)		(667)
Comprehensive loss										(1,790)
Dividend reinvestment plan contributions			3,507			16				16
Issuance of preferred stock	9,266	9,240								9,240
Issuance of common stock warrants					25					25
Accretion of Preferred Stock to redemption value		4					(4)			--
Preferred stock dividend							(195)			(195)
Cash dividend (\$.06 per share)							(107)			(107)
BALANCE AT SEPTEMBER 30, 2009	9,266	\$ 9,244	1,790,599	\$ 20	\$ 25	\$ 12,919	\$ 15,794	\$ (589)	\$ (6,300)	\$ 31,113
BALANCE AT DECEMBER 31, 2009	9,266	\$ 9,245	1,790,599	\$ 20	\$ 25	\$ 12,919	\$ 11,184	\$ (972)	\$ (6,300)	\$ 26,121
Net loss							(3,542)			(3,542)
Other comprehensive loss, net of tax on unrealized holding losses on securities available for sale arising during period								(657)		(657)
Less reclassification adjustment for gains and other than temporary investment charge in net income								432		432
Comprehensive loss										(3,767)
Accretion of Preferred Stock to redemption value		4					(4)			--
Preferred stock dividend							(232)			(232)
BALANCE AT SEPTEMBER 30, 2010	9,266	\$ 9,249	1,790,599	\$ 20	\$ 25	\$ 12,919	\$ 7,406	\$ (1,197)	\$ (6,300)	\$ 22,122

See notes to consolidated financial statements

**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

1. Presentation of Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Provident Community Bancshares, Inc. (the "Corporation") were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments which are, in the opinion of management, necessary for the fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results which may be expected for the entire calendar year or for any other period. This quarterly report should be read in conjunction with the Corporation's annual report on Form 10-K for the year ended December 31, 2009. Certain amounts in the prior year's financial statements have been reclassified to conform to current year classifications.

**Recently Issued Accounting Standards**

The following is a summary of recent authoritative pronouncements that may affect accounting, reporting, and disclosure of financial information by the Corporation.

Income Tax guidance was amended in April 2010 to reflect an SEC Staff Announcement after the President signed the Health Care and Education Reconciliation Act of 2010 on March 30, 2010, which amended the Patient Protection and Affordable Care Act signed on March 23, 2010. According to the announcement, although the bills were signed on separate dates, regulatory bodies would not object if the two Acts were considered together for accounting purposes. This view is based on the SEC staff's understanding that the two Acts together represent the current health care reforms as passed by Congress and signed by the President. The amendment had no impact on the financial statements.

In April 2010, guidance was issued related to accounting for acquired troubled loans that are subsequently modified. The guidance provides that if these loans meet the criteria to be accounted for within a pool, modifications to one or more of these loans do not result in the removal of the modified loan from the pool even if the modification would otherwise be considered a troubled debt restructuring. The pool of assets in which the loan is included will continue to be considered for impairment. The amendments do not apply to loans not meeting the criteria to be accounted for within a pool. These amendments are effective for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. These amendments had no impact on the financial statements.

In July 2010, the Receivables topic of the ASC was amended to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The amendments will require the allowance disclosures to be provided on a disaggregated basis. The Corporation is required to begin to comply with the disclosures in its financial statements for the year ended December 31, 2010.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting originator compensation, minimum repayment standards, and pre-payments. Management is actively reviewing the provisions of the Dodd-Frank Act and assessing its probable impact on our business, financial condition, and results of operations.

In August 2010, two updates were issued to amend various SEC rules and schedules pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies and based on the issuance of SEC Staff Accounting Bulletin 112. The amendments related primarily to business combinations and removed references to "minority interest" and added references to "controlling" and "non-controlling interests(s)". The updates were effective upon issuance but had no impact on the Corporation's financial statements.

Other accounting standards that have been issued or proposed by the Financial Accounting Standards Board (FASB) or other standards-setting bodies are not expected to have a material impact on the Corporation's financial position, results of operations or cash flows.

#### 2. Loss Per Share

Basic loss per common share amounts for the three and nine months ended September 30, 2010 and 2009 were computed based on the weighted average number of common shares outstanding during the period. Diluted loss per share adjusts for the dilutive effect of outstanding common stock options and warrants during the periods utilizing the treasury stock method. There were no common stock equivalents included in the diluted loss per share calculation for the three and nine months ended September 30, 2010 and 2009. Anti-dilutive common stock equivalents that were excluded in the diluted loss per share calculation for the nine months ended September 30, 2010 and 2009 were 269,743 and 272,993, respectively.

#### 3. Assets Pledged

Approximately \$81,227,000 and \$94,598,000 of debt securities at September 30, 2010 and December 31, 2009, respectively, were pledged by Provident Community Bank, N.A. (the "Bank") as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties along with additional borrowings and repurchase agreements. The Bank pledges as collateral for Federal Home Loan Bank advances commercial and residential real estate mortgage loans under a collateral agreement with the Federal Home Loan Bank whereby the Bank maintains, free of other encumbrances, qualifying mortgages (as defined) with unpaid principal balances equal to, when discounted at 75% of the unpaid principal balances, 100% of total advances. As part of the total assets pledged, the Bank will also pledge securities to cover additional advances from the Federal Home Loan Bank that exceed the qualifying mortgages balance along with security repurchase lines with various brokerage houses.

#### 4. Fixed/Floating Rate Junior Subordinated Deferrable Interest Debentures

On July 18, 2006, Provident Community Bancshares Capital Trust I ("Capital Trust I") was formed. The Corporation is the owner of all of the common securities of Capital Trust I. On July 21, 2006, Capital Trust I issued \$4,000,000 of fixed/floating rate capital securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Corporation's \$124,000 capital contribution for Capital Trust I's common securities, were used to acquire \$4,124,000 aggregate principal amount of the Corporation's fixed/floating rate junior subordinated deferrable interest debentures due October 1, 2036, which constitute the sole asset of Capital Trust I. The interest rate on the debentures and the capital securities is equal to 7.393% for the first five years. Thereafter, the interest rate is variable and adjustable quarterly at 1.74% over the three-month LIBOR. The debentures are subject to redemption at par at the option of the Corporation, subject to prior regulatory approval, in whole or in part on any interest payment date after October 1, 2011. The debentures are also subject to redemption prior to October 1, 2011 at up to 103.7% of par after the occurrence of certain events.

On November 28, 2006, Provident Community Bancshares Capital Trust ("Capital Trust II") was established. The Corporation is the owner of all of the common securities of the Trust. On December 15, 2006, the Trust issued \$8,000,000 of floating rate capital securities through a pooled trust preferred securities offering. The proceeds of Capital Trust II were utilized for the redemption of Union Financial Bancshares Statutory Trust issued on December 18, 2001. The proceeds from this issuance, along with the Corporation's \$248,000 capital contribution for the Trust's common securities, were used to acquire \$8,247,000 aggregate principal amount of the Corporation's floating rate junior subordinated deferrable interest debentures due March 1, 2037, which constitute the sole asset of the Capital Trust II. The interest rate on the debentures and the capital securities is variable and adjustable quarterly at 1.74% over the three-month LIBOR. The debentures are subject to redemption at par at the option of the Corporation, subject to prior regulatory approval, in whole or in part on any interest payment date after March 1, 2012. The debentures are also subject to redemption prior to March 1, 2012 at 103.5% of par after the occurrence of certain events.

A summary of the Subordinated Deferrable Interest Debentures issued and outstanding follows:

Name	Amount Outstanding at September 30,		Rate	Prepayment Option Date	Maturity	Distribution Payment Frequency
	2010	2009				
Provident Community Bancshares Capital Trust I	\$ 4,000,000	\$ 4,000,000	7.39%	October 1, 2011	October 1, 2036	Quarterly
Provident Community Bancshares Capital Trust II	8,000,000	8,000,000	2.04%	March 1, 2012	March 1, 2037	Quarterly
<b>Total</b>	<b>\$ 12,000,000</b>	<b>\$ 12,000,000</b>				

The Corporation exercised its right to defer the payment of interest on its outstanding subordinated debentures for an indefinite period (which can be no longer than 20 consecutive quarterly periods). This and any future deferred distributions will continue to accrue interest at a current rate of 7.39% for the \$4.0 million of trust preferred securities issued in July 2006 and at a current rate of 2.04% for the \$8.0 million of trust preferred securities issued in December 2006. Distributions on the trust preferred securities are cumulative. Therefore, in accordance with generally accepted accounting principles, the Corporation will continue to accrue the monthly cost of the trust preferred securities as it has since issuance.

#### 5. Contingencies and loan commitments

In the ordinary course of business, the Bank enters into financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These instruments expose the Bank to credit risk in excess of the amount recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total credit exposure at September 30, 2010 related to these items is summarized below:

<u>Loan Commitments:</u>	<u>Contract Amount</u>
Approved loan commitments	\$ 680,000
Commitments to fund commercial and construction loans	151,000
Unused portions of loans and credit lines	33,283,000
Total loan commitments	<u>\$ 34,114,000</u>

Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counter party. Collateral held is primarily residential and commercial property. Commitments outstanding at September 30, 2010 consisted of fixed and adjustable rate loans at rates ranging from 5.5% to 7.5%. Commitments to originate loans generally expire within 30 to 60 days.

Commitments to fund loans, including credit lines (principally variable rate, consumer lines secured by real estate and overdraft protection) totaled approximately \$34,114,000 at September 30, 2010.

#### 6. Fair Value of Financial Instruments

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Effective January 1, 2008, the Corporation adopted FASB ASC 820-10-50 ("FASB ASC Topic 820") Fair Value Measurements which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. FASB ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

#### Fair Value Hierarchy

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Valuation is based upon quoted prices in active markets for identical assets or liabilities.
- Level 2** Valuation is based upon quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Valuation is based upon quoted prices for similar assets or liabilities; quoted prices in markets that are not active; and model-based techniques whose value is determined using pricing models, discounted cash flow methodologies and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

### **Investment Securities Available-for-Sale**

Available-for-sale investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 may include asset-backed securities in less liquid markets.

### **Loans**

The Corporation is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and the related impairment is charged against the allowance or a specific allowance is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Loans which are deemed to be impaired are primarily valued at the fair values of the underlying real estate collateral. Such fair values are obtained using collateral net liquidation value, market value of similar debt, enterprise value, and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of the expected repayment or collateral meet or exceed the recorded investment in such loans. The Corporation considers all non-accrual loans and troubled debt restructurings to be impaired. Therefore, at September 30, 2010, loans classified as impaired totaled \$26.8 million. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the impaired loans as nonrecurring Level 3.

### **Real Estate Acquired Through Foreclosure**

Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the OREO as nonrecurring Level 3.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

The following tables present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of September 30, 2010 and December 31, 2009 (In thousands).

	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
U.S. Agency obligations	\$ 2	\$ 2	\$ --	\$ --
Government Sponsored Enterprises	62,837	62,837	--	--
Trust Preferred securities	4,883	--	2,685	2,198
Total investment securities	67,722	62,839	2,685	2,198
Mortgage-backed and related securities	67,423	--	67,423	--
Total	\$ 135,145	\$ 62,839	\$ 70,108	\$ 2,198

	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
U.S. Agency obligations	\$ 4	\$ 4	\$ --	\$ --
Government Sponsored Enterprises	78,471	78,471	--	--
Municipal securities	6,042	--	6,042	--
Trust Preferred securities	5,912	--	2,802	3,110
Total investment securities	90,429	78,475	8,844	3,110
Mortgage-backed and related securities	57,387	--	57,387	--
Total	\$ 147,816	\$ 78,475	\$ 66,231	\$ 3,110

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended September 30, 2010.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investment Securities Available-for-Sale
Beginning balance at December 31, 2009	\$ 3,110,000
Transfers into Level 3	--
Total gains/ (losses) included in:	
Net loss	(1,127,000)
Other comprehensive income	215,000
Purchases, sales, issuances and settlements, net	--
Ending balance at September 30, 2010	\$ 2,198,000

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period and assumes all non-performing assets have specific reserves or have been written down to fair value.

Assets measured at fair value on a nonrecurring basis at September 30, 2010 are as follows:

	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ 23,294,000	\$ --	\$ 23,294,000	\$ --
Other real estate owned	9,855,000	--	9,855,000	--
Total assets at fair value	\$ 33,149,000	\$ --	\$ 33,149,000	\$ --

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2009 are as follows:

	Total	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ 20,869,000	\$ --	\$ 20,869,000	\$ --
Other real estate owned	5,917,000	--	5,917,000	--
Total assets at fair value	\$ 26,786,000	\$ --	\$ 26,786,000	\$ --

The following methods and assumptions were used by the Corporation in estimating fair values of financial instruments as disclosed herein:

*Cash and cash equivalents* - The carrying amounts of cash and due from banks approximate their fair value.

*Securities* - Fair values for securities are based on quoted market prices. The carrying values of restricted equity securities approximate fair values. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

*Loans* - The Corporation is predominantly an asset based lender with real estate serving as collateral on a substantial majority of loans. The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and the related impairment is charged against the allowance or a specific allowance is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Loans which are deemed to be impaired are primarily valued at the fair values of the underlying real estate collateral. Such fair values are obtained using collateral net liquidation value, market value of similar debt, enterprise value, and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of the expected repayment or collateral meet or exceed the recorded investment in such loans. The Corporation considers all non-accrual loans and troubled debt restructurings to be impaired.

*Cash surrender value of life insurance* - The carrying amounts of cash surrender values of life insurance approximate their fair value.

*Deposit liabilities* - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money-market accounts and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

*Advances from the FHLB and other borrowings* - The fair values of the Corporation's borrowings are estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

*Securities sold under agreements to repurchase* - The fair values of the Corporation's repurchase agreements are estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

*Accrued interest* - The carrying amounts of accrued interest approximate their fair values.

*Floating rate junior subordinated deferrable interest debentures* - The fair values of the Corporation's floating rate debentures are estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

*Off-balance-sheet instruments* - Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counter parties' credit standings.

The estimated fair values of the Corporation's financial instruments were as follows at September 30, 2010 (in thousands):

	<b>September 30, 2010</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets</b>		
Cash and cash equivalents	\$ 39,217	\$ 39,217
Securities available for sale	135,145	135,145
Federal Home Loan Bank stock, at cost	3,664	3,664
Federal Reserve Bank stock, at cost	832	832
Loans, net	213,761	215,150
Accrued interest receivable	1,508	1,508
Cash surrender value of life insurance	8,768	8,768
<b>Financial liabilities</b>		
Deposits	\$ 317,898	\$ 310,078
Advances from FHLB	59,500	62,256
Securities sold under agreements to repurchase	12,601	12,601
Floating rate junior subordinated deferrable interest debentures	12,372	11,826
Accrued interest payable	544	544
<b>Off-balance-sheet assets (liabilities)</b>		
	Notional Amount	Fair Value
Commitments to extend credit	\$ 34,114	\$ 0

The estimated fair values of the Corporation's financial instruments were as follows at December 31, 2009 (in thousands):

	<b>December 31, 2009</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets</b>		
Cash and cash equivalents	\$ 15,631	\$ 15,631
Securities available for sale	147,816	147,816
Securities held to maturity	3,934	3,976
Federal Home Loan Bank stock, at cost	3,947	3,947
Federal Reserve Bank stock, at cost	832	832
Loans, net	250,420	250,455
Accrued interest receivable	2,238	2,238
Cash surrender value of life insurance	9,332	9,332
<b>Financial liabilities</b>		
Deposits	\$ 332,762	\$ 323,113
Advances from FHLB	64,500	67,457
Securities sold under agreements to repurchase	18,520	18,544
Floating rate junior subordinated deferrable interest debentures	12,372	10,758
Accrued interest payable	581	581
<b>Off-balance-sheet assets (liabilities)</b>		
Commitments to extend credit	\$ 40,131	\$ 0

#### 7. Preferred Stock

On March 13, 2009, as part of the United States Department of the Treasury's Capital Purchase Program, the Corporation issued 9,266 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, \$1,000 per share liquidation preference, and a warrant to purchase up to 178,880 shares of the Corporation's common stock for a period of ten years at an exercise price of \$7.77 per share, in exchange for \$9,266,000 in cash from the United States Department of the Treasury. The proceeds, net of issuance costs consisting primarily of legal fees, were allocated between the preferred stock and the warrant on a pro rata basis, based upon the estimated market values of the preferred stock and the warrant. As a result, \$25,000 of the proceeds were allocated to the warrant, which increased additional paid-in-capital from common stock. The amount allocated to the warrant is considered a discount on the preferred stock and will be amortized using the level yield method over a five-year period through a charge to retained earnings. Such amortization will not reduce net income, but will reduce income available for common shares.

The preferred stock pays cumulative dividends of 5% per year for the first five years and 9% per year thereafter. The Corporation may redeem the preferred stock at its liquidation preference plus accrued and unpaid dividends at any time with prior regulatory approval. The securities purchase agreement between the Corporation and the United States Department of the Treasury limits, for three years, the rate of dividend payments on the Corporation's common stock to the amount of its last quarterly cash dividend before participation in the program of \$0.03 per share unless an increase is approved by the Department of the Treasury, limits the Corporation's ability to repurchase its common stock for three years and subjects the Corporation to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009.

The Corporation exercised its right to defer the regularly scheduled quarterly distribution on its \$12.4 million in subordinated debentures related to its two outstanding trust preferred security issuances and its regular quarterly cash dividend on its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "TARP Preferred Stock") issued to the U.S. Treasury Department in connection with the Corporation's participation in the Treasury's TARP Capital Purchase Program.

Under the terms of the TARP Preferred Stock, the Corporation is required to pay on a quarterly basis a dividend rate of 5% per year for the first five years, after which the dividend rate automatically increases to 9% per year. Dividend payments may be deferred, but the dividend is a cumulative dividend and failure to pay dividends for six dividend periods would trigger board appointment rights for the holder of the TARP Preferred Stock.

#### **8. Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were issued and no subsequent events have occurred requiring accrual or disclosure.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **Critical Accounting Policies**

The Corporation has adopted various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of financial statements.

Certain accounting policies involve significant judgments and assumptions by management. Management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Corporation.

The Corporation believes the allowance for loan losses is a critical accounting policy that requires significant judgments and estimates used in the preparation of consolidated financial statements. Management reviews the level of the allowance on a monthly basis and establishes the provision for loan losses based on the composition and size of the loan portfolio, overall portfolio quality, delinquency and charge-off levels, a review of specific problem loans, loss experience, economic conditions, and other factors related to the collectibility of the loan portfolio. A portion of the allowance is established by segregating the loans by residential mortgage, commercial and consumer and assigning allocation percentages based on historical loss experience and delinquency trends. The applied allocation percentages are reevaluated at least annually to ensure their relevance in the current economic environment. Accordingly, increases in the size of the loan portfolio and the increased emphasis on commercial real estate and commercial business loans, which carry a higher degree of risk of default and, thus, a higher allocation percentage, increases the allowance. Additionally, a portion of the allowance is established based on the level of classified and non-performing assets.

Although the Corporation believes that it uses the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review the Corporation's allowance for loan losses. Such agency may require the Corporation to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination.

One of the significant estimates related to securities is the evaluation of investments for other-than-temporary impairment. Marketable equity securities are evaluated for other-than-temporary impairment based on the severity and duration of the impairment and, if deemed to be other-than-temporary, the declines in fair value are reflected in earnings as realized losses. For those debt securities for which the fair value is less than its amortized cost and the Corporation does not intend to sell such security and it is not more likely than not that it will be required to sell such security prior to the recovery of its amortized cost basis (which may be maturity) less any credit losses, the credit-related other-than temporary impairment loss is recognized as a charge to earnings. Noncredit-related other-than-temporary impairment losses for debt securities are recognized in other comprehensive income (loss), net of applicable taxes.

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. Management evaluates securities for other-than temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation.

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Corporation exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require us to make projections of future taxable income. These judgments and estimates, which are inherently subjective, are reviewed periodically as regulatory and business factors change. A reduction in estimated future taxable income may require the Corporation to record a valuation allowance against its deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

#### Forward Looking Statements

Management's discussion and analysis of financial condition and results of operations and other portions of this Form 10-Q may contain certain "forward-looking statements" concerning the future operations, plans or strategies of the Corporation and the Bank. These forward-looking statements are generally identified by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Management intends to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all forward-looking statements contained in this report. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the Corporation's and the Bank's market area and the country as a whole, the ability of the Corporation and the Bank to control costs and expenses, competitive products and pricing and the demand for such products, loan delinquency rates, the quality and composition of the loan and investment portfolios, changes in accounting principles and guidelines and changes in federal and state laws and regulations. The Corporation provides greater detail regarding some of these factors in its Form 10-K for the year ended December 31, 2009, including in the Risk Factors section of that report, in its Form 10-Q for the quarter ended June 30, 2010 and in its other SEC reports. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Except as required by applicable law or regulation, the Corporation does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward looking statements to reflect events or circumstances after the date of these statements or to reflect the occurrence of anticipated or unanticipated events.

Financial Condition

Assets

Total assets of the Corporation decreased \$28.2 million, or 6.2%, to \$428.9 million at September 30, 2010 from \$457.0 million at December 31, 2009. Investment securities at September 30, 2010 decreased 10.9% to \$135.1 million from \$151.8 million at December 31, 2009. Fed funds sold at September 30, 2010 increased \$22.9 million to \$28.2 million from \$5.3 million at December 31, 2009 as a result of funds invested with proceeds from sales and maturities of securities. Net loans decreased \$36.7 million from December 31, 2009 to September 30, 2010, due primarily to a significant reduction in loan demand as a result of economic conditions currently present in South Carolina.

Investment and Mortgage-backed Securities

Included in our investment securities are 7 pooled trust preferred securities with an amortized cost of \$3.5 million and a fair value of \$2.2 million. An other than temporary impairment charge of \$1.1 million was recorded for the nine-month period ended September 30, 2010 related to these trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities.

Held to Maturity-Securities classified as held to maturity consisted of the following (in thousands):

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Municipal Securities	\$ --	\$ --	\$ 3,934	\$ 3,976

The Corporation sold approximately \$9.2 million in municipal securities, including held to maturity securities of \$3.9 million, due to credit concerns in this segment of the investment market.

Available for Sale—Securities classified as available for sale consisted of the following (in thousands):

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment Securities:				
U.S. Agency Obligations	\$ 2	\$ 2	\$ 4	\$ 4
Government Sponsored Enterprises	62,701	62,837	79,162	78,471
Municipal Securities	--	--	5,781	6,042
Trust Preferred Securities	7,491	4,883	8,570	5,912
Total Investment Securities	70,194	67,722	93,517	90,429
Mortgage-backed Securities:				
Fannie Mae	6,506	6,727	35,561	36,723
Ginnie Mae	48,039	48,420	16,569	17,030
Freddie Mac	11,708	11,757	3,068	3,154
Collateralized Mortgage Obligations	540	519	597	480
Total Mortgage-backed Securities	66,793	67,423	55,795	57,387
Total Available for Sale	\$ 136,987	\$ 135,145	\$ 149,312	\$ 147,816

The Corporation uses the investment securities portfolio for several purposes. It serves as a vehicle to manage interest rate and prepayment risk, to generate interest and dividend income from investment of funds, to provide liquidity to meet funding requirements, and to provide collateral for pledges on public funds and FHLB borrowings. The average yield on investments at September 30, 2010 was 3.21% compared to 4.04% at December 31, 2009. The carrying values of the investment securities at September 30, 2010 and December 31, 2009 and percentage of each category to total investments are as follows:

	September 30, 2010		December 31, 2009	
	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
Available for sale:				
Investment securities:				
U.S. Agency obligations	\$ 2	0.01%	\$ 4	0.01%
Government Sponsored Enterprises	62,837	46.49	78,471	53.08
Municipal securities	--	--	6,042	4.09
Trust Preferred securities	4,883	3.61	5,912	4.00
Total investment securities	67,722	50.11	90,429	61.18
Mortgage-backed and related securities	67,423	49.89	57,387	38.82
Total	\$ 135,145	100.00%	\$ 147,816	100.00%

	September 30, 2010		December 31, 2009	
	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio
Held to maturity:				
Municipal securities	\$ --	--%	\$ 3,934	100.00%

Investment securities at September 30, 2010 decreased 10.9% to \$135.1 million from \$151.8 million at December 31, 2009. The Corporation has purchased \$190.4 million of government agency and mortgaged-backed securities as of September 30, 2010 that was offset by matured securities of \$104.6 million, sales of \$88.4 million and principal reductions on mortgaged-backed securities of \$14.5 million. The Corporation continues to reposition the investment portfolio for the potential of rising interest rates.

The Corporation accounts for investment securities in accordance with FASB ASC Topic 320: Investments in Debt and Equity Securities. In accordance with FASB ASC Topic 320, debt securities that the Corporation has the positive intent and ability to hold to maturity are classified as "held to maturity" securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling in the near term are classified as "trading" securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held to maturity or trading securities are classified as "available for sale" securities and reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity. No securities have been classified as trading securities.

Purchases and sales of securities are accounted for on a settlement date basis. Premiums and discounts on debt securities are amortized or accreted as adjustments to income over the estimated life of the security using a method approximating the level yield method. Gains or losses on the sale of securities are based on the specific identification method. The fair value of securities is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The amortized cost and fair value of investment securities are summarized as follows:

Available for Sale - Securities classified as available for sale consisted of the following (in thousands):

	As of September 30, 2010			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>Investment Securities:</b>				
U.S. Agency Obligations	\$ 2	\$ -	\$ --	\$ 2
Government Sponsored Enterprises	62,701	190	(54)	62,837
Trust Preferred Securities	7,491	-	(2,608)	4,883
<b>Total Investment Securities</b>	<b>70,194</b>	<b>190</b>	<b>(2,662)</b>	<b>67,722</b>
<b>Mortgage-backed Securities:</b>				
Fannie Mae	6,506	221	-	6,727
Ginnie Mae	48,039	381	-	48,420
Freddie Mac	11,708	59	(10)	11,757
Collateralized Mortgage Obligations	540	-	(21)	519
<b>Total Mortgage-backed Securities</b>	<b>66,793</b>	<b>661</b>	<b>(31)</b>	<b>67,423</b>
<b>Total available for sale</b>	<b>\$ 136,987</b>	<b>\$ 851</b>	<b>\$ (2,693)</b>	<b>\$ 135,145</b>

Held to Maturity - Securities classified as held to maturity consisted of the following (in thousands):

	As of December 31, 2009			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>Municipal Securities</b>	<b>\$ 3,934</b>	<b>\$ 52</b>	<b>\$ (10)</b>	<b>\$ 3,976</b>

Available for Sale - Securities classified as available for sale consisted of the following (in thousands):

	As of December 31, 2009			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Investment Securities:				
U.S. Agency Obligations	\$ 4	\$ --	\$ --	\$ 4
Government Sponsored Enterprises	79,162	217	(908)	78,471
Municipal Securities	5,781	261	--	6,042
Trust Preferred Securities	8,570	--	(2,658)	5,912
Total Investment Securities	93,517	478	(3,566)	90,429
Mortgage-backed Securities:				
Fannie Mae	35,561	1,162	--	36,723
Ginnie Mae	16,569	461	--	17,030
Freddie Mac	3,068	86	--	3,154
Collateralized Mortgage Obligations	597	--	(117)	480
Total Mortgage-backed Securities	55,795	1,709	(117)	57,387
Total available for sale	\$ 149,312	\$ 2,187	\$ (3,683)	\$ 147,816

The maturities of securities at September 30, 2010 are as follows (in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ --	\$ --	\$ 4	\$ 4
Due after one year through five years	--	--	46	48
Due after five years through ten years	--	--	49,147	49,221
Due after ten years	--	--	87,790	85,872
Total investment and mortgage-backed securities	\$ --	\$ --	\$ 136,987	\$ 135,145

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2010 (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale						
U.S. Agency Obligations	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Government Sponsored Enterprises	10,946	54	--	--	10,946	54
Trust Preferred Securities	--	--	4,883	2,608	4,883	2,608
Mortgage-backed Securities	1,028	10	552	21	1,580	31
Total	\$ 11,974	\$ 64	\$ 5,435	\$ 2,629	\$ 17,409	\$ 2,693

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 (in thousands).

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Held to Maturity</b>						
Municipal Securities	\$ 494	\$ 9	\$ 833	\$ 1	\$ 1,326	\$ 10
Total	\$ 494	\$ 9	\$ 833	\$ 1	\$ 1,326	\$ 10
<b>Securities Available for Sale</b>						
U.S. Agency Obligations	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Government Sponsored Enterprises	41,040	908	--	--	41,040	908
Municipal Securities	--	--	--	--	--	--
Trust Preferred Securities	--	--	5,912	2,658	5,912	2,658
Mortgage-backed Securities	--	--	532	117	532	117
Total	\$ 41,040	\$ 908	\$ 6,444	\$ 2,775	\$ 47,484	\$ 3,683

Management reviews securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

To determine which individual securities are at risk for other-than-temporary impairment, the Corporation considers various characteristics of each security including but not limited to the credit rating, the duration and amount of the unrealized loss, and any credit enhancements. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of the assessment. As a result of this review, the Corporation identifies individual securities believed to be at risk for other-than-temporary impairment. These securities are evaluated by estimating projected cash flows based on the structure of the security and certain assumptions, such as prepayments, default rates, and loss severity to determine whether the Corporation expects to receive all of the contractual cash flows as scheduled. The Corporation recognizes an other-than-temporary impairment credit loss when the present value of the investment security's cash flows expected to be collected are less than the amortized cost basis.

To determine impairment charges for the Corporation's collateralized debt obligations ("CDO"), we performed discounted cash flow valuations through a static default model test. The default model used assumed a 3.6% rate, which is three times the historic default rates, a 0% recovery on all banks in deferral of interest payments and a 0% prepayment rate. Cash flow valuations with a premium mark up of 300 basis points were also used to determine the fair market values of the Corporation's collateralized debt obligations. Valuation documentation for the cash flow analysis is provided by an independent third party and is reviewed each quarter by the Corporation's external auditor.

An other-than-temporary impairment charge of \$660,000 from write-downs on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities was recorded for the three months ended September 30, 2010 compared to \$739,000 for the same period in 2009. Other than temporary impairment write-downs on securities were \$1.1 million for the nine months ended September 30, 2010 compared to \$1.8 million for the same period in 2009 from write-downs recorded on trust preferred securities.

## Loans

Net loans decreased to \$213.8 million at September 30, 2010 compared to \$250.4 million at December 31, 2009. The decrease was due to a significant reduction in loan demand as a result of economic conditions currently present in South Carolina and more conservative underwriting standards. Consumer loans decreased \$5.5 million, or 10.5%, commercial loans and commercial real estate loans decreased \$27.7 million, or 15.3%, and residential mortgage loans decreased \$3.7 million, or 18.3%, for the period ended September 30, 2010.

Loans receivable consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Mortgage loans:		
Fixed-rate residential	\$ 9,736	\$ 10,675
Adjustable-rate residential	5,409	6,202
Commercial real estate	105,361	110,901
Construction	856	2,923
Total mortgage loans	<u>121,362</u>	<u>130,701</u>
Commercial loans:		
Commercial non-real estate	25,952	34,429
Commercial lines of credit	25,772	39,096
Total commercial loans	<u>51,724</u>	<u>73,525</u>
Consumer loans:		
Home equity	16,619	17,395
Consumer and installment	29,865	34,578
Consumer lines of credit	296	314
Total consumer loans	<u>46,780</u>	<u>52,287</u>
Total loans	<u>219,866</u>	<u>256,513</u>
Less:		
Undisbursed portion of interim construction loans	(151)	(320)
Unamortized loan discount	(277)	(309)
Allowance for loan losses	(5,834)	(5,579)
Net deferred loan origination costs	156	115
Total, net	<u>\$ 213,761</u>	<u>\$ 250,420</u>
Weighted-average interest rate of loans	4.99%	4.87%

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated (dollars in thousands):

	September 30, 2010	December 31, 2009
Non-accruing loans which are contractually past due 90 days or more:		
Residential real estate	\$ 1,122	\$ 649
Commercial	22,040	19,045
Consumer	768	1,175
Total nonperforming loans	<u>23,930</u>	<u>20,869</u>
Real estate acquired through foreclosure and repossessed assets	9,855	5,917
Total nonperforming assets	<u>\$ 33,785</u>	<u>\$ 26,786</u>
Troubled debt restructurings	\$ 2,902	\$ 3,320
Nonperforming loans to total loans	<u>10.88%</u>	<u>8.13%</u>
Nonperforming assets to total assets	<u>7.88%</u>	<u>5.86%</u>
Allowance for loan losses to total loans outstanding	<u>2.66%</u>	<u>2.18%</u>
Allowance for loan losses to nonperforming loans	<u>24.37%</u>	<u>26.73%</u>
Allowance for loan losses	<u>\$ 5,834</u>	<u>\$ 5,579</u>

Loans which management identifies as impaired generally will be non-performing loans. Non-performing assets increased \$7.0 million to \$33.8 million at September 30, 2010, or 7.88% of total assets, as compared to \$26.8 million or 5.86% of total assets at December 31, 2009. The majority of this increase was due to one commercial real estate loan for \$4.7 million. Slow housing conditions have affected borrowers' abilities to sell the completed projects in a timely manner. Loans are currently being carried at management's best estimate of net realizable value, although no assurance can be given that no further losses will be incurred on loans until the collateral has been acquired and liquidated or other arrangements can be made.

Interest income that would have been recorded for the nine months ended September 30, 2010 had non-accruing loans been current in accordance with their original terms amounted to approximately \$1.3 million. There was no interest included in interest income on such loans for the nine months ended September 30, 2010.

Management has allocated specific reserves to its non-performing assets that it believes will offset losses, if any, arising from less than full recovery of the loans from the supporting collateral. Specific reserves for non-performing loans are allocated to the loan as a write-down after completion of the impairment analysis for all collateral dependent loans. These additional reserves are based on management's evaluation of a number of factors, including the estimated value of the collateral supporting each of these loans. Management believes that the combination of additional reserves and established impairment of these loans will be adequate to account for the current risk associated with these loans as of September 30, 2010. Management continues to evaluate and assess all non-performing assets on a regular basis as part of its well-established loan monitoring and review process.

At September 30, 2010, criticized and classified loans, which includes all non-performing loans, totaled \$37.2 million, compared to \$51.4 million at December 31, 2009 and \$40.9 million at September 30, 2009. The reduction of \$14.2 million for criticized and classified loans from December 31, 2009 to September 30, 2010 includes loans charged off for the period of \$5.8 million, loans transferred to real estate acquired through foreclosure of \$3.9 million and the payment in full of two commercial real estate loans. Our non-performing loans totaled \$23.3 million at September 30, 2010 compared to \$20.2 million at December 31, 2009. Non-performing and impaired loans, net of specific reserves, totaled \$15.2 million at September 30, 2009 and \$12.5 million at December 31, 2008. While management uses the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the valuations. Such adjustments would be made in the relevant period and may be material to the financial statements.

Real estate acquired through foreclosure increased \$3.9 million to \$9.8 million at September 30, 2010 from \$5.9 million at December 31, 2009, as a result of foreclosure on sixteen commercial real estate properties totaling \$6.1 million. The increase was partially offset by the sale of twelve commercial real estate properties totaling \$2.0 million. Other real estate owned ("OREO") is adjusted to fair value upon transfer of the loans to OREO. Subsequently, OREO is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The properties are being actively marketed and maintained with the primary objective of liquidating the collateral at a level which most accurately approximates fair market value and allows recovery of as much of the unpaid balance as possible upon the sale of the properties in a reasonable period of time. The carrying values of these assets are believed to be representative of their fair market value, although there can be no assurance that the ultimate proceeds from the sale of these assets will be equal to or greater than the carrying values.

Real estate acquired in settlement of loans through foreclosure is summarized as follows:

	September 30, 2010	December 31, 2009
Balance at beginning of period	\$ 5,917	\$ 667
Foreclosures added during the period	6,091	5,959
Sales of foreclosed property	(1,950)	(69)
Provision charged as a write-down	(203)	(640)
Balance at the end of period	<u>\$ 9,855</u>	<u>\$ 5,917</u>

#### Other Assets

Cash surrender value of life insurance decreased \$564,000, or 6.0%, to \$8.8 million at September 30, 2010 from \$9.3 million at December 31, 2009, due primarily to the redemption of certain life insurance policies on former employees and to reduce carrier exposure.

#### Liabilities

Total liabilities decreased \$24.2 million to \$406.7 million at September 30, 2010 from \$430.9 million at December 31, 2009. Deposits decreased \$14.9 million, or 4.5%, to \$317.9 million at September 30, 2010 from \$332.8 million at December 31, 2009. The decrease was due to a \$18.5 million decrease in certificates of deposit, offset by a \$3.6 million increase in transaction accounts as a result of a special product promotion. The Corporation continues to target lower-cost demand deposit accounts through media advertising and special product promotions. FHLB advances decreased \$5.0 million to \$59.5 million at September 30, 2010 from \$64.5 million at December 31, 2009 due to the maturity of advances. Additional advances were not needed due to the decrease in assets. Security agreements to repurchase decreased \$5.9 million to \$12.6 million at September 30, 2010 from \$18.5 million at December 31, 2009 due to the maturity of these instruments.

Deposit accounts were as follows (in thousands):

Account Type	September 30, 2010			December 31, 2009		
	Rate	Balance	%	Rate	Balance	%
<b>NOW accounts:</b>						
Commercial non-interest-bearing	--	\$ 17,761	5.58%	--	\$ 18,015	5.42%
Non-commercial	1.60%	95,613	30.08%	2.30%	98,274	29.53%
Money market checking accounts	0.58%	23,608	7.43%	1.57%	32,239	9.69%
Regular savings	0.81%	28,603	9.00%	0.51%	13,383	4.02%
<b>Total demand and savings deposits</b>	<b>1.15%</b>	<b>165,585</b>	<b>52.09%</b>	<b>1.74%</b>	<b>161,911</b>	<b>48.66%</b>
<b>Time deposits:</b>						
Up to 2.00%		98,297	30.92%		79,098	23.77%
2.01 % - 3.00%		49,937	15.71%		55,966	16.82%
3.01 % - 4.00%		488	0.15%		20,885	6.27%
4.01 % - 5.00%		2,994	0.94%		13,744	4.13%
5.01 % - 6.00%		597	0.19%		1,158	0.35%
<b>Total time deposits</b>	<b>1.65%</b>	<b>152,313</b>	<b>47.91%</b>	<b>2.27%</b>	<b>170,851</b>	<b>51.34%</b>
<b>Total deposit accounts</b>	<b>1.39%</b>	<b>\$ 317,898</b>	<b>100.00%</b>	<b>2.02%</b>	<b>\$ 332,762</b>	<b>100.00%</b>

The maturity of the advances from the FHLB is as follows (in thousands):

Contractual Maturity:	September 30, 2010		December 31, 2009	
	Balance	Wtd Avg Rate	Balance	Wtd Avg Rate
Within one year - fixed rate	\$ --	--	\$ 5,000	4.93%
After one but within three years - fixed rate	--	--	--	--
After one but within three years - adjustable rate	22,000	4.58%	22,000	4.58%
Greater than five years - adjustable rate	37,500	3.89%	37,500	3.89%
<b>Total advances</b>	<b>\$ 59,500</b>	<b>4.15%</b>	<b>\$ 64,500</b>	<b>4.20%</b>

The Bank pledges as collateral for the advances its investment securities and has entered into a blanket collateral agreement with the FHLB whereby the Bank maintains, free of other encumbrances, qualifying loans with unpaid principal balances equal to, when discounted at 50% to 75% of the unpaid principal balances, 100% of total advances.

The Corporation had \$12.6 million and \$18.5 million borrowed under agreements to repurchase at September 30, 2010 and December 31, 2009, respectively.

#### Shareholders' Equity

Shareholders' equity decreased \$4.0 million, or 15.3%, to \$22.1 million at September 30, 2010 from \$26.1 million at December 31, 2009 due primarily to a net loss to common shareholders of \$3.9 million and a \$225,000 increase in unrealized losses on securities available for sale. At September 30, 2010, the Bank continues to be well-capitalized by regulatory measures.

## Liquidity

Liquidity is the ability to meet demand for loan disbursements, deposit withdrawals, repayment of debt, payment of interest on deposits and other operating expenses. The primary sources of liquidity are deposits, loan repayments, borrowings, maturity and sale of securities and interest payments.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The primary investing activities of the Corporation are the origination of commercial and consumer loans, and the purchase of investment and mortgage-backed securities. These activities are funded primarily by principal and interest payments on loans and investment securities, deposit growth, securities sold under agreements to repurchase and FHLB advances.

At September 30, 2010, the Corporation's investment in marketable securities totaled \$135.1 million, all of which was available for sale. In addition, the Corporation had \$28.2 million in fed funds sold at September 30, 2010 compared to \$5.3 million at December 31, 2009. Approximately \$81.2 million and \$94.6 million of debt securities at September 30, 2010 and December 31, 2009, respectively, were pledged by the Bank as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties along with additional borrowings and repurchase agreements.

Outstanding loan commitments (including commitments to fund credit lines) totaled \$34.1 million at September 30, 2010. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

The Corporation closely monitors its liquidity position on a daily basis. Time deposits that are scheduled to mature in one year or less from September 30, 2010, totaled \$115.5 million. The Corporation relies primarily on competitive rates, customer service, and long-standing relationships with customers to retain deposits. From time to time, the Corporation will also offer special products to its customers to increase retention and to attract new deposits. Based upon the Corporation's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Corporation. If the Corporation requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances, securities sold under agreements to repurchase and lines of credit. At September 30, 2010, the Corporation had outstanding \$59.5 million of FHLB borrowings and \$12.6 million of securities sold under agreements to repurchase. At September 30, 2010, the Corporation had unused short-term lines of credit to purchase federal funds from unrelated banks totaling \$4.0 million and the ability to borrow an additional \$33.3 million from secured borrowing lines. Lines of credit are available on a one-to-ten day basis for general purposes of the Corporation. All of the lenders have reserved the right to withdraw these lines at their option.

Provident Community Bancshares, Inc. is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, Provident Community Bancshares is responsible for paying any dividends declared to its shareholders and paying the obligations on its outstanding debentures and preferred stock. Provident Community Bancshares' primary sources of income are proceeds that it retained from its offering of preferred stock and dividends received from the Bank. The amount of dividends that the Bank may declare and pay to Provident Community Bancshares in any calendar year, without the receipt of prior approval from the Office of the Comptroller of the Currency cannot exceed retained net income for that year combined with retained net income for the prior two years less any transfers to surplus and capital distributions.

The Corporation is exercising its right to defer the regularly scheduled quarterly distribution on its \$12.6 million in subordinated debentures related to its two outstanding trust preferred security issuances and its regular quarterly cash dividend on its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "TARP Preferred Stock") issued to the U.S. Treasury Department in connection with the Corporation's participation in the Treasury's TARP Capital Purchase Program.

## Capital Management

The Bank and the Corporation are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weights and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the Bank and the Corporation to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (as defined in the regulations). As of September 30, 2010, the Bank and the Corporation met the capital adequacy requirements to which they are subject.

As of September 30, 2010, the Bank was "well capitalized" under the regulatory framework for prompt corrective action based on its capital ratio calculations. In order to be "well capitalized", the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

Under present regulations of the Office of the Comptroller of the Currency, the Bank must have core capital (leverage requirement) equal to 4.0% of assets, of which 1.5% must be tangible capital, excluding intangible assets. The Bank must also maintain risk-based regulatory capital as a percent of risk weighted assets at least equal to 8.0%. In measuring compliance with capital standards, certain adjustments must be made to capital and total assets.

The following tables present the total risk-based, Tier 1 risk-based and Tier 1 leverage requirements for the Corporation and the Bank (dollars in thousands).

	September 30, 2010					
	Actual		Regulatory Minimum		"Well Capitalized"	
	Amount \$	Ratio %	Amount \$	Ratio %	Amount \$	Ratio %
Leverage ratio						
Corporation	24,611	5.75%	17,131	4.00%	n/a	n/a
Bank	28,739	6.71%	17,121	4.00%	21,401	5.00
Tier 1 capital ratio						
Corporation	24,611	9.37%	10,507	4.00%	n/a	n/a
Bank	28,739	10.95%	10,495	4.00%	15,743	6.00
Total risk-based capital ratio						
Corporation	32,208	12.26%	21,013	8.00%	n/a	n/a
Bank	32,050	12.21%	20,991	8.00%	26,238	10.00

#### **Off-Balance Sheet Risk**

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of legally binding agreements to lend money to customers at predetermined interest rates for a specified period of time. Outstanding loan commitments (including commitments to fund credit lines) totaled \$34.1 million at September 30, 2010. Each customer's credit worthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on the credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. The credit risk on these commitments is managed by subjecting each customer to normal underwriting and risk management processes. For the quarter ended September 30, 2010, the Corporation did not engage in any off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operations or cash flows.

#### **Results of operations for the three months ended September 30, 2010 and 2009**

##### General

The Corporation recorded a net loss to common shareholders of \$3.4 million for the three months ended September 30, 2010 as compared to a net loss to common shareholders of \$754,000 for the same period in 2009. Operating results for the current period were impacted by a compression of the net interest margin from 2.28% for the three months ended September 30, 2009 to 2.22% for the three months ended September 30, 2010 caused by declining market interest rates and higher provisions for loan losses due to an increase in non-performing loans and loan write-downs, offset by an increase in non-interest income due to higher gains from investment security sales and a decrease in other-than-temporary impairment charges on investment securities.

Average Yields and Rates  
(dollars in thousands)

	<u>Three Months Ended September 30,</u>					
	<u>2010</u>			<u>2009</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost(2)</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost(2)</u>
<b>Interest-earning assets:</b>						
Loans (1)	\$ 225,656	\$ 2,841	5.04%	\$ 269,458	\$ 3,640	5.40%
Mortgage-backed securities	30,734	345	4.49%	78,434	897	4.57%
Investment securities	116,483	922	3.17%	66,755	789	4.73%
Other interest-earning assets	23,785	25	0.42%	15,190	26	0.70%
Total interest-earning assets	<u>396,658</u>	<u>4,134</u>	<u>4.17%</u>	<u>429,837</u>	<u>5,352</u>	<u>4.98%</u>
Non-interest-earning assets	37,921			35,509		
Total assets	<u>\$ 434,579</u>			<u>\$ 465,346</u>		
<b>Interest-bearing liabilities:</b>						
Deposits	304,320	1,171	1.54%	317,559	2,010	2.53%
Floating rate junior subordinated deferrable interest debentures	12,372	122	3.94%	12,372	125	4.03%
FHLB advances and other borrowings	71,208	638	3.58%	81,899	763	3.73%
Total interest-bearing liabilities	<u>387,900</u>	<u>1,931</u>	<u>1.99%</u>	<u>411,830</u>	<u>2,898</u>	<u>2.81%</u>
<b>Non-interest-bearing sources:</b>						
Non-interest-bearing deposits	18,110			18,275		
Non-interest-bearing liabilities	3,120			3,926		
Total liabilities	409,130			434,031		
Shareholders' equity	25,449			31,315		
Total liabilities and shareholders' equity	<u>\$ 434,579</u>			<u>\$ 465,346</u>		
Net interest income		<u>\$ 2,203</u>			<u>\$ 2,454</u>	
Interest rate spread			2.18%			2.17%
Impact of non-interest-bearing deposits			0.04			0.12
Net interest margin			<u>2.22%</u>			<u>2.28%</u>

(1) Average balances of loans include non-accrual loans.

(2) Annualized

Interest Income

Interest income decreased \$1.2 million, or 22.8%, to \$4.1 million for the three months ended September 30, 2010 as compared to the same period in 2009. Interest income on loans decreased by 21.9%, or \$799,000, to \$2.8 million for the three months ended September 30, 2010 from \$3.6 million for the three months ended September 30, 2009, due primarily to lower average balances due to lower demand and a 36 basis point decrease in the average yield due to lower market interest rates and an increase in non-performing loans. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities decreased \$419,000, or 24.5%, for the three months ended September 30, 2010 to \$1.3 million from \$1.7 million during the same period in 2009 due to lower yields resulting from declining market interest rates and a decrease in the average balance of mortgage-backed securities, offset by higher average balances of investment securities.

### Interest Expense

Interest expense decreased \$967,000, or 33.4%, to \$1.9 million for the three months ended September 30, 2010 as compared to \$2.9 million for the three months ended September 30, 2009. Interest expense on deposit accounts decreased \$839,000, or 41.7%, to \$1.2 million for the three months ended September 30, 2010 from \$2.0 million during the same period in 2009 due primarily to lower average balances as a result of reductions in municipal deposits, lower market interest rates and a shift in the composition of the deposit portfolio from certificates of deposits to transaction accounts. The Corporation continues to target lower cost demand deposit accounts versus higher cost certificates of deposits in order to reduce overall funding costs. Interest expense on FHLB advances and other borrowings decreased \$125,000, or 16.4%, for the three months ended September 30, 2010 as compared to the same period in the previous year due primarily to lower average balances and lower rates paid. Interest expense on floating rate junior subordinated deferrable interest debentures decreased \$3,000, or 2.4%, to \$122,000 for the three months ended September 30, 2010 from \$125,000 during the same period in 2009 due to lower market rates.

### Provision for Loan Losses

We have developed policies and procedures for evaluating the overall quality of our credit portfolio and the timely identification of potential problem credits. The Board of Directors reviews and approves the appropriate level for the allowance for loan losses quarterly based upon management's recommendations, the results of the internal monitoring and reporting system, quarterly external independent loan reviews and the analysis of economic conditions in our local markets. Additions to the allowance for loan losses, which are expensed as the provision for loan losses on our income statement, are periodically made to maintain the allowance at an appropriate level based on our analysis of the potential risk in the loan portfolio. Loan losses, which include write downs and charge-offs, are charged directly to the allowance while recoveries are credited against the allowance. The amount of the provision is a function of the level and composition of loans outstanding, the level of classified and non-performing loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during the given period, and current and anticipated economic conditions.

Our allowance for loan losses is based upon judgments and assumptions of risk elements in the portfolio, future economic conditions and other factors affecting borrowers. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant problem credits. In addition, we monitor overall portfolio quality through observable trends in delinquency, charge offs, and general and economic conditions in the market area. The adequacy of the allowance for loan losses and the effectiveness of our monitoring and analysis system are also reviewed periodically by the banking regulators which may require that we increase the allowance for loan losses. Risks are inherent in making all loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

Our judgment about the adequacy of the allowance is based upon a number of assumptions about future events, which we believe to be reasonable, but which may not prove to be accurate. Thus, charge-offs in future periods could exceed the allowance for loan losses, or substantial additional increases in the allowance for loan losses could be required. Additions to the allowance for loan losses would result in a decrease of our net income and, possibly, our capital. Based on present information, we believe the allowance for loan losses is adequate at September 30, 2010 to meet presently known and inherent risks in the loan portfolio.

During the three months ended September 30, 2010, the provision for loan losses was \$3.9 million as compared to \$1.4 million for the same period in the previous year, primarily due to the increase in non-performing loans and loan write-downs, offset by a decrease in net loans. Non-performing loans increased \$5.5 million from \$18.4 million at September 30, 2009 to \$23.3 million at September 30, 2010. The increase in non-performing loans over the previous year related primarily to commercial real estate relationships that have been affected by the downturn in the residential housing market. Slow housing conditions have affected these borrowers' ability to sell the completed projects in a timely manner. Specific reserves for non-performing loans at September 30, 2010 were \$636,000 compared to \$5.5 million for nonperforming loans at September 30, 2009. All specific reserves for commercial real estate loans, which totaled \$6.5 million, that were deemed collateral dependent were charged off against the loans as of December 31, 2009. Management believes the specific reserves allocated to these and other non accrual loans will offset losses, if any, arising from less than full recovery of the loans from the supporting collateral. Management has sought to provide the amount estimated to be necessary to maintain an allowance for loan losses that is adequate to cover the level of loss that management believes to be inherent in the portfolio as a whole, taking into account the Corporation's experience, economic conditions and information about borrowers available at the time of the analysis. However, management expects further deterioration of economic conditions in the Corporation's market areas is likely in the short-term, especially with respect to real estate related activities and real property values. Consequently, management expects that further additions in provisions for loan losses could be needed in the future.

#### Non-Interest Income

Total non-interest income increased \$287,000, or 69.5%, to \$700,000 for the three months ended September 30, 2010 from \$413,000 for the same period in the previous year. The increase was due primarily to lower other-than-temporary impairment charges and higher gains on the sale of investments. Gains on sale of investments were \$619,000 from security sales of \$33.0 million for the three months ended September 30, 2010 compared to \$381,000 from security sales of \$19.9 million for the same period in the previous year, as the Corporation continues to better position the investment portfolio for the potential of rising interest rates. The Corporation continues to better position the investment portfolio for the potential of rising interest rates. An other-than-temporary impairment charge of \$660,000 from write-downs on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities was recorded for the three months ended September 30, 2010 compared to \$739,000 for the same period in 2009. Net fees from financial services decreased \$30,000, or 3.9%, to \$741,000 for the three months ended September 30, 2010 from \$771,000 for the same period in the previous year. The decrease was due to lower return check charges as a result of new government regulations on checking accounts.

#### Non-Interest Expense

For the three months ended September 30, 2010, total non-interest expense increased \$288,000, or 11.6%, to \$2.8 million from \$2.5 million for the same period in 2009. The increase was due primarily to higher loan operation expenses as a result of an increase in foreclosure costs related to other real estate owned. Compensation and employee benefits decreased \$33,000, or 3.0%, due primarily to reductions in mortgage commission compensation expense due to lower loan volumes and reductions in employee compensation costs due to prior year staffing reductions. Occupancy and equipment expense decreased \$99,000, or 13.6%, to \$630,000 for the three months ended September 30, 2010 from \$729,000 for the same period in 2009 due primarily to lower depreciation expenses as a result of reductions in capital expenses for the current year and reductions in equipment maintenance expense. Deposit insurance premiums expense increased \$21,000 to \$148,000 for the three months ended September 30, 2010 from \$127,000 for the same period in 2009, due to an industry-wide increase in assessments. Professional services expense increased \$32,000, or 33.7%, to \$127,000 for the three months ended September 30, 2010 from \$95,000 for the same period in 2009 due primarily to higher legal and audit expense. Loan operations expense increased \$437,000, to \$475,000 for the three months ended September 30, 2010 from \$38,000 for the same period in 2009 due primarily to higher foreclosure expenses and write-downs required to adjust other real estate owned to fair market value. All goodwill and related deposit premium intangibles were charged off in 2009 thereby eliminating amortization expenses.

#### Income taxes

Our benefit for income taxes was \$548,000 for the three months ended September 30, 2010 as compared to a benefit of \$402,000 for the same period in 2009.

#### **Results of operations for the nine months ended September 30, 2010 and 2009**

##### General

The Corporation recorded a net loss to common shareholders of \$3.9 million for the nine months ended September 30, 2010 as compared to a net loss of \$3.2 million for the same period in 2009. Operating results for the current period were impacted by a compression of the net interest margin from 2.16% for the nine months ended September 30, 2009 to 2.11% for the nine months ended September 30, 2010 caused by declining market interest rates and higher provisions for loan losses due to an increase in non-performing loans and loan write-downs, offset by an increase in non-interest income due to higher gains from investment security sales and a decrease in other-than-temporary impairment on securities.

Average Yields and Rates  
(dollars in thousands)

	<u>Nine Months Ended September 30,</u>					
	<u>2010</u>			<u>2009</u>		
	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost(2)</u>	<u>Average Balance</u>	<u>Interest</u>	<u>Average Yield/Cost(2)</u>
<b>Interest-earning assets:</b>						
Loans (1)	\$ 236,235	\$ 8,836	4.99%	\$ 277,990	\$ 10,881	5.22%
Mortgage-backed securities	32,243	992	4.10%	78,340	2,929	4.98%
Investment securities	112,112	2,864	3.41%	53,065	1,955	4.91%
Other interest-earning assets	22,911	82	0.48%	17,353	69	0.53%
Total interest-earning assets	403,501	12,774	4.22%	426,748	15,834	4.95%
Non-interest-earning assets	37,926			32,237		
Total assets	\$ 441,427			\$ 458,985		
<b>Interest-bearing liabilities:</b>						
Deposits	\$ 306,687	4,012	1.74%	311,337	6,214	2.66%
Floating rate junior subordinated deferrible interest debentures	12,372	359	3.87%	12,372	410	4.42%
FHLB advances and other borrowings	74,606	2,012	3.60%	84,355	2,304	3.64%
Total interest-bearing liabilities	393,665	6,383	2.16%	408,064	8,928	2.92%
<b>Non-interest-bearing sources:</b>						
Non-interest-bearing deposits	18,637			18,690		
Non-interest-bearing liabilities	3,139			4,712		
Total liabilities	415,441			431,466		
Shareholders' equity	25,986			27,519		
Total liabilities and shareholders' equity	\$ 441,427			\$ 458,985		
Net interest income		\$ 6,391			\$ 6,906	
Interest rate spread			2.06%			2.03%
Impact of non-interest-bearing deposits			0.05			0.13
Net interest margin			2.11%			2.16%

(1) Average balances of loans include non-accrual loans.

(2) Annualized

Interest Income

Interest income decreased \$3.1 million, or 19.3%, to \$12.8 million for the nine months ended September 30, 2010 as compared to the same period in 2009. Interest income on loans decreased by 18.8%, or \$2.0 million, to \$8.8 million for the nine months ended September 30, 2010 from \$10.9 million for the nine months ended September 30, 2009, due to declining market interest rates and lower average balance of loans as a result of a decrease in demand. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities decreased \$1.0 million, or 20.5%, for the nine months ended September 30, 2010 to \$3.9 million from \$4.9 million during the same period in 2009 due to lower investment yields due to declining market interest rates, offset by higher average balances.

### Interest Expense

Interest expense decreased \$2.5 million, or 28.5%, to \$6.4 million for the nine months ended September 30, 2010 as compared to \$8.9 million for the nine months ended September 30, 2009. Interest expense on deposit accounts decreased \$2.2 million, or 35.4%, to \$4.0 million for the nine months ended September 30, 2010 from \$6.2 million during the same period in 2009 due primarily to lower market interest rates, a shift in the composition of the deposit portfolio from certificates of deposits to transaction accounts and lower average balances. The Corporation continues to target lower cost demand deposit accounts versus higher cost certificates of deposits in order to reduce overall funding costs. Interest expense on borrowings decreased \$292,000, or 12.7%, for the nine months ended September 30, 2010 as compared to the same period in the previous year due to lower market interest rates and lower average balances. Interest expense on floating rate junior subordinated deferrable interest debentures decreased \$51,000, or 12.4%, to \$359,000 for the nine months ended September 30, 2010 from \$410,000 during the same period in 2009 due to lower market rates.

### Provision for Loan Losses

During the nine months ended September 30, 2010, the provision for loan losses was \$6.0 million as compared to \$5.1 million for the same period in the previous year due to increases in partial loan write-downs on non-performing loans, offset by lower average loan balances. During the nine months ended September 30, 2010, bad debt charge-offs, net of recoveries, were \$5.8 million as compared to \$2.8 million for the same period in the previous year. In addition, specific reserves on non-performing loans were \$636,000 for the nine months ended September 30, 2010 compared to \$5.5 million for the same period in the previous year. All specific reserves for commercial real estate loans that were deemed collateral dependent were charged off against the loans as of December 31, 2009. The Corporation's loan loss allowance at September 30, 2010 was approximately 2.7% of the Corporation's outstanding loan portfolio compared to 3.3% of the Corporation's outstanding loan portfolio at September 30, 2009.

The changes in the allowance for loan losses consisted of the following for the nine months ended September 30, 2010.

	September 30, 2010	September 30, 2009
Balance at beginning of period	\$ 5,579	\$ 6,778
Provision for loan losses	6,030	5,050
Charge-offs, net	(5,775)	(2,765)
Balance at end of period	<u>\$ 5,834</u>	<u>\$ 9,063</u>

### Non-Interest Income

Total non-interest income increased \$1.7 million, or 146.4%, to \$2.9 million for the nine months ended September 30, 2010 from \$1.2 million for the same period in the previous year. The increase was due primarily to higher gain on sale of investment securities and a reduction in other than temporary impairment write-downs on securities. Gains on sales of investments were \$1.8 million from security sales of \$86.6 million for the nine months ended September 30, 2010 compared to \$760,000 from security sales of \$35.0 million for the same period in the previous year, as the Corporation continues to better position the investment portfolio for the potential of rising interest rates. Other than temporary impairment write-downs on securities were \$1.1 million for the nine months ended September 30, 2010 compared to \$1.8 million for the same period in 2009 from write-downs recorded on trust preferred securities as a result of projected shortfalls of interest and principal payments in the cash flow analysis of the securities. Fees from financial services decreased \$47,000, or 2.2%, to \$2.1 million for the nine months ended September 30, 2010 from \$2.2 million for the same period in the previous year. The decrease was due to lower loan fees from a reduction in loan volumes along with lower checking account fees and financing receivables programs as a result of lower product volumes.

#### Non-Interest Expense

For the nine months ended September 30, 2010, total non-interest expense decreased \$49,000, or 0.6%, for the same period in 2009. Compensation and employee benefits decreased \$185,000, or 5.4%, to \$3.2 million for the nine months ended September 30, 2010 from \$3.4 million for the same period in 2009 due primarily to reductions in employee compensation costs due to prior year staffing reductions and reductions in employee pension benefits costs. Occupancy and equipment expense decreased \$120,000, or 6.1%, to \$1.8 million for the nine months ended September 30, 2010 from \$1.9 million for the same period in 2009 due primarily to lower depreciation expenses as a result of reductions in capital expenses for the current year. Deposit insurance premiums expense decreased \$19,000, to \$438,000 for the nine months ended September 30, 2010 from \$457,000 for the same period in 2009, due to the prior year industry-wide FDIC special assessment, offset by higher industry-wide FDIC premium assessments. Professional services expense increased \$53,000, or 19.5%, to \$325,000 for the nine months ended September 30, 2010 from \$272,000 for the same period in 2009 due primarily to higher legal and audit expense. Advertising/public relations expense decreased \$30,000, or 46.2%, to \$35,000 for the nine months ended September 30, 2010 from \$65,000 for the same period in 2009 due primarily to lower deposit product and promotion expenses. Loan operations expense increased \$517,000, or 239.4%, to \$733,000 for the nine months ended September 30, 2010 from \$216,000 for the same period in 2009, due primarily to higher costs associated with loan foreclosures and write-downs required to adjust other real estate owned to fair market value. All goodwill and related deposit premium intangibles were charged off in 2009 thereby eliminating amortization expenses. Telephone expense decreased \$16,000, or 10.9%, to \$131,000 for the nine months ended September 30, 2010 from \$147,000 for the same period in 2009, due primarily to efficiency improvements in existing systems.

#### Income taxes

Our benefit for income taxes was \$793,000 for the nine months ended September 30, 2010 as compared to a benefit of \$1.7 million for the same period in 2009.

#### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable as the registrant is a smaller reporting company.

#### **Item 4. Controls and Procedures**

The Corporation's management, including the Corporation's principal executive officer and principal financial officer, have evaluated the effectiveness of the Corporation's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Corporation's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Corporation's internal control over financial reporting identified in connection with the evaluation required by Rule 13(a)-15(e) that occurred during the quarter that has materially affected or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The Corporation is not involved in any legal proceedings. The Bank is not involved in any pending legal proceedings other than routine legal proceedings occurring in the normal course of business. Management believes that these proceedings are immaterial to the Corporation's financial condition and results of operations.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009 and in Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

In May 2005, the Corporation implemented a share repurchase program under which the Board of Directors of the Corporation authorized the repurchase of up to 5% of the outstanding shares or 98,000 shares. The program was expanded by an additional 5%, or 92,000 shares, in August 2006. The Corporation did not repurchase any shares during the three months ended September 30, 2010 and 36,034 shares remain under the previously authorized plans. As part of the Corporation's participation in the Troubled Asset Relief Capital Purchase Program, prior to the earlier of March 6, 2012 or the date on which the preferred stock issued to the Treasury Department has been redeemed in full or transferred to non-affiliates, the Corporation cannot repurchase any shares of its common stock without the prior approval of the Treasury Department.

### Item 3. Defaults upon Senior Securities

Not applicable.

### Item 4. Reserved

### Item 5. Other Information

None

### Item 6. Exhibits

- |       |   |
|-------|---|
| 31(a) | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer                               |
| 31(b) | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer                               |
| 32(a) | Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32(b) | Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PROVIDENT COMMUNITY BANCSHARES, INC.**  
**(Registrant)**

Date: November 10, 2010

By: /s/ Dwight V. Neese  
Dwight V. Neese, President and  
Chief Executive Officer

Date: November 10, 2010

By: /s/ Richard H. Flake  
Richard H. Flake,  
Executive Vice President  
and Chief Financial Officer

EXHIBIT 31(a)  
CERTIFICATION

I, Dwight V. Neese, certify that:

1. I have reviewed this Form 10-Q of Provident Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted account principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2010

/s/ Dwight V. Neese  
Dwight V. Neese  
President and Chief Executive Officer

EXHIBIT 31(b)  
CERTIFICATION

I, Richard H. Flake, certify that:

1. I have reviewed this Form 10-Q of Provident Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted account principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2010

/s/ Richard H. Flake  
Richard H. Flake  
Executive Vice President and Chief Financial Officer

**EXHIBIT 32(a)**  
**CERTIFICATION PURSUANT TO**  
**18 U.S.C. SECTION 1350,**  
**AS ADDED BY**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Provident Community Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, Dwight V. Neese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Dwight V. Neese  
\_\_\_\_\_  
Dwight V. Neese  
President and Chief Executive Officer

Date: November 10, 2010

**EXHIBIT 32(b)**  
**CERTIFICATION PURSUANT TO**  
**18 U.S.C. SECTION 1350,**  
**AS ADDED BY**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Provident Community Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission (the "Report"), I, Richard H. Flake, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Richard H. Flake  
\_\_\_\_\_  
Richard H. Flake  
Executive Vice President and Chief Financial Officer

Date: November 10, 2010