

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

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.)

203 West Main Street, Union, South Carolina 29379  
(Address of Principal Executive Offices)

(864) 429-1864  
(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 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 1,838,906 shares, \$0.01 par value, of common stock issued and outstanding as of October 26, 2006.

# PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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**Part 1. Financial Information**  
**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**(FORMERLY UNION FINANCIAL BANCSHARES, INC.)**  
**CONSOLIDATED BALANCE SHEETS**  
**September 30, 2006 (unaudited) and December 31, 2005**

<b>ASSETS</b>	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	(DOLLARS IN THOUSANDS)	
Cash and due from banks	\$ 10,804	\$ 8,380
Investment and mortgage-backed securities		
Held to maturity	3,187	3,204
Available for sale	117,091	143,079
Total investment and mortgage-backed securities	<u>120,278</u>	<u>146,283</u>
Loans, net	217,429	192,577
Office properties and equipment, net	5,632	5,148
Federal Home Loan Bank Stock, at cost	3,663	3,976
Federal Reserve Stock, at cost	539	539
Accrued interest receivable	2,375	2,429
Intangible assets	3,100	3,576
Cash surrender value of life insurance	5,557	5,404
Other assets	2,858	2,730
<b>TOTAL ASSETS</b>	<b><u>\$ 372,235</u></b>	<b><u>\$ 371,042</u></b>
<b>LIABILITIES</b>		
Deposits	\$ 240,007	\$ 239,603
Advances from the Federal Home Loan Bank	66,900	75,715
Securities sold under agreements to repurchase	25,000	20,000
Floating rate junior subordinated deferrable interest debentures	12,371	8,247
Accrued interest payable	716	520
Advances from borrowers for taxes and insurance	213	33
Other liabilities	1,619	1,591
<b>TOTAL LIABILITIES</b>	<b><u>346,826</u></b>	<b><u>345,709</u></b>
Commitments and contingencies-Note 4		
<b>SHAREHOLDERS' EQUITY</b>		
Serial preferred stock, no par value, authorized - 500,000 shares, issued and outstanding - None	--	--
Common stock - \$0.01 par value, authorized - 5,000,000 shares, issued and outstanding - 1,838,906 shares at 9/30/06 and 1,905,897 at 12/31/05	20	20
Additional paid-in capital	12,468	12,346
Accumulated other comprehensive loss	(717)	(612)
Retained earnings, substantially restricted	18,301	16,916
Treasury stock, at cost	(4,663)	(3,337)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>25,409</u></b>	<b><u>25,333</u></b>
 <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	 <b><u>\$ 372,235</u></b>	 <b><u>\$ 371,042</u></b>

See notes to consolidated financial statements.

**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**(FORMERLY UNION FINANCIAL BANCSHARES, INC.)**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Three and Nine Months Ended September 30, 2006 and 2005 (unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE)		(DOLLARS IN THOUSANDS EXCEPT PER SHARE)	
<b>Interest Income:</b>				
Loans	\$ 4,387	\$ 3,243	\$ 12,306	\$ 9,108
Deposits and federal funds sold	9	37	38	109
Mortgage-backed securities	248	305	808	1,050
Interest and dividends on investment securities	1,374	1,319	4,062	3,756
<b>Total Interest Income</b>	<b>6,018</b>	<b>4,904</b>	<b>17,214</b>	<b>14,023</b>
<b>Interest Expense:</b>				
Deposit accounts	2,037	1,349	5,647	3,770
Floating rate junior subordinated deferrable interest debentures	249	150	596	417
Advances from the FHLB and other borrowings	1,181	827	3,084	2,308
<b>Total Interest Expense</b>	<b>3,467</b>	<b>2,326</b>	<b>9,327</b>	<b>6,495</b>
<b>Net Interest Income</b>	<b>2,551</b>	<b>2,578</b>	<b>7,887</b>	<b>7,528</b>
Provision for loan losses	45	220	355	768
<b>Net Interest Income After Provision for Loan Losses</b>	<b>2,506</b>	<b>2,358</b>	<b>7,532</b>	<b>6,760</b>
<b>Non-Interest Income:</b>				
Fees for financial services	693	667	2,055	1,856
Other fees, net	24	25	88	81
Net gain (loss) on sale of investments	3	--	(10)	5
<b>Total Non-Interest Income</b>	<b>720</b>	<b>692</b>	<b>2,133</b>	<b>1,942</b>
<b>Non-Interest Expense:</b>				
Compensation and employee benefits	1,095	1,012	3,327	3,010
Occupancy and equipment	465	492	1,477	1,523
Deposit insurance premiums	8	8	23	24
Professional services	107	86	330	276
Advertising/public relations	118	46	214	106
Loan operations	30	101	60	179
Deposit premium intangible	159	159	477	477
Items processing	46	49	145	110
Telephone	38	50	128	135
Other	228	167	673	523
<b>Total Non-Interest Expense</b>	<b>2,294</b>	<b>2,170</b>	<b>6,854</b>	<b>6,363</b>
<b>Income Before Income Taxes</b>	<b>932</b>	<b>880</b>	<b>2,811</b>	<b>2,339</b>
Income tax expense	281	242	822	613
<b>Net Income</b>	<b>\$ 651</b>	<b>\$ 638</b>	<b>\$ 1,989</b>	<b>\$ 1,726</b>
<b>Basic Net Income Per Common Share</b>	<b>\$ 0.35</b>	<b>\$ 0.33</b>	<b>\$ 1.06</b>	<b>\$ 0.90</b>
<b>Diluted Net Income Per Common Share</b>	<b>\$ 0.35</b>	<b>\$ 0.33</b>	<b>\$ 1.05</b>	<b>\$ 0.88</b>
<b>Weighted Average Number of Common Shares Outstanding</b>				
Basic	1,846,643	1,906,555	1,876,630	1,914,269
Diluted	1,876,417	1,952,840	1,901,830	1,971,592

See notes to consolidated financial statements.

**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**(FORMERLY UNION FINANCIAL BANCSHARES, INC.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Nine Months Ended September 30, 2006 and 2005 (unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2006</b>	<b>2005</b>
	<small>(DOLLARS IN THOUSANDS)</small>	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$1,989	\$1,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	355	768
Amortization of intangibles	477	477
Depreciation expense	456	672
Recognition of deferred income, net of costs	(388)	(272)
Deferral of fee income, net of costs	407	238
(Gain) loss on investment transactions	10	(42)
Changes in operating assets and liabilities:		
Decrease in accrued interest receivable	54	107
Increase in other assets	(281)	(587)
Increase in other liabilities	208	1,238
Increase in accrued interest payable	196	173
Net cash provided by operating activities	<u>3,483</u>	<u>4,498</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of investment and mortgage-backed securities:		
Available for sale	(9,218)	(49,746)
Held to maturity	--	(4,605)
Proceeds from sale of investment and mortgage-backed securities	18,257	10,911
Proceeds from maturity of investment and mortgage-backed securities:		
Available for sale	12,126	31,705
Held to maturity	--	3,000
Principal repayments on mortgage-backed securities:		
Available for sale	4,724	8,360
Net increase in loans	(25,226)	(11,075)
Purchase of FHLB stock	--	(39)
Redemption of FHLB stock	313	--
Purchase of office properties and equipment	(940)	(185)
Net cash (used) provided by investing activities	<u>36</u>	<u>(11,674)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from the dividend reinvestment plan	85	78
Dividends paid in cash (\$0.32 per share -2006 and \$0.30 per share - 2005)	(604)	(577)
Proceeds from the exercise of stock options	37	84
Share repurchase program	(1,326)	(1,349)
Proceeds from the issuance of trust preferred securities	4,124	--
Decrease in other borrowings	(3,815)	(5,000)
Increase in deposit accounts	404	11,727
Net cash (used) provided by financing activities	<u>(1,095)</u>	<u>4,963</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,424</b>	<b>(2,213)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b><u>8,380</u></b>	<b><u>13,197</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>\$10,804</u></b>	<b><u>\$10,984</u></b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for:		
Income taxes	\$791	\$1,652
Interest	9,131	6,292
Non-cash transactions:		
Loans foreclosed	\$188	\$54

See notes to consolidated financial statements.

**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**(FORMERLY UNION FINANCIAL BANCSHARES, INC.)**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**Nine Months Ended September 30, 2006 and 2005 (unaudited)**

	Common Stock		Additional	Retained	Accumulated	Treasury Stock	Total
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings,</u>	<u>Other</u>	<u>At Cost</u>	<u>Shareholders'</u>
			<u>Capital</u>	<u>Substantially</u>	<u>Comprehensive</u>		<u>Equity</u>
				<u>Restricted</u>	<u>Income (loss)</u>		
	<i>(Dollars in Thousands, Except Share Data)</i>						
BALANCE AT DECEMBER 31, 2004	1,957,989	\$20	\$12,109	\$15,221	\$109	(\$1,440)	\$26,019
Net income				1,726			1,726
Other comprehensive income, net of tax							
Unrealized holding losses on securities available for sale arising during period, net of tax effect of \$185					(450)		(450)
Reclassification adjustment for gains included in net income, net of tax of \$2					<u>5</u>		<u>5</u>
Comprehensive income							1,281
Stock option activity, net	35,044		84				84
Dividend reinvestment plan contributions	4,557		78				78
Share repurchase program	(81,108)	(1)		1		(1,349)	(1,349)
Cash dividend (\$.30 per share)				(577)			(577)
	<hr/>						
BALANCE AT SEPTEMBER 30, 2005	<u>1,916,482</u>	<u>\$19</u>	<u>\$12,271</u>	<u>\$16,371</u>	<u>(\$336)</u>	<u>(\$2,789)</u>	<u>\$25,536</u>
BALANCE AT DECEMBER 31, 2005	1,905,897	\$20	\$12,346	\$16,916	(\$612)	(\$3,337)	\$25,333
Net income				1,989			1,989
Other comprehensive income, net of tax							
Unrealized holding losses on securities available for sale arising during period, net of tax effect of \$386					(98)		(98)
Reclassification adjustment for losses included in net income, net of tax of \$3					<u>(7)</u>		<u>(7)</u>
Comprehensive income							1,884
Stock option activity, net	2,203		37				37
Dividend reinvestment plan contributions	4,864		85				85
Share repurchase program	(74,058)					(1,326)	(1,326)
Cash dividend (\$.32 per share)				(604)			(604)
	<hr/>						
BALANCE AT SEPTEMBER 30, 2006	<u>1,838,906</u>	<u>\$20</u>	<u>\$12,468</u>	<u>\$18,301</u>	<u>(\$717)</u>	<u>(\$4,663)</u>	<u>\$25,409</u>

**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**(FORMERLY UNION FINANCIAL BANCSHARES, INC.)**  
**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” or “Provident”) 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, 2006 are not necessarily indicative of the results which may be expected for the entire calendar year. Certain amounts in the prior year’s financial statements have been reclassified to conform with current year classifications.

**Recently Issued Accounting Standards**

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

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.” This Statement amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This Statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The Corporation does not believe that the adoption of SFAS No. 155 will have a material impact on its financial position, results of operations and cash flows.

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.” This Statement amends FASB No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose its subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale

securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006. The Corporation believes the adoption of SFAS No. 156 will not have a material impact on its financial position, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises' financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Corporation is currently analyzing the effects of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for the Corporation on January 1, 2008 and is not expected to have a significant impact on the Corporation's financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"), which amends SFAS 87 and SFAS 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS 87 and SFAS 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date — the date at which the benefit obligation and plan assets are measured — is required to be the company's fiscal year end. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The Corporation is currently analyzing the effects of SFAS 158 but does not expect its implementation will have a significant impact on the Corporation's financial conditions or results of operations.

In September, 2006, The FASB ratified the consensus reached by the FASB's Emerging Issues Task Force (EITF) relating to EITF 06-4 "Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements".

EITF 06-4 addresses employer accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods should recognize a liability for future benefits in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 106, “Employers' Accounting for Postretirement Benefits Other Than Pensions”, or Accounting Principles Board (APB) Opinion No. 12, “Omnibus Opinion—1967”. EITF 06-4 is effective for fiscal years beginning after December 15, 2006. Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Corporation does not believe the adoption of EITF 06-4 will have a material impact on its financial position, results of operations and cash flows.

On September 13, 2006, the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, Companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company’s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Corporation has analyzed SAB 108 and determined that upon adoption it will have no impact on the reported results of operations or financial conditions.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

## 2. Income Per Share

Basic income per share amounts for the three and nine months ended September 30, 2006 and 2005 were computed based on the weighted average number of common shares outstanding during the period. Diluted income per share adjusts for the dilutive effect of outstanding common stock options during the periods utilizing the treasury stock method. Common stock equivalents included in the diluted earnings per share calculation for the nine months ended September 30, 2006 and 2005 were 25,200 and 57,323, respectively.

## 3. Assets Pledged

Approximately \$65,858,000 and \$83,170,000 of debt securities at September 30, 2006 and December 31, 2005, 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 the Bank's Federal Home Loan Bank stock and has entered into a blanket 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. 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, 2006 related to these items is summarized below:

<u>Loan Commitments:</u>	<u>Contract Amount</u>
Approved loan commitments	\$ 2,545,000
Unadvanced portions of loans and credit lines	<u>45,787,000</u>
Total loan commitments	<u>\$ 48,332,000</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, 2006 consisted of fixed and adjustable rate loans at rates ranging from 6.5% to 8.5%. 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 \$110,052,000 at September 30, 2006. Of these lines, the outstanding loan balances totaled approximately \$64,265,000.

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

On July 21, 2006, the Corporation completed a private placement of \$4 million in trust preferred securities. In connection with the sale of the trust preferred securities, the Corporation issued \$4,124,000 aggregate principal amount of Fixed/Floating Rate Junior Subordinated Debt

Securities due 2036. The Company intends to use the proceeds from the issuance of the trust preferred securities for general corporate purposes and to increase the regulatory capital of the Bank. The trust preferred securities will bear a rate equal to 7.393% for the first five years following the offering. After the first five years, the securities will bear a rate equal to 174 basis points over the three-month LIBOR. The Subordinated Debt Securities bear an identical interest rate. The trust preferred securities were issued by a statutory business trust formed by the Corporation and were sold in a private placement pursuant to an applicable exemption from registration under the Securities Act of 1933, as amended.

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
	2006	2005				
Union Financial Statutory Trust I	\$8,000,000	\$8,000,000	8.99%	December 18, 2006	December 18, 2031	Quarterly
Provident Community Bancshares Capital Trust I	<u>4,000,000</u>	—	7.39%	October 1, 2011	October 1, 2036	Quarterly
Total	<u>\$12,000,000</u>					

## 6. Stock-Based Compensation

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 123(R), Accounting for Stock-Based Compensation, to account for compensation costs under its stock option plans. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) (“APB 25”). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for the Company’s stock options because the option exercise price in its plans equals the market price on the date of grant. Prior to January 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period (in thousands, except per share amounts).

	Nine Months Ended September 30,	
	2006	2005
Net income as reported	\$ 1,989	\$ 1,726
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.	34	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(34)	(144)
Pro forma net income including stock-based compensation cost based on fair-value method	\$ 1,989	\$ 1,582
Earnings per share:		
Basic—as reported	\$ 1.06	\$ 0.90
Basic—pro forma	\$ 1.06	\$ 0.83
Diluted—as reported	\$ 1.05	\$ 0.88
Diluted—pro forma	\$ 1.05	\$ 0.80

## 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 which could have a material impact on the carrying value of certain assets and liabilities. 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 nature and volume of the loan portfolio, overall

portfolio quality, delinquency 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 loans 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 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.

#### 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 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 to describe future plans and strategies. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could effect 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, 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 regulation. 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 increased \$1,193,000, or 0.32%, to \$372,235,000 at September 30, 2006 from \$371,042,000 at December 31, 2005. Investments and mortgage-backed securities decreased approximately \$26,005,000, or 17.78%, from December 31, 2005 to September 30, 2006, due to the sale and maturity of securities. Proceeds from the maturity and sale of investment securities were utilized to fund growth in higher-yielding loans.

### Investment and Mortgage-backed Securities

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

	<u>September 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Municipal Securities	<u>\$3,187</u>	<u>\$3,236</u>	<u>\$3,204</u>	<u>\$3,247</u>

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

	<u>September 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Investment Securities:				
U.S. Agency Obligations	\$70,474	\$69,501	\$84,631	\$83,443
Municipal Securities	10,598	10,966	17,328	18,180
Other	<u>15,302</u>	<u>15,395</u>	<u>14,530</u>	<u>14,621</u>
Total Investment Securities	<u>96,374</u>	<u>95,862</u>	<u>116,489</u>	<u>116,244</u>
Mortgage-backed Securities:				
Fannie Mae	13,786	13,298	17,370	16,771
Ginnie Mae	57	59	67	69
Freddie Mac	3,390	3,398	4,572	4,579
Collateralized Mortgage Obligations	<u>4,586</u>	<u>4,474</u>	<u>5,523</u>	<u>5,416</u>
Total Mortgage-backed Securities	<u>21,819</u>	<u>21,229</u>	<u>27,532</u>	<u>26,835</u>
Total Available for Sale	<u>\$118,193</u>	<u>\$117,091</u>	<u>\$144,021</u>	<u>\$143,079</u>

### Loans

Loans increased \$24,852,000, or 12.90%, to \$217,429,000 at September 30, 2006. The Corporation continues to focus on consumer and commercial lending with specialized loan officers and products.

Loans receivable consisted of the following (in thousands):

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Mortgage loans:		
Fixed rate residential	\$19,560	\$23,859
Adjustable-rate residential	9,906	12,701
Commercial real estate	56,281	45,665
Construction	<u>6,655</u>	<u>4,842</u>
Total mortgage loans	<u>92,402</u>	<u>87,067</u>
Commercial loans:		
Commercial non-real estate	37,779	39,453
Commercial lines of credit	<u>47,519</u>	<u>31,215</u>
Total commercial loans	<u>85,298</u>	<u>70,668</u>
Consumer loans:		
Home equity	16,374	16,427
Consumer and installment	28,991	23,067
Consumer lines of credit	<u>372</u>	<u>382</u>
Total consumer loans	<u>45,737</u>	<u>39,876</u>
Total loans	<u>223,437</u>	<u>197,611</u>
Less:		
Undisbursed portion of interim construction loans	(2,842)	(1,980)
Unamortized loan discount	(631)	(764)
Allowance for loan losses	(2,615)	(2,394)
Net deferred loan origination costs	<u>80</u>	<u>104</u>
Total, net	<u>\$217,429</u>	<u>\$192,577</u>
Weighted-average interest rate of loans	7.99%	7.64%

#### Liabilities

Total liabilities increased \$1,117,000, or 0.32%, to \$346,826,000 at September 30, 2006 from \$345,709,000 at December 31, 2005. Deposits increased \$404,000, or 0.17%, to \$240,007,000 at September 30, 2006 from \$239,603,000 at December 31, 2005. The increase was due primarily to growth in lower cost demand accounts offset by a reduction in higher cost certificates of deposit accounts. The Corporation continues to target lower cost demand deposit accounts through media advertising.

Deposit accounts were as follows (in thousands):

<u>Account Type</u>	<u>September 30, 2006</u>			<u>December 31, 2005</u>		
	<u>Rate</u>	<u>Balance</u>	<u>%</u>	<u>Rate</u>	<u>Balance</u>	<u>%</u>
NOW accounts:						
Commercial non-interest-bearing	--	\$15,854	6.61%	--	\$14,651	6.11%
Non-commercial	2.62%	52,380	21.82%	1.93%	51,447	21.47%
Money market checking accounts	4.34%	14,818	6.17%	2.55%	14,414	6.02%
Regular savings	0.63%	<u>15,447</u>	<u>6.44%</u>	0.43%	<u>16,733</u>	<u>6.98%</u>
Total demand and savings deposits	2.33%	<u>98,499</u>	<u>41.04%</u>	1.50%	<u>97,245</u>	<u>40.58%</u>
Savings certificates:						
Up to 3.00%		23,867	9.94%		55,105	23.00%
3.01 %- 4.00%		27,904	11.63%		56,033	23.38%
4.01 %- 5.00%		43,985	18.33%		23,862	9.96%
5.01 %- 6.00%		39,994	16.66%		2,720	1.13%
6.01 %- 7.00%		<u>23</u>	<u>0.01%</u>		<u>23</u>	<u>0.02%</u>
Total savings certificates	3.66%	<u>135,773</u>	<u>56.57%</u>	2.75%	<u>137,743</u>	<u>57.49%</u>
Sweep accounts	<u>5.00%</u>	<u>5,735</u>	<u>2.39%</u>	<u>3.43%</u>	<u>4,615</u>	<u>1.93%</u>
Total deposit accounts	<u>3.07%</u>	<u>\$240,007</u>	<u>100.00%</u>	<u>2.57%</u>	<u>\$239,603</u>	<u>100.00%</u>

At September 30, 2006 and December 31, 2005, the Bank had \$66,900,000 and \$75,715,000, respectively, of advances outstanding from the FHLB. The maturity of the advances from the FHLB is as follows (in thousands):

	<u>September 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Wtd</u>	<u>Avg Rate</u>	<u>Wtd</u>	<u>Avg Rate</u>
Contractual Maturity:				
Within one year - fixed rate	\$ 13,000	4.97%	\$10,000	2.35%
Within one year - adjustable rate	30,400	5.45%	23,215	4.08%
After one but within three years - fixed rate	—	— %	3,000	3.35%
After one but within three years - adjustable rate	12,500	5.30%	5,000	3.79%
After three but within five years - adjustable rate	—	— %	7,500	5.30%
Greater than five years - adjustable rate	<u>11,000</u>	4.16%	<u>27,000</u>	4.24%
Total advances	<u>\$66,900</u>	5.12%	<u>\$75,715</u>	3.98%

The Bank pledges as collateral for the advances its FHLB stock and investment securities and has entered into a blanket collateral agreement with the FHLB whereby the Bank maintains, free of other encumbrances, qualifying loans (as defined) with unpaid principal balances equal to, when discounted at 50% to 75% of the unpaid principal balances, 100% of total advances. Borrowings from the Federal Home Loan Bank (the "FHLB") decreased \$8,815,000, or 11.64%,

to \$66,900,000 at September 30, 2006 from \$75,715,000 at December 31, 2005. Securities sold under agreement to repurchase increased \$5,000,000 to \$25,000,000 at September 30, 2006 from \$20,000,000 at December 31, 2005. During this period, securities sold under agreement to repurchase provided a lower cost funding alternative to Federal Home Loan Bank advances. Borrowings were reduced with deposit growth and the proceeds from reductions in investments and mortgage-backed securities. In addition, on July 21, 2006, the Corporation completed a private placement of \$4 million in trust preferred securities thereby increasing outstanding balances to \$12 million at September 30, 2006 compared to \$8 million at September 30, 2005.

### Shareholders' Equity

Shareholders' equity increased \$76,000, or 0.30%, to \$25,409,000 at September 30, 2006 from \$25,333,000 at December 31, 2005 due to net income of \$1,989,000 and \$122,000 in additional paid-in capital due to stock option exercises and shares issued under the dividend reinvestment plan, offset by the repurchase of 74,058 shares at a cost of \$1,326,000, dividend payments of \$0.32 per share at a cost of \$604,000 and a \$105,000 increase in unrealized losses on securities available for sale.

### 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 the utilization of FHLB advances.

At September 30, 2006, the Corporation's investment in marketable securities totaled \$120,278,000, nearly all of which is available for sale. Approximately \$65,858,000 and \$83,170,000 of debt securities at September 30, 2006 and December 31, 2005, 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.

Additionally, outstanding loan commitments (including commitments to fund credit lines) totaled \$110,052,000 at September 30, 2006. 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. Certificates of deposit, which are scheduled to mature in one year or less from September 30, 2006, totaled

\$104,004,000. 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, 2006, the Corporation had outstanding \$66,900,000 of FHLB borrowings and \$25,000,000 of securities sold under agreements to repurchase. At September 30, 2006, the Corporation had unused short-term lines of credit to purchase federal funds from unrelated banks totaling \$19,000,000 and the ability to borrow an additional \$10,000,000 from FHLB and 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.

### 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). Management believes, as of September 30, 2006, that the Bank and the Corporation meet the capital adequacy requirements to which they are subject.

As of September 30, 2006, 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, 2006

	<u>Actual</u>		<u>Regulatory Minimum</u>		<u>“Well Capitalized”</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	\$	%	\$	%	\$	%
<b>Leverage ratio</b>						
Corporation	31,734	8.61%	14,736	4.00%	n/a	n/a
Bank	33,669	9.19%	14,654	4.00%	18,317	5.00%
<b>Tier 1 capital ratio</b>						
Corporation	31,734	12.40%	10,221	4.00%	n/a	n/a
Bank	33,669	13.18%	10,222	4.00%	15,332	6.00%
<b>Total risk-based capital ratio</b>						
Corporation	37,641	14.71%	20,443	8.00%	n/a	n/a
Bank	36,284	14.20%	20,443	8.00%	25,553	10.00%

During fiscal 2003, 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 98,000 shares, in fiscal 2004, by an additional 5%, or 95,000 shares in fiscal 2005 and by an additional 5%, or 92,000 shares in fiscal 2006. The shares are to be repurchased either through open market purchases or privately negotiated transactions, depending on market conditions and other factors. Repurchased shares will be held in treasury and will be available for the Corporation’s benefit plans. During the nine months ended September 30, 2006, the Corporation repurchased 74,058 shares. As of September 30, 2006, the Corporation had repurchased a total of 265,611 shares under these authorizations and had 117,389 shares available for repurchase under these authorizations.

### **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 customer’s 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 \$110,052,000 at September 30, 2006. 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 period ended September 30, 2006, the Corporation did not engage in any off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operation and cash flows.

### **Results of operations for the three months ended September 30, 2006 and 2005**

#### **General**

Net income increased \$13,000, or 2.04%, to \$651,000 for the three months ended September 30, 2006 as compared to \$638,000 for the same period in 2005 as an increase in non-interest income and a reduction in the provision for loan losses were partially offset by an increase in non-interest expense and a reduction in net interest income.

Average Yields and Rates  
(dollars in thousands)

	<u>Three Months Ended September 30,</u>					
	<u>2006</u>			<u>2005</u>		
	<u>Average</u>		<u>Average</u>	<u>Average</u>		<u>Average</u>
	<u>Balance</u>	<u>Interest</u>	<u>Yield/Cost</u>	<u>Balance</u>	<u>Interest</u>	<u>Yield/Cost</u>
Interest-earning assets:						
Loans (1)	\$212,063	\$4,387	8.27%	\$182,194	\$3,243	7.12%
Mortgage-backed securities	22,163	248	4.48%	31,065	305	3.93%
Investment securities	103,582	1,318	5.09%	116,058	1,276	4.40%
Other interest-earning assets	<u>4,687</u>	<u>65</u>	<u>5.55%</u>	<u>10,663</u>	<u>80</u>	<u>3.00%</u>
Total interest-earning assets	342,495	<u>6,018</u>	<u>7.03%</u>	339,980	<u>4,904</u>	<u>5.77%</u>
Non-interest-earning assets	<u>28,890</u>			<u>25,572</u>		
Total assets	<u>\$371,385</u>			<u>\$365,552</u>		
Interest-bearing liabilities:						
Deposits	239,522	2,037	3.40%	233,504	1,349	2.31%
Floating rate junior subordinated deferrable interest debentures	11,475	249	8.68%	8,247	150	7.28%
FHLB advances and other borrowings	<u>93,407</u>	<u>1,181</u>	<u>5.06%</u>	<u>95,242</u>	<u>827</u>	<u>3.47%</u>
Total interest-bearing liabilities	344,404	<u>3,467</u>	<u>4.03%</u>	336,993	<u>2,326</u>	<u>2.76%</u>
Non-interest-bearing liabilities	<u>2,626</u>			<u>2,168</u>		
Total liabilities	347,030			339,161		
Shareholders' equity	<u>24,355</u>			<u>26,391</u>		
Total liabilities and shareholders' equity	<u>\$371,385</u>			<u>\$365,552</u>		
Net interest income/spread		<u>\$2,551</u>	3.00%		<u>\$2,578</u>	3.01%
Net yield on earning assets			2.98%			3.03%

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

### Interest Income

Interest income increased \$1,114,000, or 22.72%, to \$6,018,000 for the three months ended September 30, 2006 as compared to the same period in 2005. Interest income on loans increased by 35.28%, or \$1,144,000, to \$4,387,000 for the three months ended September 30, 2006 from \$3,243,000 for the three months ended September 30, 2005, due primarily to higher average rates due to increasing market interest rates along with a higher average balance of loans and our increased emphasis on commercial and consumer loan originations. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities decreased \$30,000, or 1.81%, for the three months ended September 30, 2006 to \$1,631,000 from \$1,661,000 during the same period in 2005 due to lower average balances offset by higher yields from higher market interest rates.

### Interest Expense

Interest expense increased \$1,141,000, or 49.05%, to \$3,467,000 for the three months ended September 30, 2006 as compared to the three months ended September 30, 2005. Interest expense on deposit accounts increased \$688,000, or 51.0%, to \$2,037,000 for the three months ended September 30, 2006 from \$1,349,000 during the same period in 2005 due to higher average balances and cost of deposits as a result of higher market rates. The Corporation continues to target lower cost demand deposit accounts versus traditional higher cost certificates of deposits in order to reduce overall funding costs. Interest expense on borrowings increased \$354,000, or 42.81%, for the three months ended September 30, 2006 as compared to the same period in the previous year due to higher market interest rates. Interest expense on floating rate junior subordinated deferrable interest debentures increased \$99,000, or 66.0%, to \$249,000 for the three months ended September 30, 2006 from \$150,000 during the same period in 2005 due to higher market interest rates. In addition, on July 21, 2006, the Corporation completed a private placement of \$4 million in trust preferred securities thereby increasing outstanding balances to \$12 million at September 30, 2006 compared to \$8 million at September 30, 2005.

### Provision for Loan Losses

During the three months ended September 30, 2006, the provision for loan losses was \$45,000 as compared to \$220,000 for the same period in the previous year with a decrease in classified loans and net charge-offs, partially offset by loan growth and an increase in nonperforming loans. Average classified loans decreased \$1,985,000 from \$4,599,000 at September 30, 2005 to \$2,614,000 at September 30, 2006. The decrease from the previous year was due to the prior year payoff for one commercial loan. Loans 30-89 days past due and still accruing was \$3,899,000 at September 30, 2006 compared to \$3,442,000 at September 30, 2005. During the three months ended September 30, 2006, bad debt charge-offs, net of recoveries, was \$4,000 as compared to \$89,000 for the same period in the previous year.

### Non-Interest Income

Total non-interest income increased \$28,000, or 4.05%, to \$720,000 for the three months ended September 30, 2006 from \$692,000 for the same period in the previous year. Fees from financial

services increased \$26,000, or 3.9%, to \$693,000 for the three months ended September 30, 2006 from \$667,000 for the same period in the previous year. The increase was from an increase in transaction accounts along with higher loan fees from an increase in average outstanding loan balances.

### Non-Interest Expense

For the three months ended September 30, 2006, total non-interest expense increased \$124,000, or 5.71%, to \$2,294,000 from \$2,170,000 for the same period in 2005. Compensation and employee benefits increased \$83,000, or 8.20%, to \$1,095,000 for the three months ended September 30, 2006 from \$1,012,000 for the same period in 2005 due primarily to higher compensation and benefits costs for normal merit salary increases and additional staff due to the opening of a new banking center location in Simpsonville, South Carolina in March 2006. Occupancy and equipment expense decreased \$27,000, or 5.49%, to \$465,000 for the three months ended September 30, 2006 from \$492,000 for the same period in 2005, due primarily to lower depreciation expense. Professional services expense increased \$21,000, or 24.42%, to \$107,000 for the three months ended September 30, 2006 from \$86,000 for the same period in 2005, due to higher legal and audit fees. Advertising/public relations expense increased \$72,000, or 156.52%, to \$118,000 for the three months ended September 30, 2006 from \$46,000 for the same period in 2005 due primarily to product and promotion expenses for the new banking center location and product promotion expenses for business checking accounts. Loan operations expense decreased \$71,000, or 70.3%, to \$30,000 for the three months ended September 30, 2006 from \$101,000 for the same period in 2005, due to lower costs associated with loan foreclosures. Telephone expense decreased \$12,000, or 24.0%, to \$38,000 for the three months ended September 30, 2006 from \$50,000 for the same period in 2005 due to new telephone contracts and vendor credits. Other expense increased \$61,000, or 36.53%, to \$228,000 for the three months ended September 30, 2006 from \$167,000 for the same period in 2005 due to higher general operating expense from two new banking center openings.

### **Results of operations for the nine months ended September 30, 2006 and 2005**

#### General

Net income increased \$263,000, or 15.24%, to \$1,989,000 for the nine months ended September 30, 2006 as compared to \$1,726,000 for the same period in 2005 as increases in net interest income and non-interest income and a reduction in the provision for loan losses were partially offset by an increase in non-interest expense.

Average Yields and Rates  
(dollars in thousands)

	<u>Nine Months Ended September 30,</u>					
	<u>2006</u>			<u>2005</u>		
	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Average</u> <u>Yield/Cost</u>	<u>Average</u> <u>Balance</u>	<u>Interest</u>	<u>Average</u> <u>Yield/Cost</u>
Interest-earning assets:						
Loans (1)	\$205,247	\$12,306	7.99%	\$176,034	\$9,108	6.90%
Mortgage-backed securities	24,879	808	4.33%	34,390	1,050	4.07%
Investment securities	109,554	3,927	4.78%	113,294	3,756	4.42%
Other interest-earning assets	<u>5,107</u>	<u>173</u>	<u>4.52%</u>	<u>7,576</u>	<u>109</u>	<u>1.92%</u>
Total interest-earning assets	344,787	<u>17,214</u>	<u>6.66%</u>	331,294	<u>14,023</u>	<u>5.64%</u>
Non-interest-earning assets	<u>26,734</u>			<u>23,885</u>		
Total assets	<u>\$371,521</u>			<u>\$355,179</u>		
Interest-bearing liabilities:						
Deposits	245,057	5,647	3.07%	228,972	3,770	2.20%
Floating rate junior subordinated deferrable interest debentures	9,335	596	8.51%	8,247	417	6.74%
FHLB advances and other borrowings	<u>89,741</u>	<u>3,084</u>	<u>4.58%</u>	<u>89,480</u>	<u>2,308</u>	<u>3.44%</u>
Total interest-bearing liabilities	344,133	<u>9,327</u>	<u>3.61%</u>	326,699	<u>6,495</u>	<u>2.65%</u>
Non-interest-bearing liabilities	<u>2,319</u>			<u>3,012</u>		
Total liabilities	346,452			329,711		
Shareholders' equity	<u>25,069</u>			<u>25,468</u>		
Total liabilities and shareholders' equity	<u>\$371,521</u>			<u>\$355,179</u>		
Net interest income/spread		<u>\$7,887</u>	3.05%		<u>\$7,528</u>	2.99%
Net yield on earning assets			3.05%			3.03%

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

Interest Income

Interest income increased \$3,191,000, or 22.76%, to \$17,214,000 for the nine months ended September 30, 2006 as compared to the same period in 2005. Interest income on loans increased by 35.11%, or \$3,198,000, to \$12,306,000 for the nine months ended September 30, 2006 from \$9,108,000 for the nine months ended September 30, 2005, due primarily to a higher average rate due to increasing market interest rates along with our increased emphasis on commercial and consumer loan originations and a higher average balance of loans. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities decreased \$7,000, for the nine months ended September 30, 2006 to \$4,908,000 from \$4,915,000 during the same period in 2005 due to higher yields, from higher market interest rates, offset by lower average balances.

## Interest Expense

Interest expense increased \$2,832,000, or 43.60%, to \$9,327,000 for the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005. Interest expense on deposit accounts increased \$1,877,000, or 49.79%, to \$5,647,000 for the nine months ended September 30, 2006 from \$3,770,000 during the same period in 2005 due to higher averages balances and cost of deposits as a result of higher market rates. The Corporation continues to target lower cost demand deposit accounts versus traditional higher cost certificates of deposits. Interest expense on borrowings increased \$776,000, or 33.62%, for the nine months ended September 30, 2006 as compared to the same period in the previous year due to higher market interest rates. Interest expense on floating rate junior subordinated deferrable interest debentures increased \$179,000, or 42.93%, to \$596,000 for the nine months ended September 30, 2006 from \$417,000 during the same period in 2005 due to higher market interest rates. In addition, on July 21, 2006, the Corporation completed a private placement of \$4 million in trust preferred securities thereby increasing outstanding balances to \$12 million at September 30, 2006 compared to \$8 million at September 30, 2005.

## Provision for Loan Losses

During the nine months ended September 30, 2006, the provision for loan losses was \$355,000 as compared to \$768,000 for the same period in the previous year due to a decrease in classified loans and charge-offs, partially offset by loan growth and an increase in nonperforming loans. The provision also reflects the Corporation's continued movement from longer term, fixed rate residential mortgage loans to shorter term, floating rate consumer and commercial loans. Consumer and commercial loans carry higher risk weighted rates in the reserve calculation as compared to residential mortgage loans. Real estate acquired in foreclosure and loans classified as substandard and doubtful decreased \$303,000 from \$3,164,000 at December 31, 2005 to \$2,861,000 at September 30, 2006. During the nine months ended September 30, 2006, bad debt charge-offs, net of recoveries, was \$134,000 as compared to \$198,000 for the same period in the previous year. The Corporation's loan loss allowance at September 30, 2006 was approximately 1.20% of the Corporation's outstanding loan portfolio and 137.70% of non-performing loans compared to 1.23% of the Corporation's outstanding loan portfolio and 162.86% of non-performing loans at December 31, 2005.

The changes in the allowance for loan losses consisted of the following (in thousands):

Balance at beginning of period	\$2,394
Provision for loan losses	355
Charge-offs, net	<u>(134)</u>
Balance at end of period	<u>\$2,615</u>

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Non-accruing loans which are contractually past due 90 days or more:		
Real estate	\$ 367	\$ 461
Commercial	1,029	436
Consumer	<u>331</u>	<u>349</u>
Total	<u>\$1,727</u>	<u>\$ 1,246</u>
Percentage of loans receivable	<u>0.77%</u>	<u>0.64%</u>
Percentage of allowance for loan losses to total loans outstanding	<u>1.20%</u>	<u>1.23%</u>
Allowance for loan losses	<u>\$2,615</u>	<u>\$2,394</u>
Real estate acquired through foreclosure and repossessed assets	<u>\$ 172</u>	<u>\$ 224</u>

Non-performing loans for the nine months ended September 30, 2006 increased \$481,000 from December 31, 2005 due primarily to an increase in 3 delinquencies for commercial loans. Since the quarter end, approximately \$300,000 of the commercial loans have been brought current. The allowance for loan loss calculation includes a segmentation of loan categories subdivided by residential mortgage, commercial and consumer loans. Each category is rated for all loans including performing groups. The weight assigned to each performing group is developed from previous loan loss experience and as the loss experience changes, the category weight is adjusted accordingly. In addition to loan loss experience, management's evaluation of the loan portfolio includes the market value of the underlying collateral, growth and composition of the loan portfolio, delinquency trends and economic conditions. Management evaluates the carrying value of loans periodically and the allowance for loan loss calculation will adjust accordingly.

#### Non-Interest Income

Total non-interest income increased \$191,000, or 9.84%, to \$2,133,000 for the nine months ended September 30, 2006 from \$1,942,000 for the same period in the previous year. Fees from financial services increased \$199,000, or 10.72%, to \$2,055,000 for the nine months ended September 30, 2006 from \$1,856,000 for the same period in the previous year. The increase was due to higher service fees as a result of an increase in transaction accounts.

#### Non-Interest Expense

For the nine months ended September 30, 2006, total non-interest expense increased \$491,000, or 7.72%, to \$6,854,000 from \$6,363,000 for the same period in 2005. Compensation and employee benefits increased \$317,000, or 10.53%, to \$3,327,000 for the nine months ended September 30,

2006 from \$3,010,000 for the same period in 2005 due primarily to higher compensation and benefits costs for normal merit salary increases and additional staff due to the opening of a new banking center location in Simpsonville, South Carolina in March 2006. Occupancy and equipment expense decreased \$46,000, or 3.02%, to \$1,477,000 for the nine months ended September 30, 2006 from \$1,523,000 for the same period in 2005 due to primarily to lower depreciation expense. Professional services expense increased \$54,000, or 19.57%, to \$330,000 for the nine months ended September 30, 2006 from \$276,000 for the same period in 2005 due to higher legal expenses primarily due to the changing the name of the holding company during the first quarter of 2006. Advertising/public relations expense increased \$108,000, or 101.89%, to \$214,000 for the nine months ended September 30, 2006 from \$106,000 for the same period in 2005 due primarily to product and promotion expenses for the new banking center location and product promotion expenses for business checking accounts. Loan operations expense decreased \$119,000, or 66.48%, to \$60,000 for the nine months ended September 30, 2006 from \$179,000 for the same period in 2005, due to lower costs associated with foreclosures. Items processing expense increased \$35,000, or 31.82%, to \$145,000 for the nine months ended September 30, 2006 from \$135,000 for the same period in 2005 due to an increase in transaction accounts. Other expense increased \$150,000, or 28.68%, to \$673,000 for the nine months ended September 30, 2006 from \$523,000 for the same period in 2005 due to higher loan expense from increased production and higher forms and supplies expense from two new banking center openings.

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

The Corporation is committed to following a program of asset and liability management in an effort to manage the fluctuations in earnings caused by movements in interest rates. A significant portion of the Corporation's income results from the spread between the yield realized on its interest-earning assets and the rate of interest paid on its deposits and other borrowings. Differences in the timing and volume of repricing assets versus the timing and volume of repricing liabilities expose the Corporation to interest rate risk. Management's policies are directed at minimizing the impact on earnings of movements in interest rates.

The Corporation's Asset/Liability Committee makes pricing and marketing decisions on deposit and loan products in conjunction with managing the Corporation's interest rate risk. In addition, the Asset/Liability Committee reviews the Corporation's securities portfolio, FHLB advances and other borrowings as well as the Corporation's asset and liability policies.

The primary objective of Asset/Liability management at the Corporation is to manage interest rate risk and achieve reasonable stability in net interest income throughout interest rate cycles in order to maintain adequate liquidity. This is achieved by maintaining the proper balance of rate-sensitive earning assets and rate-sensitive costing liabilities. The relationship of rate-sensitive earning assets to rate-sensitive costing liabilities is the principal factor in projecting the effect that fluctuating interest rates will have on future net interest income. Rate-sensitive assets and interest-bearing liabilities are those that can be repriced to current market rates within a relatively short time period. Management monitors the rate sensitivity of earning assets and interest-bearing liabilities over the entire life of these instruments.

The Corporation has established policies and monitors results to control interest rate sensitivity. Although the Corporation utilizes measures such as static gap, which is simply the measurement of the difference between interest-sensitive assets and interest-sensitive liabilities repricing for a particular time period, just as important a process is the evaluation of how particular assets and liabilities are impacted by changes in interest rates or selected indices as they reprice. Asset/liability modeling techniques are utilized by the Corporation to assess varying interest rate and balance sheet mix assumptions.

**Net Interest Income Simulation Analysis.** We analyze our interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest sensitive.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations utilizing interest rate shocks are completed quarterly and presented to the Asset/Liability Committee. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The interest rate shocks are compared to board approved policy limits and are reviewed by the Asset/Liability Committee on a quarterly basis. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management’s current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next twelve month period using interest income simulation. The simulation uses projected repricing of assets and liabilities on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise.

The following table reflects changes in estimated net interest income from rate shocks of (+) or (-) 100 and 200 basis points in a rising and falling interest rate environment for the Corporation.

<u>Change in Rates (Basis Points)</u>	<u>At September 30, 2006</u>	<u>At December 31, 2005</u>
+200	+6.95%	+5.88%
+100	+3.63%	+3.24%
-100	-3.91%	-4.97%
-200	-7.27%	-7.72%

The Corporation improved slightly in rising interest rate environments for the period ending September 30, 2006 as compared to the period ending December 31, 2005 due primarily to significant growth in prime based loan products.

The 200 and 100 basis point change in rates in the above table is assumed to occur evenly over the following twelve months. Based on the scenario above, net interest income would be positively affected in the twelve-month periods if rates rose by 100 and 200 basis points, but would be adversely affected if rates declined by 100 and 200 basis points.

#### **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 Corporation's last fiscal 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 involved in various claims and legal actions arising 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, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K 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

The following table provides certain information with regard to shares repurchased by the Corporation during the third quarter of 2006.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per share	(c) Total Number of Shares Purchased as part of Publicly Announced Programs	(d) Maximum Number of Shares that may be purchased under Program
July 1, 2006 through July 31, 2006	10,243	\$17.64	10,243	44,631
August 1, 2006 through August 31, 2006	18,963	\$18.41	18,963	117,668
September 1, 2006 through September 30, 2006	279	\$18.10	279	117,389
Total	29,485	\$18.14	29,485	N/A

In May 2005, the Corporation implemented a share repurchase program under which the Corporation may repurchase up to 5% of the outstanding shares or 98,000 shares. In August 2006, the program was expanded by an additional 5% or 92,000 shares. The repurchase program will continue until it is completed or terminated by the Board of Directors.

**Item 3.**      Defaults upon Senior Securities

Not applicable.

**Item 4.**      Submission of Matters to a Vote of Security Holders

None

**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: 11/07/2006

By: /s/ Dwight V. Neese  
Dwight V. Neese, CEO

Date: 11/07/2006

By: /s/ Richard H. Flake  
Richard H. Flake, CFO

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)) 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) 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
  - (c) 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 07, 2006

/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)) 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) 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
  - (c) 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 07, 2006

/s/ Richard H. Flake

Richard H. Flake

Executive Vice President and Chief Financial Officer

**EXHIBIT 32(a)**

**Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of  
2002**

**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, 2006 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 07, 2006

**EXHIBIT 32(b)**

**Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of  
2002**

**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, 2006 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 07, 2006