COMMERCIAL BANKSHARES INC
Form 10-Q
November 13, 2001

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2001

Commission File Number 00-22246

COMMERCIAL BANKSHARES, INC.

(Exact name of Registrant as specified in its charter)

FLORIDA	65-0050176
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1550 S.W. 57th Avenue, Miami, Florida	33144
(Address of principal executive offices)	(Zip Code)

(305) 267-1200

(Registrant's Telephone Number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No .

CLASS	OUTSTANDING AT November 12, 2001
COMMON STOCK, $.08 PAR VALUE	3,607,761 SHARES

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ITEM I - FINANCIAL STATEMENTS

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2001 and December 31, 2000
(Dollars in thousands except share data)

	9/30/2001	12/31/2000
Assets:	(Unaudited)	
Cash and due from banks	$ 20,921	$ 20,478
Federal funds sold	25,540	14,537
Total cash and cash equivalents	46,461	35,015
Investment securities available for sale, at fair value (cost of $122,689 in 2001 and $141,031 in 2000)	128,446	143,487
Investment securities held to maturity, at cost (aggregate fair value of $27,621 in 2001 and $37,958 in 2000)	26,807	37,215
Loans, net	335,331	285,641
Premises and equipment, net	12,641	12,913
Accrued interest receivable	3,158	4,001
Goodwill, net	294	416
Other assets	2,637	3,836
Total assets	$555,775	$522,524
Liabilities and stockholders' equity:		
Deposits:		
Demand	$ 88,716	$ 88,829
Interest-bearing checking	62,664	59,041
Money market accounts	51,823	38,239
Savings	24,579	23,585
Time	225,716	213,229
Total deposits	453,498	422,923
Securities sold under agreements to repurchase	48,384	51,166
Accrued interest payable	713	870
Accounts payable and accrued liabilities	3,027	2,510

Total liabilities	505,622	477,469
Stockholders' equity:		
Common stock, $.08 par value, 6,250,000 authorized shares, 3,959,282 issued (3,946,303 in 2000)	315	314
Additional paid-in capital	44,002	43,866
Retained earnings	8,723	5,727
Accumulated other comprehensive income	3,792	1,720
Treasury stock, 351,521 shares (346,905 in 2000), at cost	(6,679)	(6,572)
Total stockholders' equity	50,153	45,055
Total liabilities and stockholders' equity	$555,775	$522,524

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three months ended September 30, 2001 and 2000
(In thousands except per share data)
(Unaudited)

	2001	2000
Interest income:		
Interest and fees on loans	$6,934	$6,061
Interest on investment securities	2,184	2,756
Interest on federal funds sold	272	261
Total interest income	9,390	9,078
Interest expense:		
Interest on deposits	3,620	3,547
Interest on securities sold under agreements to repurchase	431	699
Total interest expense	4,051	4,246
Net interest income	5,339	4,832
Provision for loan losses	250	90
Net interest income after provision	5,089	4,742
Non-interest income:		
Service charges on deposit accounts	670	600
Other fees and service charges	155	133
Securities gains	147	-
Total non-interest income	972	733
Non-interest expense:		

Salaries and employee benefits	2,112	1,895
Occupancy	325	320
Data processing	263	235
Furniture and equipment	178	205
Telephone and fax	56	58
Administrative service charges	58	51
Stationery and supplies	68	61
Insurance	64	54
Amortization	41	50
Other	339	283
Total non-interest expense	3,504	3,212
Income before income taxes	2,557	2,263
Provision for income taxes	744	693
Net income	$1,813	$1,570
Earnings per common and common equivalent share:		
Basic	$.50	$.43
Diluted	$.48	$.42
Weighted average number of shares and common equivalent shares:		
Basic	3,608	3,619
Diluted	3,743	3,704

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the nine months ended September 30, 2001 and 2000
(In thousands except per share data)
(Unaudited)

	2001	2000
Interest income:		
Interest and fees on loans	$20,394	$17,063
Interest on investment securities	7,195	8,442
Interest on federal funds sold	799	463
Total interest income	28,388	25,968
Interest expense:		
Interest on deposits	11,356	9,654
Interest on securities sold under agreements to repurchase	1,663	1,841
Total interest expense	13,019	11,495
Net interest income	15,369	14,473
Provision for loan losses	425	240
Net interest income after provision	14,944	14,233

Non-interest income:		
Service charges on deposit accounts	1,978	1,758
Other fees and service charges	444	419
Securities gains(losses)	147	(108)
Total non-interest income	2,569	2,069
Non-interest expense:		
Salaries and employee benefits	6,280	5,676
Occupancy	923	903
Data processing	757	652
Furniture and equipment	552	666
Telephone and fax	170	177
Administrative service charges	171	137
Stationery and supplies	205	187
Insurance	171	160
Amortization	122	149
Other	878	902
Total non-interest expense	10,229	9,609
Income before income taxes	7,284	6,693
Provision for income taxes	2,088	2,030
Net income	$5,196	$4,663
Earnings per common and common equivalent share:		
Basic	$1.44	$1.27
Diluted	$1.40	$1.24
Weighted average number of shares and common equivalent shares:		
Basic	3,606	3,686
Diluted	3,714	3,775

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended September 30, 2001 and 2000
(Dollars in thousands)
(Unaudited)

	Three months ended September 30,	
	2001	2000
Net income	$1,813	$1,570
Other comprehensive income, net of tax:		
Unrealized holding gains arising		

during the period	985	1,905
Reclassification adjustment for gains realized in net income	(101)	-
Other comprehensive income	884	1,905
Comprehensive income	$2,697	$3,475

	Nine months ended September 30, 2001	2000
Net income	$5,196	$4,663
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the period	2,059	1,128
Reclassification adjustment for (gains)losses realized in net income	(101)	68
Cumulative effect of a change in accounting principle for reclassification of securities upon adoption of FAS 133	114	-
Other comprehensive income	2,072	1,196
Comprehensive income	$7,268	$5,859

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2001 and 2000
(In thousands)
(Unaudited)

	2001	2000
Cash flows from operating activities:		
Net income	$ 5,196	$ 4,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	425	240
Depreciation, amortization and accretion, net	662	912
(Gain)loss on sale of investment securities	(147)	108
Gain on sale of premises and equipment	-	(7)
Change in accrued interest receivable	843	(652)
Change in other assets	1,199	1,383
Change in accounts payable and accrued liabilities	(749)	(431)

Change in accrued interest payable	(157)	107
Net cash provided by operating activities	7,272	6,323
Cash flows from investing activities:		
Proceeds from maturities of investment securities held to maturity	5,129	4,640
Proceeds from maturities of investment securities available for sale	68,171	6,568
Proceeds from sales of investment securities available for sale	148	7,881
Purchases of investment securities available for sale	(44,614)	(18,011)
Net increase in loans	(50,115)	(27,690)
Purchases of premises and equipment	(205)	(304)
Sales of premises and equipment	-	239
Net cash used in investing activities	(21,486)	(26,677)
Cash flows from financing activities:		
Net change in deposits	30,575	25,943
Net change in securities sold under agreements to repurchase	(2,782)	6,136
Dividends paid	(2,163)	(2,022)
Proceeds from issuance of stock	137	121
Purchase of treasury stock	(107)	(4,806)
Net cash provided by financing activities	25,660	25,372
Increase in cash and cash equivalents	11,446	5,018
Cash and cash equivalents at beginning of period	35,015	39,085
Cash and cash equivalents at end of period	$46,461	$44,103
Supplemental disclosures:		
Interest paid (net of amounts credited to deposit accounts)	$ 2,144	$ 1,847
Income taxes paid	$ 2,182	$ 2,082

The accompanying notes are an integral part of these condensed consolidated financial statements

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements, which are for interim periods, do not include all disclosures provided in the annual consolidated financial statements. These financial statements and the footnotes thereto should be read in conjunction with the annual consolidated financial statements for the years ended December 31, 2000, 1999, and 1998 for Commercial Bankshares, Inc. (the "Company").

All material intercompany balances and transactions have been eliminated.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the financial statements. Those adjustments are of a normal recurring nature. The results of operations for the three and nine month periods ended September 30, 2001, are not necessarily indicative of the results to be expected for the full year.

2. PER SHARE DATA

Earnings per share have been computed by dividing net income by the weighted average number of common shares (basic earnings per share) and by the weighted average number of common shares plus dilutive common share equivalents outstanding (diluted earnings per share). Common stock equivalents include the effect of all outstanding stock options, using the treasury stock method.

The following tables reconcile the weighted average shares (denominator) used to calculate basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30, 2001			Three Months Ended September 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$1,813	3,608	$.50	$1,570	3,619	$.43
Effect of Dilutive Options	-	135	(.02)	-	85	(.01)
Diluted EPS	$1,813	3,743	$.48	$1,570	3,704	$.42

	Nine Months Ended September 30, 2001			Nine Months Ended September 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$5,196	3,606	$1.44	$4,663	3,686	$1.27
Effect of Dilutive Options	-	108	(.04)	-	89	(.03)
Diluted EPS	$5,196	3,714	$1.40	$4,663	3,775	$1.24

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3. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 142, ("SFAS 142") "Goodwill and Other Intangible Assets". SFAS 142, which is effective for fiscal years beginning after December 15, 2001, revises the accounting, amortization and disclosure of goodwill and other intangible assets. The implementation of the Statement is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144") "Accounting for the Impairment or Disposal of Long-lived Assets". SFAS 144, which is effective for financial statements for years beginning after December 15, 2001, addresses financial accounting and reporting for the impairment or disposal of certain long-lived assets. The implementation of this Statement is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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

RESULTS OF OPERATIONS

The Company's net income reported for the quarter ended September 30, 2001, was $1.81 million, a 15% increase over the quarter ended September 30, 2000 of $1.57 million. Basic and diluted earnings per share were $.50 and $.48, respectively, for the third quarter of 2001, as compared to $.43 and $.42, respectively, for the third quarter of 2000.

For the nine months ended September 30, 2001, the Company's net income was $5.20 million, a 12% increase over the nine months ended September 30, 2000 of $4.66 million. Basic and diluted earnings per share were $1.44 and $1.40, respectively, for the nine months ended September 30, 2001 as compared to $1.27 and $1.24, respectively, for the nine months ended September 30, 2000.

The Company's third quarter tax-equivalent net interest income increased to $5.61 million, from $5.06 million in the corresponding quarter in 2000. The annualized net interest margins for the quarter and nine months ended September 30, 2001 were 4.30% and 4.25%, respectively. This compares to 4.41% and 4.56% for the quarter and nine months ended September 30, 2000. The decrease in the net interest margin is the result of the current interest rate environment and intense competition for deposits and quality loans. The net interest margin has been calculated on a tax-equivalent basis, which includes an adjustment for interest on tax-exempt securities.

Non-interest income for the third quarter of 2001 increased by $239,000, or 33%, and increased by $500,000, or 24% for the first nine months of

2001, from the corresponding periods of 2000. The increase for the third quarter of 2001 is primarily due to an increase in account activity charges of $70,000, letter of credit income of $25,000, and a gain on sale of investments of $147,000. The increase for the first nine months of 2001 is due to increased account activity charges of $220,000, letter of credit income of $24,000 and gain on sale of investments of $147,000. In addition, a loss on sale of investments of $108,000 was incurred in the first nine months of 2000.

Salaries and employee benefits expense increased by $217,000, or 11%, for the third quarter of 2001, and by $604,000, or 11%, for the first nine months of 2001, from the corresponding periods of 2000. The increase is attributable to normal payroll increases and increased benefit costs.

Data processing expense increased by $28,000 or 12% for the third quarter of 2001, and by $105,000, or 16%, for the first nine months of 2001, as compared to the corresponding periods in 2000. The increase is attributable to an increase in the number of accounts processed and to an increase in rates from the Company's service provider.

Furniture and equipment expense decreased by $27,000 or 13% for the third quarter of 2001, and by $114,000, or 17%, for the first nine months of 2001, as compared to the corresponding periods in 2000 due to a decrease in furniture and equipment depreciation expense.

Company management continually reviews and evaluates the allowance for loan losses. In evaluating the adequacy of the allowance for loan losses, management considers the results of its methodology, along with other factors such as the amount of non-performing loans and the economic conditions affecting the Company's markets and customers. The allowance for loan losses was approximately $4.22 million at September 30, 2001, as compared with $3.81 million at December 31, 2000. For the nine months ended September 30, 2001, the allowance for loan losses was increased by the provision for loan losses of $425,000, and decreased by approximately $10,000 in net charge-offs. For the nine months ended September 30, 2000, the allowance was increased with a provision for loan losses of $240,000 and increased by approximately $75,000 in net recoveries. The allowance as a percentage of total loans has decreased to 1.24% at September 30, 2001, from 1.31% at December 31, 2000. Based on the nature of the loan portfolio and prevailing economic factors, management believes that the current level of the allowance for loan losses is sufficient to absorb losses in the loan portfolio.

Approximately $203.1 million, or 60% of total loans was secured by nonresidential real estate and $69.7 million, or 21% of total loans was secured by residential real estate as of September 30, 2001. Virtually all loans are within the Company's markets in Miami-Dade and Broward counties.

The Company had a non-accrual loan balance of $866,000 at September 30, 2001. If these loans were on full accrual, additional interest income of approximately $48,000 would have been recorded during the first nine months of 2001.

LIQUIDITY AND CAPITAL RESOURCES

The objective of liquidity management is to maintain cash flow requirements to meet immediate and ongoing future needs for loan demand, deposit withdrawals, maturing liabilities, and expenses. In evaluating actual and anticipated needs, management seeks to obtain funds at the most economical cost. Management believes that the level of liquidity is sufficient to meet future funding requirements.

For banks, liquidity represents the ability to meet both loan commitments and withdrawals of deposited funds. Funds to meet these needs can be obtained by converting liquid assets to cash or by attracting new deposits or other sources of funding. Many factors affect a bank's ability to meet liquidity needs. Commercial Bank of Florida's (the Bank) principal sources of funds are deposits, repurchase agreements, payments on loans, maturities and sales of investments. As an additional source of funds, the Bank has credit availability with the Federal Home Loan Bank amounting to $83 million, and Federal Funds purchased lines available at correspondent banks amounting to $13 million as of September 30, 2001.

The Bank's primary use of funds is to originate loans and purchase investment securities. The net change in loans during the first nine months of 2001 was an increase of $50.1 million, and the Bank purchased $44.6 million of investment securities. Funding for the above came primarily from increases in deposits of $30.6 million, increases from proceeds from maturities and sales of investment securities of $73.4 million, partially offset by a decrease in securities sold under agreements to repurchase of $2.8 million.

In accordance with risk-based capital guidelines issued by the Federal Reserve Board, the Company and the Bank are each required to maintain a minimum ratio of total capital to risk weighted assets of 8%. Additionally, all bank holding companies and member banks must maintain "core" or "Tier 1" capital of at least 3% of total assets ("leverage ratio"). Member banks operating at or near the 3% capital level are expected to have well diversified risks, including no undue interest rate risk exposure, excellent control systems, good earnings, high asset quality, high liquidity, and well managed on- and off-balance sheet activities, and in general be considered strong banking organizations with a composite 1 rating under the CAMELS rating system of banks. For all but the most highly rated banks meeting the above conditions, the minimum leverage ratio is to be 3% plus an additional 100 to 200 basis points. The Tier 1 Capital, Total Capital, and Leverage Ratios of the Company were 11.99%, 13.44%, and 8.25%, respectively, as of September 30, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET/LIABILITY MANAGEMENT AND INTEREST RATE RISK

Changes in interest rates can substantially impact the Company's long-term profitability and current income. An important part of management's efforts to maintain long-term profitability is the management of interest rate risk. The goal is to maximize net interest income within acceptable levels of interest rate risk and liquidity. Interest rate exposure is managed by monitoring the relationship between interest-earning assets and interest-bearing liabilities, focusing on the size, maturity or repricing date, rate of return and degree of risk. The Asset/Liability Management Committee of the Bank oversees the interest rate risk management and reviews the Bank's asset/liability structure on a quarterly basis.

The Bank uses interest rate sensitivity, or GAP analysis to monitor the amount and timing of balances exposed to changes in interest rates. The GAP analysis is not relied upon solely to determine future reactions to interest rate changes because it is presented at one point in time and could change significantly from day-to-day. Other methods such as simulation analysis are utilized in evaluating the Bank's interest rate risk position. The table presented below shows the Bank's GAP analysis at September 30, 2001.

INTEREST RATE SENSITIVITY ANALYSIS
(Dollars in Thousands)

	Term to Repricing				
	90 Days or Less	91-181 Days	182-365 Days	Over 1 Year & Non-rate Sensitive	Total
Interest-earning assets:					
Federal funds sold	$25,540	$ -	$ -	$ -	$ 25,540
Investment securities	9,923	5,006	16,108	121,182	152,219
Gross loans (excluding non-accrual)	83,186	50,807	49,482	155,890	339,365
Total interest-earning assets	$118,649	$55,813	$65,590	$277,072	$517,124
Interest-bearing liabilities:					
Interest-bearing checking	$ -	$ -	$ -	$ 62,664	$ 62,664
Money market	-	12,956	12,956	25,911	51,823
Savings	-	-	-	24,579	24,579
Time deposits	75,843	48,069	82,758	19,046	225,716
Borrowed funds	49,709	-	-	-	49,709
Total interest-bearing liabilities	$125,552	$61,025	$95,714	$132,200	$414,491
Interest sensitivity gap	($ 6,903)	($ 5,212)	($30,124)	$144,872	$102,633
Cumulative gap	($ 6,903)	($12,115)	($42,239)	$102,633	
Cumulative ratio of interest-earning assets to interest-bearing liabilities	95%	94%	85%	125%	
Cumulative gap as a percentage of total interest-earning assets	(1.3%)	(2.3%)	(8.2%)	19.8%	

Management's assumptions reflect the Bank's estimate of the anticipated repricing sensitivity of non-maturity deposit products. Interest-bearing checking and savings accounts have been allocated to the "over 1 year" category, and money market accounts 25% to the "91-181 days" category, 25% to the "182-365 days" category, and 50% to the "over 1 year" category.

The Bank uses simulation analysis to quantify the effects of various immediate parallel shifts in interest rates on net interest income over the next 12 month period. Such a "rate shock" analysis requires key assumptions which are inherently uncertain, such as deposit sensitivity, cash flows from investments and loans, reinvestment options, management's capital plans, market conditions, and the timing, magnitude and frequency of interest rate changes. As a result, the simulation is only a best-estimate and cannot accurately predict the impact of the future interest rate changes on net income. As of September 30, 2001, the Bank's simulation analysis projects an increase to net interest income of 6.48%, assuming an immediate parallel shift downward in interest rates by 200 basis points. If rates rise by 200 basis points, the simulation analysis projects net interest income would decrease by 3.54%. These projected levels are within the Bank's policy limits.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

All exhibits are omitted because they are not applicable.

(b) Reports on Form 8-K. No report on Form 8-K was filed during the quarter ended September 30, 2001.

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.

Commercial Bankshares, Inc.

(Registrant)

/s/ Barbara E. Reed

Senior Vice President &
Chief Financial Officer

Date: November 13, 2001
