COMMERCIAL BANKSHARES INC
Form 10-Q
August 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 June 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 August 10, 2001
COMMON STOCK, $.08 PAR VALUE	3,606,985 SHARES

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PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

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

	6/30/2001	12/31/2000
Assets:	(Unaudited)	
Cash and due from banks	$ 25,676	$ 20,478
Federal funds sold	16,393	14,537
Total cash and cash equivalents	42,069	35,015
Investment securities available for sale, at fair value (cost of $115,127 in 2001 and $141,031 in 2000)	119,469	143,487
Investment securities held to maturity, at cost (aggregate fair value of $29,168 in 2001 and $37,958 in 2000)	28,452	37,215
Loans, net	341,125	285,641
Premises and equipment, net	12,742	12,913
Accrued interest receivable	3,248	4,001
Goodwill, net	334	416
Other assets	2,930	3,836
Total assets	$550,369	$522,524
Liabilities and stockholders' equity:		
Deposits:		
Demand	$ 92,004	$ 88,829

Interest-bearing checking	61,774	59,041
Money market accounts	44,859	38,239
Savings	23,376	23,585
Time	224,351	213,229
Total deposits	446,364	422,923
Securities sold under agreements to repurchase	52,110	51,166
Accrued interest payable	765	870
Accounts payable and accrued liabilities	2,836	2,510
Total liabilities	502,075	477,469
Stockholders' equity:		
Common stock, $.08 par value, 6,250,000 authorized shares, 3,957,735 issued (3,946,303 in 2000)	315	314
Additional paid-in capital	43,985	43,866
Retained earnings	7,667	5,727
Accumulated other comprehensive income	2,908	1,720
Treasury stock, 347,357 shares (346,905 in 2000), at cost	(6,581)	(6,572)
Total stockholders' equity	48,294	45,055
Total liabilities and stockholders' equity	$550,369	$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 June 30, 2001 and 2000
(In thousands except per share data)
(Unaudited)

	2001	2000
Interest income:		
Interest and fees on loans	$6,959	$5,628
Interest on investment securities	2,375	2,827
Interest on federal funds sold	245	114
Total interest income	9,579	8,569
Interest expense:		
Interest on deposits	3,844	3,134
Interest on securities sold under agreements to repurchase	597	629
Total interest expense	4,441	3,763

Net interest income	5,138	4,806
Provision for loan losses	100	70
Net interest income after provision	5,038	4,736
Non-interest income:		
Service charges on deposit accounts	671	594
Other fees and service charges	166	149
Securities losses	-	(40)
Total non-interest income	837	703
Non-interest expense:		
Salaries and employee benefits	2,080	1,889
Occupancy	301	297
Data processing	253	216
Furniture and equipment	186	229
Telephone and fax	59	59
Administrative service charges	59	39
Stationery and supplies	62	62
Insurance	54	53
Amortization	41	50
Other	325	294
Total non-interest expense	3,420	3,188
Income before income taxes	2,455	2,251
Provision for income taxes	708	686
Net income	$1,747	$1,565
Earnings per common and common equivalent share:		
Basic	$.48	$.43
Diluted	$.47	$.42
Weighted average number of shares and common equivalent shares:		
Basic	3,609	3,662
Diluted	3,715	3,746

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 six months ended June 30, 2001 and 2000
(In thousands except per share data)
(Unaudited)

	2001	2000
Interest income:		
Interest and fees on loans	$13,460	$11,002

Interest on investment securities	5,011	5,686
Interest on federal funds sold	527	202
Total interest income	18,998	16,890
Interest expense:		
Interest on deposits	7,736	6,107
Interest on securities sold under agreements to repurchase	1,232	1,142
Total interest expense	8,968	7,249
Net interest income	10,030	9,641
Provision for loan losses	175	150
Net interest income after provision	9,855	9,491
Non-interest income:		
Service charges on deposit accounts	1,308	1,159
Other fees and service charges	289	285
Securities losses	-	(108)
Total non-interest income	1,597	1,336
Non-interest expense:		
Salaries and employee benefits	4,168	3,781
Occupancy	598	583
Data processing	494	417
Furniture and equipment	374	461
Telephone and fax	114	119
Administrative service charges	113	86
Stationery and supplies	136	126
Insurance	107	106
Amortization	81	99
Other	540	619
Total non-interest expense	6,725	6,397
Income before income taxes	4,727	4,430
Provision for income taxes	1,344	1,337
Net income	$3,383	$3,093
Earnings per common and common equivalent share:		
Basic	$.94	$.83
Diluted	$.91	$.81
Weighted average number of shares and common equivalent shares:		
Basic	3,606	3,718
Diluted	3,704	3,807

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 six months ended June 30, 2001 and 2000
(Dollars in thousands)
(Unaudited)

	Three months ended June 30, 2001	Three months ended June 30, 2000
Net income	$1,747	$1,565
Other comprehensive income(loss), net of tax:		
Unrealized holding gains(losses) arising during the period	10	(106)
Reclassification adjustment for losses realized in net income	-	25
Other comprehensive income(loss)	10	(81)
Comprehensive income	$1,757	$1,484

	Six months ended June 30, 2001	Six months ended June 30, 2000
Net income	$3,383	$3,093
Other comprehensive income(loss), net of tax:		
Unrealized holding gains(losses) arising during the period	1,074	(777)
Reclassification adjustment for losses realized in net income	-	68
Cumulative effect of a change in accounting principle	114	-
Other comprehensive income(loss)	1,188	(709)
Comprehensive income	$4,571	$2,384

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 six months ended June 30, 2001 and 2000
(In thousands)
(Unaudited)

	2001	2000
Cash flows from operating activities:		
Net income	$ 3,383	$ 3,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	175	150
Depreciation, amortization and accretion, net	476	627
Loss on sale of investment securities	-	108
Gain on sale of premises and equipment	-	(7)
Change in accrued interest receivable	753	(279)
Change in other assets	906	752
Change in accounts payable and accrued liabilities	(375)	105
Change in accrued interest payable	(105)	13
Net cash provided by operating activities	5,213	4,562
Cash flows from investing activities:		
Proceeds from maturities of investment securities held to maturity	3,488	3,347
Proceeds from maturities of investment securities available for sale	53,296	2,473
Proceeds from sales of investment securities available for sale	-	7,881
Purchases of investment securities available for sale	(22,186)	(17,132)
Net increase in loans	(55,659)	(18,258)
Purchases of premises and equipment	(153)	(204)
Sales of premises and equipment	-	239
Net cash used in investing activities	(21,214)	(21,654)
Cash flows from financing activities:		
Net change in deposits	23,441	10,549
Net change in securities sold under agreements to repurchase	944	8,541
Dividends paid	(1,441)	(1,364)
Proceeds from issuance of stock	120	121
Purchase of treasury stock	(9)	(4,425)
Net cash provided by financing activities	23,055	13,422
Increase(decrease) in cash and cash equivalents	7,054	(3,670)
Cash and cash equivalents at beginning of period	35,015	39,085

Cash and cash equivalents at end of period	$42,069	$35,415
	=======	=======
Supplemental disclosures:		
Interest paid (net of amounts credited to deposit accounts)	$ 1,438	$ 1,223
	=======	=======
Income taxes paid	$ 1,330	$ 1,372
	=======	=======

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 six month periods ended June 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 in accordance with Statement of Financial Accounting Standard No. 128, "Earnings per Share" (SFAS 128) 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	Three Months Ended

	June 30, 2001			June 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$1,747	3,609	$.48	$1,565	3,662	$.43
Effect of Dilutive Options	-	106	(.01)	-	84	(.01)
Diluted EPS	$1,747	3,715	$.47	$1,565	3,746	$.42

	Six Months Ended June 30, 2001			Six Months Ended June 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$3,383	3,606	$.94	$3,093	3,718	$.83
Effect of Dilutive Options	-	98	(.03)	-	89	(.02)
Diluted EPS	$3,383	3,704	$.91	$3,093	3,807	$.81

3. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, ("SFAS 133") "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000; accordingly, the Company adopted SFAS 133 on January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. In conjunction with the adoption of SFAS 133, the Company transferred $5.3 million in securities, with a fair value of $5.5 million, from the held-to-maturity portfolio to the available-for-sale portfolio on January 1, 2001. The Company does not currently utilize derivative instruments for risk management purposes. The implementation of this statement has not had a material effect on the Company's financial position or results of operations.

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 140 ("SFAS 140"), "Accounting for Transfers and Servicing of Financial Assets and

Extinguishments of Liabilities, a replacement of FASB No. 125". SFAS 140 revises the standards for accounting and reporting of securitizations, other transfers of financial assets and extinguishments of liabilities. The standard is based on a consistent application of a financial components approach which focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes financial and servicing assets it controls and the liabilities it has incurred. Derecognition of financial assets occurs when control has been surrendered and liabilities are derecognized when extinguished. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Other provisions of SFAS 140 relating to recognition and reclassification of collateral and disclosures of securitization transactions are effective for fiscal years ended after December 15, 2000. The implementation of this statement has not had a material effect on the Company's consolidated financial statements.

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.

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 June 30, 2001, was $1.75 million, an 11% increase over the quarter ended June 30, 2000 of $1.57 million. Basic and diluted earnings per share were $.48 and $.47, respectively, for the second quarter of 2001, as compared to $.43 and $.42, respectively, for the second quarter of 2000.

For the six months ended June 30, 2001, the Company's net income was $3.4 million, a 10% increase over the six months ended June 30, 2000 of $3.1 million. Basic and diluted earnings per share were $.94 and $.91, respectively, for the six months ended June 30, 2001 as compared to $.83 and $.81, respectively, for the six months ended June 30, 2000.

The Company's second quarter tax-equivalent net interest income increased to $5.39 million, from $5.04 million in the corresponding quarter in 2000. The annualized net interest margin for the quarter and six months ended June 30, 2001 was 4.21% and 4.23%, respectively. This compares to 4.60% and 4.65% for the quarter and six months ended June 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 second quarter of 2001 increased by $134,000, or 19%, and increased by $261,000, or 20% for the first six months of 2001, from the corresponding periods of 2000. The increases are primarily due to an increase in account activity charges of $77,000 for the second quarter of 2001 and $149,000 for the first six months of 2001, in addition to a loss on sale of investments of $40,000 for the second quarter of 2000 and $108,000 for the first six months of 2000.

Salaries and employee benefits expense increased by $191,000, or 10%, for the second quarter of 2001, and by $387,000, or 10%, for the first six 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 $37,000 or 17% for the second quarter of 2001, and by $77,000, or 18%, for the first six 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 $43,000 or 19% for the second quarter of 2001, and by $87,000, or 19%, for the first six 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 $3.95 million at June 30, 2001, as compared with $3.49 million at June 30, 2000. For the six months ended June 30, 2001, the allowance for loan losses was increased by the provision for loan losses of $175,000, and decreased by approximately $29,000 in net charge-offs. For the six months ended June 30, 2000, the allowance was increased with a provision for loan losses of $150,000 and increased by approximately $59,000 in net recoveries. The allowance as a percentage of total loans has decreased to 1.15% at June 30, 2001, from 1.31% at June 30, 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 $218.9 million, or 63% of total loans was secured by nonresidential real estate and $53.1 million, or 15% of total loans was secured by residential real estate as of June 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 June 30, 2001. If these loans were on full accrual, additional interest income of approximately $33,000 would have been recorded during the first six 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 $82 million, and Federal Funds purchased lines available at correspondent banks amounting to $11 million as of June 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 six months of 2001 was an increase of $55.7 million, and the Bank purchased $22.2 million of investment securities. Funding for the above came primarily from increases in deposits of $23.4 million, increases in securities sold under agreements to repurchase of $1.0 million and from proceeds from maturities and sales of investment securities of $56.8 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 11.70%, 13.10%, and 8.15%, respectively, as of June 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 June 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	$16,393	$ -	$ -	$ -	$ 16,393
Investment securities	7,092	9,316	11,056	117,204	144,668
Gross loans (excluding non-accrual)	84,698	23,627	72,846	163,693	344,864
Total interest-earning assets	$108,183	$32,943	$83,902	$280,897	$505,925
Interest-bearing liabilities:					
Interest-bearing checking	$ -	$ -	$ -	$ 61,774	$ 61,774
Money market	-	11,215	11,215	22,429	44,859
Savings	-	-	-	23,376	23,376
Time deposits	72,519	57,348	76,758	17,726	224,351
Borrowed funds	53,244	-	-	-	53,244
Total interest-bearing liabilities	$125,763	$68,563	$87,973	$125,305	$407,604
Interest sensitivity gap	$(17,580)	($35,620)	($ 4,071)	$155,592	$ 98,321
Cumulative gap	$(17,580)	($53,200)	($57,271)	$ 98,321	
Cumulative ratio of interest-earning assets to interest-bearing liabilities	86%	73%	80%	124%	
Cumulative gap as a percentage of total interest-earning assets	(3.5%)	(10.5%)	(11.3%)	19.4%	

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 June 30, 2001, the Bank's simulation analysis projects an increase to net interest income of 1.74%, 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 3.52%. 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 June 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: August 13, 2001