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COMMERCIAL BANKSHARES INC

Form 10-Q

November 14, 2003

04729

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, 2003

OR

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 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.

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Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

CLASS	OUTSTANDING AT NOVEMBER 13, 2003
COMMON STOCK, PAR VALUE \$.08 PER SHARE	4,644,670 SHARES

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PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 September 30, 2003 and December 31, 2002
 (Dollars in thousands, except share data)

	9/30/2003	12/31/2002
	<u> </u>	<u> </u>
	(Unaudited)	
Assets:		
Cash and due from banks	\$ 24,896	\$ 31,108
Federal funds sold	23,965	29,425
	<u> </u>	<u> </u>
Total cash and cash equivalents	48,861	60,533
Investment securities available for sale, at fair value (cost of \$119,432 in 2003 and \$175,597 in 2002)	126,129	182,831
Investment securities held to maturity, at cost (fair value of \$184,215 in 2003 and \$90,019 in 2002)	189,289	88,307
Loans, net	393,031	345,766
Premises and equipment, net	12,523	12,591
Accrued interest receivable	4,508	4,328
Goodwill, net	253	253
Other assets	3,905	3,915
	<u> </u>	<u> </u>
Total assets	\$778,499	\$698,524
	=====	=====
Liabilities and stockholders' equity:		
Deposits:		
Demand	\$122,554	\$ 99,018
Interest-bearing checking	83,117	81,978
Money market accounts	85,902	62,096
Savings	32,049	28,633
Time	330,277	309,501
	<u> </u>	<u> </u>
Total deposits	653,899	581,226
	<u> </u>	<u> </u>
Securities sold under agreements		

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to repurchase	55,411	53,705
Accrued interest payable	590	624
Accounts payable and accrued liabilities	4,443	4,364
	<hr/>	<hr/>
Total liabilities	714,343	639,919
	<hr/>	<hr/>

Commitments and contingencies (Note 4)

Stockholders' equity:

Common stock, \$.08 par value, 15,000,000 authorized shares, 5,084,691 issued (5,006,670 in 2002)	407	401
Additional paid-in capital	45,576	44,653
Retained earnings	20,564	15,603
Accumulated other comprehensive income	4,377	4,716
Treasury stock, 443,820 shares, at cost	(6,768)	(6,768)
	<hr/>	<hr/>
Total stockholders' equity	64,156	58,605
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$778,499	\$698,524
	=====	=====

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

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COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three and nine months ended September 30, 2003 and 2002
(Dollars in thousands, except share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	<hr/>	<hr/>	<hr/>	<hr/>
Interest income:				
Interest and fees on loans	\$6,032	\$6,294	\$17,866	\$19,065
Interest on investment securities	3,840	2,538	10,607	7,254
Interest on federal funds sold	156	251	437	518
	<hr/>	<hr/>	<hr/>	<hr/>
Total interest income	10,028	9,083	28,910	26,837

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Interest expense:				
Interest on deposits	2,710	2,663	8,254	7,873
Interest on securities sold under agreements to repurchase	168	273	558	762
Total interest expense	2,878	2,936	8,812	8,635
Net interest income	7,150	6,147	20,098	18,202
Provision for loan losses	-	20	135	170
Net interest income after provision	7,150	6,127	19,963	18,032
Non-interest income:				
Service charges on deposit accounts	636	655	1,902	1,969
Other fees and service charges	136	133	439	425
Securities gains	-	-	139	33
Total non-interest income	772	788	2,480	2,427
Non-interest expense:				
Salaries and employee benefits	2,593	2,239	7,290	6,914
Occupancy	336	320	942	939
Data processing	286	265	821	850
Furniture and equipment	202	176	573	542
Insurance	104	86	305	252
Stationery and supplies	59	65	188	196
Administrative service charges	66	61	167	175
Telephone and fax	50	61	137	173
Other	369	221	974	874
Total non-interest expense	4,065	3,494	11,397	10,915
Income before income taxes	3,857	3,421	11,046	9,544
Provision for income taxes	1,243	1,058	3,460	2,885
Net income	\$2,614	\$2,363	\$ 7,586	\$ 6,659
Earnings per common and common equivalent share:				
Basic	\$.57	\$.52	\$1.65	\$1.47
Diluted	\$.53	\$.49	\$1.56	\$1.40
Weighted average number of shares and common equivalent shares:				
Basic	4,623,986	4,548,989	4,597,527	4,536,623
Diluted	4,898,079	4,774,555	4,872,797	4,747,188

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

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COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 For the three and nine months ended September 30, 2003 and 2002
 (In thousands)
 (Unaudited)

	Three months ended September 30,	
	2003	2002
	-----	-----
Net income	\$2,614	\$2,363
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the period (net of tax (benefit)expense of (\$543,000) in 2003 and \$694,000 in 2002)	(924)	1,182
	-----	-----
Other comprehensive income	(924)	1,182
	-----	-----
Comprehensive income	\$1,690	\$3,545
	=====	=====

	Nine months ended September 30,	
	2003	2002
	-----	-----
Net income	\$7,586	\$6,659
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the period (net of tax (benefit)expense of (\$147,000) in 2003 and \$1,437,000 in 2002)	(251)	2,447
Reclassification adjustment for gains realized in net income (net of tax (benefit) of (\$51,000) in 2003 and (\$12,000) in 2002)	(88)	(21)
	-----	-----

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Other comprehensive income	(339)	2,426
	<u> </u>	<u> </u>
Comprehensive income	\$7,247	\$9,085
	<u> </u>	<u> </u>
	=====	=====

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

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COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2003 and 2002
(In thousands)
(Unaudited)

	2003	2002
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Net income	\$ 7,586	\$ 6,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	135	170
Depreciation, amortization and accretion, net	841	420
Gain on sale of investment securities	(139)	(33)
Gain on sale of premises and equipment	(1)	(1)
Change in accrued interest receivable	(180)	(536)
Change in other assets	10	(986)
Change in accounts payable and accrued liabilities	266	2,762
Change in accrued interest payable	(34)	(69)
	<u> </u>	<u> </u>
Net cash provided by operating activities	8,484	8,386
	<u> </u>	<u> </u>
Cash flows from investing activities:		
Proceeds from maturities of investment securities held to maturity	99,873	23,554
Proceeds from maturities and sales of investment securities available for sale	163,235	57,113
Purchases of investment securities held to maturity	(156,007)	(71,286)
Purchases of investment securities available for sale	(152,158)	(109,765)
Net change in loans	(47,400)	7,757
Purchases of premises and equipment	(394)	(466)
Sales of premises and equipment	1	1
	<u> </u>	<u> </u>
Net cash used in investing activities	(92,850)	(93,092)
	<u> </u>	<u> </u>
Cash flows from financing activities:		
Net change in deposits	72,673	107,158
Net change in securities sold under agreements to repurchase	1,706	446
Dividends paid	(2,614)	(2,353)

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Proceeds from issuance of stock	929	440
Purchase of treasury stock	-	(64)
	-----	-----
Net cash provided by financing activities	72,694	105,627
	-----	-----
Increase in cash and cash equivalents	(11,672)	20,921
Cash and cash equivalents at beginning of period	60,533	68,200
	-----	-----
Cash and cash equivalents at end of period	\$48,861	\$89,121
	=====	=====
Supplemental disclosures:		
Interest paid (net of amounts credited to deposit accounts)	\$ 1,471	\$ 1,330
	=====	=====
Income taxes paid	\$ 3,371	\$ 3,058
	=====	=====

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

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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 year ended December 31, 2002 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 nine month period ended September 30, 2003, are not necessarily indicative of the results to be expected for the full year.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of

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assets and liabilities at the dates of the statements of financial condition and revenues and expenses for the periods covered. Actual results could differ from those estimates and assumptions.

2. STOCK OPTIONS

The new disclosure requirements under Statement of Financial Accounting Standard (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure an amendment of FASB Statement No. 123" SFAS No. 148 for interim financial statements are effective and were adopted by the Company on January 1, 2003. The following table provides the newly required disclosures for the three and nine-month periods ended September 30, 2003 compared to the same periods in the prior year:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(Dollars in thousands)			
Net income as reported	\$2,614	\$2,363	\$7,586	\$6,659
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (1)	(34)	(30)	(191)	(192)
Pro forma net income	\$2,580	\$2,333	\$7,395	\$6,467
Earnings per share, basic as reported	\$.57	\$.52	\$ 1.65	\$ 1.47
Earnings per share, basic pro forma	\$.56	\$.51	\$ 1.61	\$ 1.43
Earnings per share, diluted as reported	\$.53	\$.49	\$ 1.56	\$ 1.40
Earnings per share, diluted pro forma	\$.53	\$.49	\$ 1.52	\$ 1.36

(1) The fair value of each option has been estimated on the date of the grant using the Black Scholes option pricing model.

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3. PER SHARE DATA

Earnings per share have been computed by dividing net income by the weighted average number of shares of common stock (basic earnings per share) and by the weighted average number of shares of common stock plus dilutive shares of common stock 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 used to calculate basic and diluted earnings per share (in thousands, except

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per share amounts):

	Three Months Ended September 30, 2003			Three Months Ended September 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	\$2,614	4,624	\$.57	\$2,363	4,549	\$.52
Effect of Dilutive Options	-	274	(.04)	-	226	(.03)
Diluted EPS	\$2,614 =====	4,898 =====	\$.53 =====	\$2,363 =====	4,775 =====	\$.49 =====

	Nine Months Ended September 30, 2003			Nine Months Ended September 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	\$7,586	4,598	\$1.65	\$6,659	4,537	\$1.47
Effect of Dilutive Options	-	275	(.09)	-	210	(.07)
Diluted EPS	\$7,586 =====	4,873 =====	\$1.56 =====	\$6,659 =====	4,747 =====	\$1.40 =====

Options to purchase 64,500 and 79,375 shares of common stock at \$33.32 and \$22.80 per share were outstanding at September 30, 2003 and September 30, 2002, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

4. COMMITMENTS AND CONTINGENCIES

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The Bank

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had outstanding standby letters of credit in the amount of \$4.5 million as of September 30, 2003 as compared to \$4.1 million as of December 31, 2002. Approximately \$1.55 million of the standby letters of credit outstanding at September 30, 2003 were issued subsequent to December 31, 2002 and are being carried at fair value. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in establishing conditional obligations as those for on-balance sheet instruments. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies but may include cash, or the goods acquired by the customer for which the standby letter of credit was issued. Since certain letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

5. SUBSEQUENT EVENT

On November 11, 2003 the Company's Board of Directors approved a five-for-four stock split of the Company's common stock. One additional share of common stock will be issued on January 2, 2004 for each four shares held by shareholders of record as of December 11, 2003.

The Company's pro forma earnings per common share, giving retroactive effect to the stock split, are as follows:

	Three months ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Pro forma earnings per				
Common and common				
Equivalent share:				
Basic	\$.45	\$.41	\$1.32	\$1.17
Diluted	\$.43	\$.39	\$1.24	\$1.12
Pro forma weighted average				
Number of shares and				
Common equivalent shares:				
Basic	5,784,203	5,709,206	5,757,744	5,696,840
Diluted	6,126,818	5,991,164	6,101,830	5,960,046

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6. NEW ACCOUNTING PRONOUNCEMENTS

In May 2003, Financial Accounting Standard Board (FASB) issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires than an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation

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of the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003. The provisions of this statement did not have a material effect on the financial statements of the Company.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". The provisions of this statement amend and clarify financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The provisions of this statement did not have a material effect on the financial statements of the Company.

In December of 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure an amendment of FASB Statement No. 123". Under SFAS No. 148, alternative methods of transition are provided for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of FASB No. 123, "Accounting for Stock Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS No. 123, the Bank continues to follow the intrinsic value method of accounting for stock-based compensation under the provision of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees". Accordingly, the alternative methods of transition for the fair value based method of accounting for stock-based employee compensation provided by SFAS No. 148 do not apply to the Bank. The Bank is required under the provisions of SFAS No. 148 amending SFAS No. 123 and APB No. 28, "Interim Financial Reporting", to provide additional disclosure in both annual and interim financial statements. The new disclosure requirements are included in Note 2.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS 147 addresses the treatment of goodwill related to branch acquisitions. It requires that goodwill meeting certain criteria be accounted for under SFAS No. 142, "Goodwill and Other Intangible Assets." The Company adopted SFAS No. 142 in January 2002 and adopted SFAS No. 147 in the fourth quarter of 2002. The implementation of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

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On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51" ("FIN 46"). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity

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investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The provisions of this interpretation are effective for reporting periods ending after December 15, 2003 and are not expected to have a material effect on the financial statements of the Company.

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

The following discussion and analysis of the Company's consolidated results of operations and financial condition should be read in conjunction with the unaudited interim consolidated financial statements and the related notes included herein and the consolidated financial statements for the year ended December 31, 2002 appearing in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

CORPORATE OVERVIEW

Commercial Bankshares, Inc. (the "Company"), a Florida corporation organized in 1988, is a bank holding company whose wholly-owned subsidiary and principal asset is the Commercial Bank of Florida (the "Bank"). The Company, through its ownership of the Bank, is engaged in a commercial banking business. Its primary source of earnings is derived from income generated by its ownership and operation of the Bank. The Bank is a Florida chartered banking corporation with fourteen branch locations throughout Miami-Dade and Broward counties in South Florida. The Bank primarily focuses on providing personalized banking services to businesses and individuals within the market areas where its banking offices are located.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2003 and 2002

The Company's net income reported for the quarter ended September 30, 2003, was \$2.61 million, an 11% increase over the quarter ended September 30, 2002 of \$2.36 million. Basic and diluted earnings per share were \$.57 and \$.53, respectively, for the third quarter of 2003, as compared to \$.52 and \$.49, respectively, for the third quarter of 2002.

Results for the nine months ended September 30, 2003, showed net income of \$7.59 million, a 14% increase over net income for the nine months ended September 30, 2002 of \$6.66 million. Basic and diluted earnings per share were \$1.65 and \$1.56, respectively, for the nine months ended September 30, 2003 as compared to \$1.47 and \$1.40, respectively, for the nine months ended September 30, 2002.

The Company's third quarter tax-equivalent net interest income increased 16% to \$7.4 million, from \$6.4 million for the corresponding quarter in 2002. The increase is the result of growth in average earning assets, which have increased 20% to \$715 million for the third quarter of 2003, as compared to

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\$597 million for the third quarter of 2002. The tax-equivalent net interest yield for the quarter ended September 30, 2003 was 4.10%, as compared to 4.26% for the quarter ended September 30, 2002. The decrease in the net interest yield is due to the increase in interest-earning deposits, which were partially invested in short term, low yielding instruments during the quarter. Tax equivalent net interest income for the nine months ended September 30, 2003 increased 9% to \$20.8 million, from the same nine month period one year ago. The net interest yield for the nine months ended September 30, 2003 was 4.01%, as compared to 4.49% for the same period in 2002. The net interest margin has been calculated on a tax-equivalent basis, which includes an adjustment for interest on tax-exempt securities.

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Non-interest income decreased by \$16,000, or 2%, for the third quarter of 2003 and increased by \$53,000, or 2%, for the first nine months of 2003, as compared to the corresponding periods of 2002. The decrease in the third quarter is due to a decrease in service charges on deposit accounts. The increase in the nine months ended September 30, 2003 is due primarily to an increase in net gain on sale of investments of \$106,000, partially offset by a decrease in service charges on deposit accounts of \$67,000.

Non-interest expenses for the third quarter of 2003 increased \$571,000, or 16%, from the same quarter in 2002, due to an increase in staff expenses of \$354,000, legal and professional fees of \$30,000, data processing expense of \$21,000, advertising expense of \$21,000, donation expense of \$20,000 and miscellaneous charge-offs of \$63,000 for charge-offs in 2002 of \$46,000 and net recoveries in 2003 of \$17,000. Expenses for the nine months ended September 30, 2003 increased \$482,000, or 4%, from the nine months ended September 30, 2002, due to an increase in staff expense of \$376,000, miscellaneous expense of \$64,000, insurance expense of \$53,000, and furniture and fixture expense of \$31,000, partially offset by a decrease in telephone and fax expense of \$36,000, data processing expense of \$29,000, and legal and professional fees of \$22,000.

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 \$4.80 million at September 30, 2003, as compared with \$4.75 million at December 31, 2002. For the nine months ended September 30, 2003, the allowance for loan losses was increased with a provision for loan losses of \$135,000 and decreased by approximately \$90,000 in net charge-offs. For the nine months ended September 30, 2002, the allowance was increased with a provision for loan losses of \$170,000 and decreased by approximately \$62,000 in net charge-offs. The allowance as a percentage of total loans has decreased to 1.20% at September 30, 2003, from 1.35% at December 31, 2002. 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 probable losses in the loan portfolio.

Approximately \$265.6 million, or 67%, of total loans was secured by non-residential real estate, and \$79.5 million, or 20%, of total loans was secured by residential real estate as of September 30, 2003. Virtually all loans are within the Company's markets in Miami-Dade and Broward counties.

The Company had no non-accrual loans at September 30, 2003.

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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. The Bank's 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 \$116 million, and Federal Funds purchased lines available at correspondent banks amounting to \$23 million as of September 30, 2003.

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The Bank's primary use of funds is to originate loans and purchase investment securities. The Bank purchased \$308 million of investment securities during the first nine months of 2003, and loans increased by \$47.4 million. Funding for the above came primarily from increases in deposits of \$72.7 million and increases from proceeds from maturities and sales of investment securities of \$263 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, Tier 2 Capital, and Leverage Ratios of the Company were 12.46%, 13.78%, and 7.63%, respectively, as of September 30, 2003.

FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including in particular the statements about the Company's plans, strategies and prospects. These statements are based on the Company's current plans and expectations and involve risks and uncertainties that could cause actual future activities and results to be materially different from those set forth in these forward-looking statements. Important factors that could cause

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actual results to differ materially from the Company's forward-looking statements are set forth below and elsewhere in this Quarterly Report on Form 10-Q. Such factors include, among others:

- the general state of the economy and, together with all aspects of the Company's business that are affected by changes in the economy, the impact that changing rates have on the Company's net interest margin;
- the Company's ability to increase the loan portfolio, and in particular its secured loan portfolio;
- the Company's ability to access cost-effective funding to fund marginal loan growth;
- changes in management's estimate of the adequacy of the allowance for loan losses;
- changes in the overall mix of the Company's loan and deposit products;
- the impact of repricing and competitors' pricing initiatives on loan and deposit products; and
- the extent of defaults, the extent of losses given default, and the amount of lost interest income that may result in the event of a severe recession.

The Company undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this filing.

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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, 2003.

INTEREST RATE SENSITIVITY ANALYSIS (Dollars in Thousands)

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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	\$ 23,965	\$ -	\$ -	\$ -	\$ 23,965
Investment securities	122,665	46,807	67,501	75,065	312,038
Gross loans (excluding non-accrual)	91,377	45,450	36,640	225,147	398,614
Total interest- earning assets	\$238,007	\$ 92,257	\$104,141	\$300,212	\$734,617
Interest-bearing liabilities:					
Interest-bearing checking	\$ -	\$ 20,779	\$ 20,779	\$ 41,559	\$ 83,117
Money market	-	21,476	21,476	42,950	85,902
Savings	-	8,012	8,012	16,025	32,049
Time deposits	67,674	66,441	89,010	107,152	330,277
Borrowed funds	59,200	-	-	-	59,200
Total interest-bearing liabilities	\$126,874	\$116,708	\$139,277	\$207,686	\$590,545
Interest sensitivity gap	\$111,133	(\$ 24,451)	(\$ 35,136)	\$ 92,526	\$144,072
Cumulative gap	\$111,133	\$ 86,682	\$ 51,546	\$144,072	
Cumulative ratio of interest- earning assets to interest- bearing liabilities	188%	136%	113%	124%	
Cumulative gap as a percentage of total interest- earning assets	15.1%	11.8%	7.0%	19.6%	

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Management's assumptions reflect the Bank's estimate of the anticipated repricing sensitivity of non-maturity deposit products. Interest checking, savings and money market accounts have been allocated 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-

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estimate and cannot accurately predict the impact of the future interest rate changes on net income. As of September 30, 2003, the Bank's simulation analysis projects an increase to net interest income of .07%, 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 .41%. These projected levels are within the Bank's policy limits.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report in timely alerting them as to material information relating to the Company (including its consolidated subsidiary) required to be included in this Quarterly Report.

(b) Changes in Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting during the quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On November 13, 2003 Commercial Bankshares, Inc. announced that its Board of Directors had approved a 5-for-4 stock split of the Company's common shares, as further discussed in the attached Exhibit 99.1 and in Footnote 5 to the Condensed Consolidated Financial Statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

31.1 Certification of the Chief Executive Officer pursuant to Rule

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15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Press Release of Commercial Bankshares, Inc. dated November 13, 2003.

(b) Reports on Form 8-K

A Form 8-K was filed on July 17, 2003 to announce second quarter 2003 earnings for Commercial Bankshares, Inc.

A Form 8-K was filed on July 18, 2003 to issue a second quarter 2003 financial statement brochure for Commercial Bankshares, Inc.

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.

By: /s/ Joseph W. Armaly

Joseph W. Armaly
Chairman of the Board and Chief Executive Officer
(Duly Authorized Officer)
November 14, 2003

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By: /s/ Barbara E. Reed

Barbara E. Reed
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
November 14, 2003

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 15A-14(A) OR 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph W. Armaly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commercial Bankshares, Inc;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 we 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) [Intentionally omitted];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly 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 our evaluation; and
 - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

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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 controls over financial reporting.

Dated: November 14, 2003

COMMERCIAL BANKSHARES, INC.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 15A-14(A) OR 15D-14(A) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Barbara E. Reed, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commercial Bankshares, Inc;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 we 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 subsidiary, is made known to us by others within those entities, particularly during the

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period in which this quarterly report is being prepared;

- b. [Intentionally omitted];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly 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 our evaluation; and
 - d. Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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):
- e. 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
 - f. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 14, 2003

COMMERCIAL BANKSHARES, INC.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer

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EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Commercial Bankshares, Inc. (the "Company") on Form 10-Q for the quarter ended, September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Armaly, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 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),

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as applicable, of the Securities Exchange Act of 1934, as amended; 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 the dates and for the periods expressed in the Report.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer
November 14, 2003

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Commercial Bankshares, Inc. (the "Company") on Form 10-Q for the quarter ended, September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barbara E. Reed, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 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), as applicable, of the Securities Exchange Act of 1934, as amended; 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 the dates and for the periods expressed in the Report.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer
November 14, 2003

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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PRESS RELEASE OF COMMERCIAL BANKSHARES, INC. DATED NOVEMBER 13, 2003

COMMERCIAL BANKSHARES, INC.
DECLARES 5-FOR-4 STOCK SPLIT,
FOURTH QUARTER REGULAR CASH DIVIDEND
AND SPECIAL CASH DIVIDEND

MIAMI, FL - Miami-based Commercial Bankshares, Inc. (NASDAQ: CLBK), parent company of Commercial Bank of Florida, today announced that its Board of Directors has approved a 5-for-4 stock split of the Company's common shares. One additional share of common stock will be issued on January 2, 2004 for each four shares held by shareholders of record as of December 11, 2003.

Additionally, the Company's Board of Directors announced a regular cash dividend in the amount of \$.16 per common share and a special cash dividend in the amount of \$.05 per share. The cash dividends are payable on January 2, 2004 to shareholders of record as of December 12, 2003. The cash dividends will be paid on newly issued shares from the stock split.

Commercial Bankshares, Inc. is the parent company of Commercial Bank of Florida, a \$780 million, state chartered, FDIC insured commercial bank and a member of the Federal Reserve. The Bank operates 14 branches in Miami-Dade and Broward Counties, Florida. The Company's stock is traded on Nasdaq under the symbol CLBK.