COMMERCIAL BANKSHARES INC
Form 10-Q
May 17, 2001

1

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 March 31, 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 May 14, 2001
COMMON STOCK, $.08 PAR VALUE	3,610,635 SHARES

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

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

	3/31/2001	12/31/2000
Assets:		
	(Unaudited)	
Cash and due from banks	$ 20,247	$ 20,478
Federal funds sold	33,142	14,537
Total cash and cash equivalents	53,389	35,015
Investment securities available for sale, at fair value (cost of $131,399 in 2001 and $141,031 in 2000)	135,725	143,487
Investment securities held to maturity, at cost (aggregate fair value of $31,394 in 2001 and $37,958 in 2000)	30,622	37,215
Loans, net	307,940	285,641
Premises and equipment, net	12,828	12,913
Accrued interest receivable	3,697	4,001
Goodwill, net	375	416
Other assets	2,813	3,836
Total assets	$547,389	$522,524
Liabilities and stockholders' equity:		
Deposits:		
Demand	$ 90,896	$ 88,829
Interest-bearing checking	58,763	59,041
Money market accounts	48,332	38,239
Savings	22,346	23,585
Time	221,944	213,229
Total deposits	442,281	422,923

Securities sold under agreements to repurchase	53,985	51,166
Accrued interest payable	832	870
Accounts payable and accrued liabilities	3,109	2,510
Total liabilities	500,207	477,469
Stockholders' equity:		
Common stock, $.08 par value, 6,250,000 authorized shares, 3,950,442 issued (3,946,303 in 2000)	315	314
Additional paid-in capital	43,903	43,866
Retained earnings	6,642	5,727
Accumulated other comprehensive income	2,898	1,720
Treasury stock, 347,100 shares (346,905 in 2000), at cost	(6,576)	(6,572)
Total stockholders' equity	47,182	45,055
Total liabilities and stockholders' equity	$547,389	$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 March 31, 2001 and 2000
(In thousands except per share data)
(Unaudited)

	2001	2000
Interest income:		
Interest and fees on loans	$6,501	$5,374
Interest on investment securities	2,636	2,859
Interest on federal funds sold	282	88
Total interest income	9,419	8,321
Interest expense:		
Interest on deposits	3,892	2,973
Interest on securities sold under agreements to repurchase	635	513
Total interest expense	4,527	3,486
Net interest income	4,892	4,835
Provision for loan losses	75	80
Net interest income after provision	4,817	4,755
Non-interest income:		
Service charges on deposit accounts	637	564

Other fees and service charges	123	137
Securities losses	-	(68)
Total non-interest income	760	633
Non-interest expense:		
Salaries and employee benefits	2,088	1,892
Occupancy	297	286
Data processing	241	201
Furniture and equipment	188	232
Telephone and fax	55	60
Administrative service charges	54	47
Stationery and supplies	74	64
Insurance	53	54
Amortization	41	50
Other	214	323
Total non-interest expense	3,305	3,209
Income before income taxes	2,272	2,179
Provision for income taxes	636	651
Net income	$1,636	$1,528
Earnings per common and common equivalent share:		
Basic	$.45	$.41
Diluted	$.44	$.40
Weighted average number of shares and common equivalent shares:		
Basic	3,602	3,771
Diluted	3,692	3,866

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 months ended March 31, 2001 and 2000
(Dollars in thousands)
(Unaudited)

	Three months ended March 31, 2001	2000
Net income	$1,636	$1,528
Other comprehensive income(loss), net of tax:		
Unrealized holding gains(losses) arising during the period	1,064	(676)
Reclassification adjustment for losses		

realized in net income	-	48
Cumulative effect of a change in accounting principle	114	-
Other comprehensive income(loss)	1,178	(628)
Comprehensive income	$2,814	$ 900

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 three months ended March 31, 2001 and 2000
(In thousands)
(Unaudited)

Cash flows from operating activities:		
Net income	$1,636	$1,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	75	80
Depreciation, amortization and accretion, net	229	312
Loss on sale of investment securities	-	68
Change in accrued interest receivable	304	(434)
Change in other assets	1,023	600
Change in accounts payable and accrued liabilities	(94)	415
Change in accrued interest payable	(38)	(10)

Net cash provided by operating activities	3,135	2,559
Cash flows from investing activities:		
Proceeds from maturities of investment securities held to maturity	1,318	1,846
Proceeds from maturities of investment securities available for sale	31,605	1,163
Proceeds from sales of investment securities available for sale	-	4,924
Purchases of investment securities available for sale	(16,723)	(16,150)
Net increase in loans	(22,374)	(6,900)
Purchases of premises and equipment	(78)	(48)
Net cash used in investing activities	(6,252)	(15,165)
Cash flows from financing activities:		
Net change in deposits	19,358	5,625
Net change in securities sold under agreements to repurchase	2,819	1,437
Dividends paid	(720)	(693)
Proceeds from issuance of stock	38	71
Purchase of treasury stock	(4)	(2,613)
Net cash provided by financing activities	21,491	3,827
Increase(decrease) in cash and cash equivalents	18,374	(8,779)
Cash and cash equivalents at beginning of period	35,015	39,085
Cash and cash equivalents at end of period	$53,389	$30,306
Supplemental disclosures:		
Interest paid (net of amounts credited to deposit accounts)	$ 715	$ 621
Income taxes paid	$ 132	$ 122

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 month period ended March 31, 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 March 31, 2001			Three Months Ended March 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$1,636	3,602	$.45	$1,528	3,771	$.41
Effect of Dilutive Options	-	90	(.01)	-	95	(.01)
Diluted EPS	$1,636	3,692	$.44	$1,528	3,866	$.40

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 standards are 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 ending after December 15, 2000. The implementation of this statement has not had a material effect on the Company's consolidated financial statements.

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 March 31, 2001, was $1.64 million, a 7% increase over the quarter ended March 31, 2000 of $1.53 million. Basic and diluted earnings per share were $.45 and $.44, respectively, for the first quarter of 2001, as compared to $.41 and $.40, respectively, for the first quarter of 2000.

The Company's first quarter tax-equivalent net interest income increased to $5.14 million, from $5.08 million in the corresponding quarter in 2000. The annualized net interest margin for the quarter ended March 31, 2001 was 4.25%. This compares to 4.70% for the quarter ended March 31, 2000. The decrease of 45 basis points for the quarter is the result of the current interest rate environment and intense competition for deposits and high 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 first quarter of 2001 increased by $127,000, or 20% from the corresponding period of 2000. The increase is due to an increase in account activity charges of $73,000 in 2001, in addition to a loss on sale of investments in 2000 of $68,000.

Salaries and employee benefits expense increased by $196,000, or 10%, for the first quarter of 2001, from the corresponding period of 2000. The increase is attributable to normal payroll increases and increased benefit costs. Data processing expense increased by $40,000 or 20% for the first quarter of 2001 as compared to the corresponding period 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 $44,000 or 19% for the first quarter in 2001 as compared to the corresponding period 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 $3.88 million at March 31, 2001, as compared with $3.41 million at March 31, 2000. For the three months ended March 31, 2001, the allowance for loan losses was increased by the provision for loan losses of $75,000, and decreased by approximately $6,000 in net charge-offs. For the three months ended March 31, 2000, the allowance was increased with a provision for loan losses of $80,000 and increased by approximately $48,000 in net recoveries. The allowance as a percentage of total loans has decreased to 1.24% at March 31, 2001, from 1.34% at March 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 inherent in the loan portfolio.

Approximately $193.0 million, or 62% of total loans was secured by nonresidential real estate and $54.8 million, or 18% of total loans was secured by residential real estate as of March 31, 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 $834,000 at March 31, 2001. If these loans were on full accrual, additional interest income of approximately $14,000 and $0 would have been recorded during the first three months of 2001 and 2000, respectively.

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 $76 million, and Federal Funds purchased lines available at correspondent banks amounting to $11 million as of March 31, 2001.

The Bank's primary use of funds is to originate loans and purchase investment securities. The net change in loans during the first three months of 2001 was an increase of $22.4 million, and the Bank purchased $16.7 million of investment securities. Funding for the above came primarily from increases in deposits of $19.4 million, increases in securities sold under agreements to repurchase of $2.8 million and from proceeds from maturities and sales of investment securities of $32.9 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 weighted risk 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 12.25%, 13.69%, and 7.98%, respectively, as of March 31, 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 March 31, 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	$33,142	$ -	$ -	$ -	$ 33,142
Investment securities	10,473	6,076	8,284	138,652	163,485
Gross loans (excluding non-accrual)	67,445	37,070	73,548	133,417	311,480
Total interest-earning assets	$111,060	$43,146	$81,832	$272,069	$508,107
Interest-bearing liabilities:					
Interest-bearing checking	$ -	$ -	$ -	$ 58,763	$ 58,763
Money market	-	12,083	12,083	24,166	48,332
Savings	-	-	-	22,346	22,346
Time deposits	70,191	58,293	71,820	21,640	221,944
Borrowed funds	54,932	-	-	-	54,932
Total interest-bearing liabilities	$125,123	$70,376	$83,903	$126,915	$406,317
Interest sensitivity gap	$(14,063)	($27,230)	($ 2,071)	$145,154	$101,790
Cumulative gap	$(14,063)	($41,293)	($43,364)	$101,790	
Cumulative ratio of interest-earning assets to interest-bearing liabilities	89%	79%	84%	125%	
Cumulative gap as a percentage of total interest-earning assets	(2.8%)	(8.1%)	(8.5%)	20.0%	

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 March 31, 2001, the Bank's simulation analysis projects a decrease to net interest income of .03%, 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 3.96%. 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 March 31, 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: May 15, 2001
