COMMERCIAL BANKSHARES INC
Form 10-Q
November 13, 2002

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002

Commission File Number 00-22246

COMMERCIAL BANKSHARES, INC.

(Exact name of Registrant as specified in its charter)

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

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

(305) 267-1200

(Registrant's Telephone Number, including area code)

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

CLASS	OUTSTANDING AT November 12, 2002
COMMON STOCK, $.08 PAR VALUE	3,642,948 SHARES

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PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2002 and December 31, 2001
(Dollars in thousands, except share data)

	9/30/2002	12/31/2001
	(Unaudited)	
Assets:		
Cash and due from banks	$ 23,581	$ 21,420
Federal funds sold	65,540	46,780
Total cash and cash equivalents	89,121	68,200
Investment securities available for sale, at fair value (cost of $161,069 in 2002 and $107,126 in 2001)	168,931	111,138
Investment securities held to maturity, at cost (fair value of $72,422 in 2002 and $25,332 in 2001)	71,154	24,664
Loans, net	338,324	346,251
Premises and equipment, net	12,584	12,554
Accrued interest receivable	3,326	2,790
Goodwill, net	253	253
Other assets	4,064	3,078
Total assets	$687,757	$568,928
Liabilities and stockholders' equity:		
Deposits:		
Demand	$107,168	$ 94,453
Interest-bearing checking	93,336	65,630
Money market accounts	61,954	51,958
Savings	27,105	24,896

Time	280,101	225,569
Total deposits	569,664	462,506
Securities sold under agreements to repurchase	53,882	53,436
Accrued interest payable	564	633
Accounts payable and accrued liabilities	6,493	2,228
Total liabilities	630,603	518,803
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.08 par value, 6,250,000 authorized shares, 3,992,531 issued (3,962,440 in 2001)	318	316
Additional paid-in capital	44,479	44,041
Retained earnings	14,013	9,786
Accumulated other comprehensive income	5,112	2,686
Treasury stock, 355,056 shares (352,571 in 2001), at cost	(6,768)	(6,704)
Total stockholders' equity	57,154	50,125
Total liabilities and stockholders' equity	$687,757	$568,928

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

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three months ended September 30, 2002 and 2001
(Dollars in thousands, except share data)
(Unaudited)

	2002	2001
Interest income:		
Interest and fees on loans	$6,294	$6,934
Interest on investment securities	2,538	2,184
Interest on federal funds sold	251	272
Total interest income	9,083	9,390
Interest expense:		
Interest on deposits	2,663	3,620
Interest on securities sold under		

agreements to repurchase	273	431
Total interest expense	2,936	4,051
Net interest income	6,147	5,339
Provision for loan losses	20	250
Net interest income after provision	6,127	5,089
Non-interest income:		
Service charges on deposit accounts	655	670
Other fees and service charges	133	155
Securities gains	-	147
Total non-interest income	788	972
Non-interest expense:		
Salaries and employee benefits	2,239	2,112
Occupancy	320	325
Data processing	265	263
Furniture and equipment	176	178
Insurance	86	64
Stationery and supplies	65	68
Administrative service charges	61	58
Telephone and fax	61	56
Amortization	-	41
Other	221	339
Total non-interest expense	3,494	3,504
Income before income taxes	3,421	2,557
Provision for income taxes	1,058	744
Net income	$2,363	$1,813
Earnings per common and common equivalent share:		
Basic	$.65	$.50
Diluted	$.62	$.48
Weighted average number of shares and common equivalent shares:		
Basic	3,636,518	3,607,596
Diluted	3,811,491	3,742,937

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

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the nine months ended September 30, 2002 and 2001

(Dollars in thousands, except share data)
(Unaudited)

	2002	2001
Interest income:		
Interest and fees on loans	$19,065	$20,394
Interest on investment securities	7,254	7,195
Interest on federal funds sold	518	799
Total interest income	26,837	28,388
Interest expense:		
Interest on deposits	7,873	11,356
Interest on securities sold under agreements to repurchase	762	1,663
Total interest expense	8,635	13,019
Net interest income	18,202	15,369
Provision for loan losses	170	425
Net interest income after provision	18,032	14,944
Non-interest income:		
Service charges on deposit accounts	1,969	1,978
Other fees and service charges	425	444
Securities gains	33	147
Total non-interest income	2,427	2,569
Non-interest expense:		
Salaries and employee benefits	6,914	6,280
Occupancy	939	923
Data processing	850	757
Furniture and equipment	542	552
Insurance	252	171
Stationery and supplies	196	205
Administrative service charges	175	171
Telephone and fax	173	170
Amortization	-	122
Other	874	878
Total non-interest expense	10,915	10,229
Income before income taxes	9,544	7,284
Provision for income taxes	2,885	2,088
Net income	$ 6,659	$ 5,196
Earnings per common and common equivalent share:		
Basic	$1.84	$1.44
Diluted	$1.76	$1.40
Weighted average number of shares and common equivalent shares:		
Basic	3,624,152	3,605,989

Diluted	3,791,515	3,713,862

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

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended September 30, 2002 and 2001
(In thousands)
(Unaudited)

	Three months ended September 30, 2002	Three months ended September 30, 2001
Net income	$2,363	$1,813
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the period	1,182	985
Reclassification adjustment for gains realized in net income	-	(101)
Other comprehensive income	1,182	884
Comprehensive income	$3,545	$2,697

	Nine months ended September 30, 2002	Nine months ended September 30, 2001
Net income	$6,659	$5,196
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the period	2,447	2,059
Reclassification adjustment for gains realized in net income	(21)	(101)
Cumulative effect of a change in accounting principle for reclassification of securities upon adoption of SFAS No. 133	-	114
Other comprehensive income	2,426	2,072

Comprehensive income	$9,085	$7,268

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

COMMERCIAL BANKSHARES, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2002 and 2001
(In thousands)
(Unaudited)

	2002	2001
Cash flows from operating activities:		
Net income	$ 6,659	$ 5,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	170	425
Depreciation, amortization and accretion, net	420	662
Gain on sale of investment securities	(33)	(147)
Gain on sale of premises and equipment	(1)	-
Change in accrued interest receivable	(536)	843
Change in other assets	(986)	1,199
Change in accounts payable and accrued liabilities	2,762	(749)
Change in accrued interest payable	(69)	(157)
Net cash provided by operating activities	8,386	7,272
Cash flows from investing activities:		
Proceeds from maturities of investment securities held to maturity	23,554	5,129
Proceeds from maturities and sales of investment securities available for sale	57,113	68,319
Purchases of investment securities held to maturity	(71,286)	-
Purchases of investment securities available for sale	(109,765)	(44,614)
Net change in loans	7,757	(50,115)
Purchases of premises and equipment	(466)	(205)
Sales of premises and equipment	1	-
Net cash used in investing activities	(93,092)	(21,486)
Cash flows from financing activities:		
Net change in deposits	107,158	30,575
Net change in securities sold under agreements to repurchase	446	(2,782)

Dividends paid	(2,353)	(2,163)
Proceeds from issuance of stock	440	137
Purchase of treasury stock	(64)	(107)
Net cash provided by financing activities	105,627	25,660
Increase in cash and cash equivalents	20,921	11,446
Cash and cash equivalents at beginning of period	68,200	35,015
Cash and cash equivalents at end of period	$89,121	$46,461
Supplemental disclosures:		
Interest paid (net of amounts credited to deposit accounts)	$ 1,330	$ 2,144
Income taxes paid	$ 3,058	$ 2,182

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, 2001, 2000, and 1999 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, 2002, 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 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. PER SHARE DATA

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

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

	Three Months Ended September 30, 2002			Three Months Ended September 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$2,363	3,637	$.65	$1,813	3,608	$.50
Effect of Dilutive Options	-	174	(.03)	-	135	(.02)
Diluted EPS	$2,363	3,811	$.62	$1,813	3,743	$.48

	Nine Months Ended September 30, 2002			Nine Months Ended September 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$6,659	3,624	$1.84	$5,196	3,606	$1.44
Effect of Dilutive Options	-	168	(.08)	-	108	(.04)
Diluted EPS	$6,659	3,792	$1.76	$5,196	3,714	$1.40

3. NEW ACCOUNTING PRONOUNCEMENTS

SFAS No. 142: "Goodwill and Other Intangible Assets"

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets." This statement addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Except for goodwill and intangible assets acquired after June 30, 2001, which are immediately subject to its provision, SFAS No. 142 is effective starting with fiscal years beginning after December 15, 2001.

The provisions of SFAS No. 142 no longer allow the amortization of goodwill, and certain intangible assets that have indefinite useful lives, and requires that impairment of goodwill on those assets be tested annually. In addition, SFAS No. 142 requires the following additional disclosures for goodwill and other intangible assets:

- Changes in the carrying amount of goodwill from period-to-period;
- The carrying amount of goodwill by major intangible assets class, and
- The estimated intangible amortization for the next five years

The Company adopted SFAS No. 142 effective January 1, 2002. The Company did not incur impairment losses for goodwill resulting from a transitional impairment test. The elimination of goodwill amortization will positively impact pre-tax net income by approximately $160,000 in fiscal year 2002.

	Three months ended September 30,		Nine Months ended September 30,	
	2002	2001	2002	2001
	(Dollars in thousands, except per share amounts)			
Net income:				
Income before income taxes	$3,421	$2,557	$9,544	$7,284
Add back:				
Amortization of goodwill previously amortized	-	41	-	122
Income before income taxes, excluding amortization of goodwill	3,421	2,598	9,544	7,406
Provision for income taxes	1,058	744	2,885	2,088
Adjusted net income	$2,363	$1,854	$6,659	$5,318

Basic earnings per share:				
Earnings per share, as reported	$ .65	$ .50	$ 1.84	$ 1.44
Goodwill amortization	-	.01	-	.04
Adjusted earnings per share	$ .65	$ .51	$ 1.84	$ 1.48
Diluted earnings per share:				
Earnings per share, as reported	$ .62	$ .48	$ 1.76	$ 1.40
Goodwill amortization	-	.02	-	.03
Adjusted earnings per share	$ .62	$ .50	$ 1.76	$ 1.43

SFAS No. 144: "Accounting for the Impairment or Disposal of Long-Lived Assets"

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and was written to provide a single model for the disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and the accounting and reporting provision of Accounting principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company adopted the provision of SFAS No. 144 effective January 1, 2002. The implementation of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

SFAS No. 147: "Acquisitions of Certain Financial Institutions"

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 will adopt SFAS No. 147 in the fourth quarter of 2002. The implementation of this statement is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

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

RESULTS OF OPERATIONS

The Company's net income reported for the quarter ended September 30, 2002, was $2.36 million, a 30% increase over the quarter ended September 30, 2001 of $1.81 million. Basic and diluted earnings per share were $.65 and $.62, respectively, for the third quarter of 2002, as compared to $.50 and $.48, respectively, for the third quarter of 2001.

For the nine months ended September 30, 2002, the Company's net income was $6.66 million, a 28% increase over the nine months ended September 30, 2001 of $5.20 million. Basic and diluted earnings per share were $1.84 and $1.76, respectively, for the nine months ended September 30, 2002 as compared to $1.44 and $1.40, respectively, for the nine months ended September 30, 2001.

The Company's third quarter tax-equivalent net interest income increased to $6.41 million, from $5.61 million in the corresponding quarter in 2001. The increase is due primarily to an increase in average earning assets of $79 million. The annualized net interest yield for the quarter and nine months ended September 30, 2002 was 4.26% and 4.49%, respectively. This compares to 4.30% and 4.25% for the quarter and nine months ended September 30, 2001. The net interest yield has been calculated on a tax-equivalent basis, which includes an adjustment for interest on tax-exempt securities.

Non-interest income for the third quarter of 2002 decreased by $184,000, or 19%, and decreased by $142,000 or 6% for the first nine months of 2002, from the corresponding periods of 2001. The decrease in quarter activity is due to decreases in account overdraft activity charges of $26,000 and net gain on sale of investments of $147,000 in 2001. The decrease in year to date activity is due to a net gain on sale of investments of $147,000 in 2001.

Salaries and employee benefits expense increased by $127,000, or 6%, for the third quarter of 2002, and by $634,000, or 10%, for the first nine months of 2002, from the corresponding periods of 2001. The increase is attributable to normal payroll increases and increased benefit costs.

Occupancy and Furniture and Equipment expenses for the third quarter and nine months ended September 30, 2002, did not fluctuate from the same periods in the prior year.

Data Processing expense for the quarter ended September 30, 2002 did not fluctuate and increased $93,000 for the nine months ended September 30, 2002. 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.

Other miscellaneous expenses decreased by $131,000, or 21%, for the third quarter of 2002, and by $47,000, or 3%, for the first nine months of 2002, as compared to the corresponding periods in 2001. The decrease in quarter activity is due to decreases in legal and professional of $50,000, goodwill amortization of $41,000 and miscellaneous expenses of $39,000, partially offset by an increase in insurance of $22,000. The decrease in year to date activity is due to a decrease in goodwill amortization of $122,000, partially offset by an increase in insurance of $81,000.

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 approximately $4.75 million at September 30, 2002, as compared with $4.64 million at December 31, 2001. For the nine months ended September

30, 2002, the allowance for loan losses was increased by the provision for loan losses of $170,000, and decreased by approximately $62,000 in net charge-offs. For the nine months ended September 30, 2001, the allowance was increased with a provision for loan losses of $425,000 and decreased by approximately $10,000 in net charge-offs. The allowance as a percentage of total loans has increased to 1.38% at September 30, 2002, from 1.32% at December 31, 2001. 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 $212 million, or 62%, of total loans was secured by non-residential real estate, and $77.0 million, or 22%, of total loans was secured by residential real estate as of September 30, 2002. 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, 2002.

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 $102 million, and Federal Funds purchased lines available at correspondent banks amounting to $23 million as of September 30, 2002.

The Bank's primary use of funds is to originate loans and purchase investment securities. The Bank purchased $181.1 million of investment securities during the first nine months of 2002, and loans decreased by $7.8 million. Funding for the above came primarily from increases in deposits of $107.2 million and from proceeds from maturities and sales of investment securities of $80.7 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 12.79%, 14.27%, and 7.51%, respectively, as of September 30, 2002.

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, 2002.

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	$65,540	$ -	$ -	$ -	$ 65,540
Investment securities	59,257	38,237	46,119	93,680	237,293
Gross loans					

(excluding non-accrual)	79,557	33,003	_ 53,523	177,621	343,704
Total interest-earning assets	$204,354	$71,240	$ 99,642	$271,301	$646,537
Interest-bearing liabilities:					
Interest-bearing checking	$ -	$ -	$ -	$ 93,336	$ 93,336
Money market	-	15,489	15,489	30,976	61,954
Savings	-	-	-	27,105	27,105
Time deposits	62,364	64,779	60,372	92,586	280,101
Borrowed funds	56,094	-	-	-	56,094
Total interest-bearing liabilities	$118,458	$80,268	$ 75,861	$244,003	$518,590
Interest sensitivity gap	$ 85,896	($ 9,028)	$ 23,781	$ 27,298	$127,947
Cumulative gap	$ 85,896	$76,868	$100,649	$127,947	
Cumulative ratio of interest-earning assets to interest-bearing liabilities	173%	139%	137%	125%	
Cumulative gap as a percentage of total interest-earning assets	13.3%	11.9%	15.6%	19.8%	

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

The Bank uses simulation analysis to quantify the effects of various immediate parallel shifts in interest rates on net interest income over the next 12 month period. Such a "rate shock" analysis requires key assumptions which are inherently uncertain, such as deposit sensitivity, cash flows from investments and loans, reinvestment options, management's capital plans, market conditions, and the timing, magnitude and frequency of interest rate changes. As a result, the simulation is only a best-estimate and cannot accurately predict the impact of the future interest rate changes on net income. As of September 30, 2002, the Bank's simulation analysis projects an increase to net interest income of 3.99%, 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 3.06%. These projected levels are within the Bank's policy limits.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within ninety days prior to the filing date of this report, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commissions rules. The Company's controls and procedures are designed to ensure that information required to be disclosed is accumulated and communicated to management, including the principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to their evaluation, nor any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

99.1 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.

99.2 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.

(a) Reports on Form 8-K

No reports were filed on Form 8-K during the quarter ended September 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Commercial Bankshares, Inc.

(Registrant)

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer

Date: November 13, 2002

CERTIFICATION

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 any statement of a material fact necessary to make the statement 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to filing date of this quarterly report (the "Evaluation Date");

and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002 COMMERCIAL BANKSHARES, INC.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer

CERTIFICATION

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 any statement of a material fact necessary to make the statement 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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as

defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002 COMMERCIAL BANKSHARES, INC.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer

EXHIBIT 99.1 Certification 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 period ending September 30, 2002 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), 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.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer
November 13, 2002

EXHIBIT 99.2 Certification 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 period ending September 30, 2002 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.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer
November 13, 2002