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COMMERCIAL BANKSHARES INC

Form 10-Q

May 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2005

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 0-22246

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 No

Indicate by check mark whether the registrant is an accelerated filer

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(as defined in Rule 12b-2 of the Exchange Act).

Yes No
— —

On May 1, 2005 there were 5,970,303 shares of common stock (par value \$.08 per share) outstanding.

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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.	

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- Exhibit 32.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMMERCIAL BANKSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2005 and December 31, 2004
(Dollars in thousands, except share data)

	3/31/2005	12/31/2004
Assets:	(Unaudited)	
Cash and due from banks	\$ 32,896	\$ 26,645
Interest-bearing due from banks	30,382	15,277
Federal funds sold	43,448	36,204
	106,726	78,126
Investment securities available for sale, at fair value (cost of \$187,547 in 2005 and \$173,940 in 2004)	192,689	178,975
Investment securities held to maturity, at cost (fair value of \$146,294 in 2005 and \$147,779 in 2004)	151,023	151,194
Loans, net	459,588	454,520
Premises and equipment, net	12,229	12,192
Accrued interest receivable	4,651	5,947
Other assets	6,436	6,836
	\$933,342	\$887,790
Liabilities and stockholders' equity:		
Deposits:		
Demand	\$168,213	\$137,469
Interest-bearing checking	104,249	104,929
Money market	90,494	83,928
Savings	36,117	34,296
Time	382,956	378,539
	782,029	739,161

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Securities sold under agreements to repurchase	69,166	67,661
Accrued interest payable	729	673
Accounts payable and accrued liabilities	5,424	5,267
	<hr/>	<hr/>
Total liabilities	857,348	812,762
	<hr/>	<hr/>
Stockholders' equity:		
Common stock, \$.08 par value, 15,000,000 authorized shares, 6,517,479 issued (6,489,041 in 2004) and 5,962,704 outstanding (5,934,266 in 2004)	521	519
Additional paid-in capital	47,759	47,373
Retained earnings	31,080	29,181
Accumulated other comprehensive income	3,402	4,723
Treasury stock, 554,775 shares, at cost	(6,768)	(6,768)
	<hr/>	<hr/>
Total stockholders' equity	75,994	75,028
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$933,342	\$887,790
	<hr/>	<hr/>

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

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COMMERCIAL BANKSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three months ended March 31, 2005 and 2004
(Dollars in thousands, except share data)
(Unaudited)

	Three months ended March 31,	
	2005	2004
	<hr/>	<hr/>
Interest income:		
Interest and fees on loans	\$7,303	\$6,456
Interest on investment securities	3,960	3,734
Interest on federal funds sold and due from banks	306	134
	<hr/>	<hr/>
Total interest income	11,569	10,324
	<hr/>	<hr/>
Interest expense:		
Interest on deposits	3,228	2,713
Interest on securities sold under agreements to repurchase	251	164
	<hr/>	<hr/>

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Total interest expense	3,479	2,877
	<hr/>	<hr/>
Net interest income	8,090	7,447
Provision(credit) for loan losses	20	(42)
	<hr/>	<hr/>
Net interest income after provision	8,070	7,489
	<hr/>	<hr/>
Non-interest income:		
Service charges on deposit accounts	520	584
Other fees and service charges	155	130
Securities gains	-	-
	<hr/>	<hr/>
Total non-interest income	675	714
	<hr/>	<hr/>
Non-interest expense:		
Salaries and employee benefits	2,763	2,648
Occupancy	313	312
Data processing	300	299
Furniture and equipment	230	197
Professional fees	157	161
Insurance	83	102
Administrative service charges	73	61
Stationery and supplies	69	68
Telephone and fax	50	10
Other	301	326
	<hr/>	<hr/>
Total non-interest expense	4,339	4,184
	<hr/>	<hr/>
Income before income taxes	4,406	4,019
Provision for income taxes	1,493	1,314
	<hr/>	<hr/>
Net income	\$2,913	\$2,705
	=====	=====
Earnings per common and common equivalent share:		
Basic	\$.49	\$.46
Diluted	\$.46	\$.44
Weighted average number of shares and common equivalent shares:		
Basic	5,950,728	5,876,224
Diluted	6,333,006	6,182,523

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

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(Unaudited)

	Three months ended March 31,	
	2005	2004
	_____	_____
Net income	\$2,913	\$2,705
Other comprehensive income(loss), net of tax:		
Unrealized holding gain(loss) arising during the period (net of tax expense(benefit) of (\$830) in 2005 and \$503 in 2004)	(1,321)	856
	_____	_____
Other comprehensive income(loss)	(1,321)	856
	_____	_____
Comprehensive income	\$1,592	\$3,561
	=====	=====

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

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COMMERCIAL BANKSHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2005 and 2004
(In thousands)
(Unaudited)

	2005	2004
	_____	_____
Cash flows from operating activities:		
Net income	\$ 2,913	\$ 2,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision(credit) for loan losses	20	(42)
Income tax benefit from stock option exercises	136	315
Depreciation, amortization and accretion, net	185	183
Change in accrued interest receivable	1,296	1,683
Change in other assets	400	29
Change in accounts payable and accrued liabilities	940	1,506
Change in accrued interest payable	56	(12)
	_____	_____
Net cash provided by operating activities	5,946	6,367
	_____	_____
Cash flows from investing activities:		
Proceeds from maturities of investment securities		

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held to maturity	-	17,105
Proceeds from maturities of investment securities available for sale	3,500	18,000
Proceeds from prepayments of mortgage backed securities held to maturity	171	340
Proceeds from prepayments of mortgage backed securities available for sale	1,164	1,535
Purchases of investment securities available for sale	(20,491)	(32,097)
Net change in loans	(5,088)	(14,803)
Purchases of premises and equipment	(213)	(235)
	<hr/>	<hr/>
Net cash used in investing activities	(20,957)	(10,155)
	<hr/>	<hr/>
Cash flows from financing activities:		
Net change in demand, savings, interest-bearing checking and money market accounts	38,451	24,909
Net change in time deposit accounts	4,417	12,732
Net change in securities sold under agreements to repurchase	1,505	16,351
Dividends paid	(1,014)	(1,229)
Proceeds from exercise of stock options	252	904
	<hr/>	<hr/>
Net cash provided by financing activities	43,611	53,667
	<hr/>	<hr/>
Increase in cash and cash equivalents	28,600	49,879
Cash and cash equivalents at beginning of period	78,126	59,951
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$106,726	\$109,830
	=====	=====
Supplemental disclosures:		
Interest paid	\$ 588	\$ 866
	=====	=====
Income taxes paid	\$ 118	\$ -
	=====	=====

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

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COMMERCIAL BANKSHARES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements,

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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, 2004 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, 2005, 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. STOCK OPTIONS

The following table provides the Statement of Financial Accounting Standard (SFAS) No. 148 disclosure of pro forma net income and earnings per share as if the Company had adopted the fair value method of accounting for stock-based awards for the three month period ended March 31, 2005 compared to the same period in the prior year:

	Three Months Ended March 31,	
	2005	2004
	(Dollars in thousands)	
Net income as reported	\$2,913	\$2,705
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(81)	(46)
Pro forma net income	\$2,832	\$2,659

Earnings per share, basic as reported	\$.49	\$.46
Earnings per share, basic pro forma	\$.48	\$.45
Earnings per share, diluted as reported	\$.46	\$.44

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Earnings per share, diluted
 pro forma \$.45 \$.43

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 (EPS) (in thousands, except per share amounts):

	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	\$2,913	5,951	\$.49	\$2,705	5,876	\$.46
Effect of Dilutive Options	-	382	(.03)	-	307	(.02)
	\$2,913	6,333	\$.46	\$2,705	6,183	\$.44
	=====	=====	====	=====	=====	====

All outstanding options were included in the computation of diluted earnings per share because the average market price of the common shares was greater than the options' exercise price.

4. COMMITMENTS AND CONTINGENCIES

Standby letters of credit are conditional commitments issued by Commercial Bank of Florida ("the Bank") to guarantee the performance of a customer to a third party. The Bank had outstanding standby letters of credit in the amount of \$4.7 million as of March 31, 2005 as compared to \$5.9 million as of December 31, 2004. Approximately \$398,000 of the standby letters of credit outstanding at March 31, 2005 were issued subsequent to December 31, 2004 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. NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 153, "Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 20". Under APB No. 20 there was an exception from fair value measurement for nonmonetary exchanges of similar productive assets. SFAS No. 153 replaces this exception with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, and shall be applied prospectively. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods after December 2004. The provisions of this statement are not expected to have a material effect on the financial statements of the Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), entitled "Share-Based Payment" that will require compensation costs related to share-based payment transactions to be recognized in the Company's financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) is a revision of SFAS No. 123, "Accounting for Stock Issued to Employees," and its related implementation guidance. The Company currently applies APB No. 25 and related interpretations in the accounting for stock options under the intrinsic value method of APB No. 25 and provides pro forma disclosure of the Company's stock-based compensation expense as currently required by SFAS No. 123. See Note 2 of Notes to Consolidated Financial Statement for this pro forma disclosure. Management of the Company intends to adopt SFAS No. 123(R) as required on January 1, 2006, using the modified prospective application method. The provisions of this statement are not expected to have a material effect on the financial statements of the Company.

In March 2004, the FASB Emerging Issues Task Force (EITF) reached a consensus on EITF issue No. 03-1 (EITF 03-1), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The consensus provided guidance for the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, "Accounting for Certain Investment in Debt and Equity Securities" and to equity securities accounted for under the cost method. The guidance was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. In September 2004, the Financial Accounting Standards Board (FASB) issued a final FASB Staff Position, FSP EITF Issue 03-1-1, which delayed the effective date for the measurement and recognition guidance of EITF 03-1. We are not able to evaluate the impact of adopting EITF 03-1 until final guidance has been issued.

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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, 2004 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 Months Ended March 31, 2005 and 2004

The Company's net income for the three months ended March 31, 2005, was \$2.91 million, an 8% increase over net income for the same three month period ended March 31, 2004 of \$2.70 million. Basic and diluted earnings per share were \$.49 and \$.46, respectively, for the three months ended March 31, 2005, as compared to \$.46 and \$.44, respectively, for the three months ended March 31, 2004.

The Company's first quarter tax-equivalent net interest income increased 9% to \$8.37 million, from \$7.71 million in the first quarter in 2004. The increase is the result of growth in average earning assets, which have increased 12% to \$849 million for the first quarter of 2005, as compared to \$758 million for the first quarter of 2004. The tax-equivalent net interest yield for the three months ended March 31, 2005 was 4.00%, as compared to 4.09% for the same period in 2004. The decrease in net interest yield is the result of increased cost of funds. 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 decreased by \$39,000, or 5%, for the first quarter of 2005, as compared to the corresponding period in 2004. The decrease is due to a reduction in service charges on deposit accounts of \$64,000, partially offset by an increase in other fees and service charges of \$25,000, which is primarily related to real estate tax refunds and insurance refunds.

Non-interest expense for the first quarter of 2005 increased \$155,000, or 4% from the same quarter in 2004, due primarily to increases in salaries and employee benefits, furniture and equipment expense and telephone and fax expense, partially offset by decreases in insurance expense. Salaries and employee benefits increased \$115,000, or 4%, due to the addition of two staff positions and normal salary adjustments. Furniture and equipment expense increased \$33,000, or 17%, due to an increase in the maintenance of the

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Company's fourteen branch locations. Telephone and fax expense increased \$40,000 due to credits which reduced the first quarter, 2004 telephone expense. Insurance expense decreased by \$19,000, or 19%, after the renewal of certain policies which resulted in premium reductions.

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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 \$4.77 million at March 31, 2005, as compared with \$4.75 million at December 31, 2004. For the three months ended March 31, 2005, the allowance for loan losses was increased with a provision for loan losses of \$20,000 and increased by approximately \$2,000 in net recoveries. For the three months ended March 31, 2004, the allowance was decreased with a credit for loan losses of \$42,000 and increased by approximately \$130,000 in net recoveries. The allowance as a percentage of total loans has decreased to 1.03% at March 31, 2005, from 1.04% at December 31, 2004. 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 \$297 million, or 64%, of total loans was secured by non-residential real estate, and \$109 million, or 24%, of total loans was secured by residential real estate as of March 31, 2005. Virtually all loans are within the Company's markets in Miami-Dade and Broward counties.

The Company had two non-accrual loans at March 31, 2005, totaling \$331,000. If these loans were not on non-accrual an additional \$5,000 in interest would have been earned for the first quarter of 2005. There were no non-accrual loans at March 31, 2004.

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 \$139 million, and Federal Funds purchased lines available at correspondent banks amounting to \$23 million as of March 31, 2005.

The Bank's primary use of funds is to originate loans and purchase investment securities. The Bank purchased \$20 million of investment securities during the first three months of 2005, and loans increased by \$6 million. Funding for the above came from increases in deposits of \$43 million, an increase in

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securities sold under agreements to repurchase of \$2 million and increases from proceeds of maturities and prepayments of investment securities of \$5 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

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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 12.90%, 14.17%, and 7.73%, respectively, as of March 31, 2005.

CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies are disclosed on page 16 of its 2004 Annual Report under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations, which report is filed with the Annual Report on Form 10-K for the year ended December 31, 2004. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to valuation of the loan portfolio. Since the date of the 2004 Annual Report, there have been no material changes to the Company's critical accounting policies.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q may contain forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended), representing the Company's expectations and beliefs concerning future events. The actual results of the Company could differ materially from those indicated by the forward-looking statement because of various risks and uncertainties, including, without limitation, the Company's effective and timely initiation and development of new client relationships, the maintenance of existing client relationships and programs, the recruitment and retention of qualified personnel, possible or proposed products, branch offices, or strategic plans, the ability to increase sales of Company products and to increase deposits, the adequacy of cash flows from operations and available financing to fund capital needs and future 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 as well as other changes in competition, the extent of defaults, the extent of losses given such defaults, the amount of lost interest income that may result in the event of a severe recession, the status of the national economy and the South Florida economy in particular, the impact that changing interest rates have on the Company's net interest margin, changes in governmental rules and

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regulations applicable to the Company and other risks in the Company's filings with the Securities and Exchange commission. The Company cautions that its discussion of these matters is further qualified, as these risks and uncertainties are beyond the ability of the Company to control. In many cases, the Company cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements.

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 March 31, 2005.

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:					
Interest-bearing					
due from banks	\$ 30,382	\$ -	\$ -	\$ -	\$ 30,382
Federal funds sold	43,448	-	-	-	43,448
Investment securities (1)	5,092	6,084	17,805	311,921	340,902
Gross loans (excluding non-accrual)	110,194	46,653	102,554	205,683	465,084
Total interest- earning assets	\$189,116	\$ 52,737	\$120,359	\$517,604	\$879,816

Interest-bearing liabilities:

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Interest-bearing checking	\$ -	\$ -	\$ -	\$104,249	\$104,249
Money market	-	22,624	22,624	45,246	90,494
Savings	-	-	-	36,117	36,117
Time deposits	63,934	59,913	109,801	149,308	382,956
Borrowed funds	75,924	-	-	-	75,924
<hr/>					
Total interest-bearing liabilities	\$139,858	\$ 82,537	\$132,425	\$334,920	\$689,740
<hr/>					
Interest sensitivity gap	\$ 49,258	\$ (29,800)	\$ (12,066)	\$182,684	\$190,076
<hr/>					
Cumulative gap	\$ 49,258	\$ 19,458	\$ 7,392	\$190,076	
<hr/>					
Cumulative ratio of interest-earning assets to interest-bearing liabilities	135%	109%	102%	128%	
Cumulative gap as a percentage of total interest-earning assets	5.6%	2.2%	0.8%	21.6%	

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(1) Investment securities include equity investment in the Federal Reserve Board and Federal Home Loan Bank.

Management's assumptions reflect the Bank's estimate of the anticipated repricing sensitivity of non-maturity deposit products. 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. Interest checking and savings are allocated to the "over 1 year" category. If non-maturing deposits had been shown at their contractual term (90 days or less column), the cumulative gap as a percentage of total earning assets would have been -20.6%, -21.5%, -20.3% and 21.6% for 90 days or less, 91-181 days, 182-365 days and over 1 year, respectively.

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, 2005, the Bank's simulation analysis projects a decrease to net interest income of 7.5%, 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 increase by 4.4%. These projected levels are within the Bank's policy limits.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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As of the end of March 31, 2005, the Company's management carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

The work undertaken by the Company to comply with Section 404 of the Sarbanes-Oxley Act of 2002 involved the identification, documentation, assessment and testing of the Company's internal control over financial reporting in order to evaluate the effectiveness of such controls.

(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 March 31, 2005 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 6. EXHIBITS

- 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
- 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
- 32.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 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.

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By:/s/ Joseph W. Armaly

Chairman of the Board and Chief Executive Officer
(Duly Authorized Officer)
May 9, 2005

By:/s/ Barbara E. Reed

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

May 9, 2005

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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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally

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accepted accounting principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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):
- a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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 control over financial reporting.

Dated: May 9, 2005

COMMERCIAL BANKSHARES, INC.

/s/ 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

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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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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 control over financial reporting.

Dated: May 9, 2005

COMMERCIAL BANKSHARES, INC.

/s/ Barbara E. Reed

Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 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, March 31, 2005 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 as of the dates and for the periods expressed in the Report.

/s/ Joseph W. Armaly

Chief Executive Officer
May 9, 2005

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 Rule 13a-14(b) or Rule 15d-14(b) and 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, March 31, 2005 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.

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/s/ Barbara E. Reed

Chief Financial Officer
May 9, 2005

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.