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COMMERCIAL BANKSHARES INC

Form 10-K

March 15, 2004

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number 33-67254

Commercial Bankshares, Inc.

(Exact name of registrant as specified in its charter)

Florida

65-0050176

(State or other jurisdiction of
incorporation or organization)

(I.R.S. 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Name of Each Exchange on Which Registered

None

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.08 per share

(Title of class)

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 past 12 months (or for such shorter period that
the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [].

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

As of March 8, 2004, 5,892,876 shares of the common voting stock were issued and outstanding, with an aggregate market value of \$159 million, based on the closing price on the NASDAQ market.

Documents Incorporated by Reference

1. Certain portions of the Annual Report to Shareholders of Commercial Bankshares, Inc., for fiscal year ended December 31, 2003 are incorporated by reference into Part I and Part II.
2. Certain portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 15, 2004 are incorporated by reference into Part III.

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PART I

Item 1. Business.

Commercial Bankshares, Inc.

Commercial Bankshares, Inc. (the "Company"), a Florida corporation organized in 1988, is a bank holding company registered under the Bank Holding Company Act of 1956 ("BHCA"), as amended, 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, and its primary source of earnings is derived from income generated by its ownership and operation of the Bank. Unless the context otherwise requires, references herein to the Company include the Company and its wholly-owned subsidiary, the Bank, on a consolidated basis.

The Company is a legal entity separate and distinct from the Bank, and there are various legal limitations on the ability of the Bank to finance or otherwise supply funds to the Company. In particular, under federal banking law, the Bank may not declare a dividend that exceeds undivided profits. In addition, the approval of the Federal Reserve

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Bank of Atlanta ("Atlanta FRB") and the Florida Department of Banking and Finance is required if the total amount of all dividends declared in any calendar year exceeds the Bank's net profits, as defined, for that year combined with its retained net profits for the preceding two years. The Atlanta FRB also has the authority to limit further the payment of dividends by the Bank under certain circumstances. In addition, federal banking laws prohibit or restrict the Bank from extending credit to the Company under certain circumstances.

Commercial Bank of Florida

The Bank is a Florida chartered banking corporation originally chartered in February, 1979. It operated as Sunset Commercial Bank until its acquisition by the Company in 1988, at which time its name was changed to Commercial Bank of Florida. The Bank engages in commercial banking and related businesses from its fourteen banking facilities: its main office and nine other offices located in Miami-Dade County, Florida, and four offices in Broward County, Florida.

The Bank is operated as a network of community bank branches. The Bank primarily focuses on providing personalized banking services to small businesses and individuals within the market areas where its banking offices are located. Management believes that this local market strategy, accompanied by the strategic placement of Bank personnel within market areas where they have served customers for many years, enables the Bank to attract and retain low cost core deposits, which provide substantially all of the Bank's funding requirements.

Deposit products include certificates of deposit, individual retirement accounts ("IRAs") and other time deposits, checking and other demand deposit accounts, NOW accounts, savings accounts and money market accounts. The transaction accounts and time certificates are tailored to the principal market areas at rates competitive to those in the area. All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum limits permitted by law. The Bank solicits these accounts from small businesses, professional firms, and households located throughout its primary market area.

The Bank also offers ATM cards with access to local, state, and national networks, safe deposit boxes, wire transfers, direct deposit of payroll and social security payments, and automatic drafts for various accounts. The Bank presently does not provide fiduciary or appraisal services.

The Bank conducts commercial and consumer banking business, which primarily consists of attracting deposits from the areas served by its banking offices and using those deposits, together with funds derived from other sources, to originate a variety of commercial, consumer, and real estate loans (including commercial loans collateralized by real estate).

The Company considers the general business of retail banking to be its only operating segment.

As is the case with banking institutions generally, the Bank's operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Federal Reserve Board ("FRB"), the FDIC, and the State of Florida. Deposit

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flows and the cost of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. The Bank faces strong competition in the attraction of deposits (its primary source of lendable funds) and in the origination of real estate loans.

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Employees

At December 31, 2003, the Company and the Bank together employed 194 employees, of whom three are part-time. None of these employees is covered by a collective bargaining agreement. The Company believes that its employee relations are good.

Market Information

The Bank's fourteen banking offices are located in Miami-Dade and Broward counties, which comprise the Bank's primary market area. Management believes that the Bank's principal markets are: (i) the established and expanding commercial market within the primary market area, and (ii) the moderate and the affluent residential market within the primary market area. Management also believes that the most profitable banking relationships are characterized by high deposit balances with a low frequency of transactions. Moreover, management believes that a community bank with local management is well positioned to establish these relationships with the smaller commercial customers and households. Management believes that the Bank is well positioned to take advantage of its market segment.

Competition

Competition in the banking and financial services industry is intense. In its primary market areas, the Bank competes with other commercial banks, savings institutions, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally and elsewhere. Most of these competitors have substantially greater resources and lending limits than the Bank and may offer certain services, such as trust services, that the Bank does not provide at this time. In addition many of the Company's non-bank competitors are not subject to the same extensive federal regulations that govern the Bank and the Company. The profitability of the Company depends upon the Bank's ability to compete in its market areas.

Available Information

A copy of the Company's Annual Report on Form 10-K along with copies of the Company's other periodic reports required to be filed with the Securities and Exchange Commission pursuant to the Securities

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Exchange Act of 1934, as amended, are available free of charge (absent exhibits) from the Company upon written request to Barbara E. Reed, Commercial Bankshares, Inc. 1550 Southwest 57th Avenue Miami, Florida 33144. Copies of such reports are available via the Company's website.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state law. These laws and regulations are intended to protect depositors, not stockholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in the applicable law or regulation may have a material effect on the business and prospects of the Company and the Bank.

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Bank Holding Company Regulation

As a bank holding company registered under the BHCA, the Company is subject to the regulation and supervision of the FRB. The Company is required to file with the FRB annual reports and other information regarding its business operations and those of its subsidiaries. Under the BHCA, the Company's activities and those of its subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, or engaging in any other activity which the FRB determines to be so closely related to banking or managing or controlling banks as to be properly incident thereto.

The BHCA requires, among other things, the prior approval of the FRB in any case where a bank holding company proposes to (i) acquire all or substantially all of the assets of any other bank, (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such bank's voting shares), or (iii) merge or consolidate with any other bank holding company. The FRB will not approve any acquisition, merger, or consolidation that would have a substantially anti-competitive effect, unless the anti-competitive impact of the proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The FRB also considers capital adequacy and other financial and managerial resources and future prospects of the companies and the banks concerned, together with the convenience and needs of the community to be served, when reviewing acquisitions or mergers.

Additionally, the BHCA prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing, or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such determinations, the FRB is required to weigh the expected benefits to the public, such as greater

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convenience, increased competition, or gains in efficiency, against the possible adverse effects, such as under-concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance funds in the event the depository institution becomes in danger of default or in default. Under a policy of the FRB with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The FRB also has the authority under the BHCA to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Capital Adequacy Guidelines for Bank Holding Companies

The Company is subject to certain FRB risk-based capital guidelines for bank holding companies. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 4% of the total capital is required to be "Tier I Capital," which consists of common stockholders' equity, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less certain goodwill items and the unrealized holding gain/loss on available for sale securities. The remainder ("Tier II Capital") may consist of (i) the allowance for loan losses of up to 1.25% of risk-weighted risk assets, (ii) 45% of unrealized holding gain on available for sale equity securities, (iii) excess of qualifying perpetual preferred stock, (iv) hybrid capital instruments, (v) perpetual debt, (vi) mandatory convertible securities, and (vii) subordinated debt and intermediate-term preferred stock up to 50% of Tier I capital. Total capital is the sum of Tier I and Tier II capital less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries, and any other deductions as determined by the FRB (determined on a case by case basis or as a matter of policy after formal rule-making).

Bank holding company assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given

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similar credit conversion factors to convert them to asset-equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets.

The Company's management believes that the risk-weighting of assets under current FRB guidelines does not and will not have a material impact on the Company's operations or on the operations of the Bank. As of December 31, 2003 and 2002, the Company's total risk-based capital ratios were 13.87% and 14.62%, respectively. In addition to the risk-based capital guidelines, the FRB has adopted a minimum Tier I capital (leverage) ratio, under which a bank holding company must maintain a minimum level of Tier I capital to total consolidated assets of at least 3% in the case of a bank holding company that has the highest regulatory examination rating and is not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum. Federal Reserve Board requirements also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above regulatory minimums without significant reliance on intangible assets. The Federal Reserve Board may continue to consider a "tangible Tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or new activities. As of December 31, 2003 and 2002, the Company's leverage ratios were 7.78% and 7.66%, respectively.

Bank Regulation

The Bank is a state-chartered banking corporation and is subject to the supervision of and regular examination by the FRB and the Florida Department of Banking and Finance, as well as to the supervision of the FDIC.

The operations of the Bank are subject to state and federal statutes applicable to banks which are members of the Federal Reserve System and to the regulations of the FRB, the FDIC, and the State of Florida. Such statutes and regulations relate to required reserves against deposits, investments, loans, mergers and consolidations, issuance of securities, payment of dividends, establishment of branches, and other aspects of the Bank's operations. Various consumer laws and regulations also affect the operations of the Bank, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit, and fair credit reporting. Under the provisions of the Federal Reserve Act, the Bank is subject to certain restrictions on any extensions of credit to the Company or, with certain exceptions, to other affiliates, on investments in the stock or other securities of national banks, and on the taking of such stock or securities as collateral. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and the payment of dividends, interest, and operating expenses.

The FDIC insures the deposits of the Bank to the current maximum allowed by law. As an institution whose deposits are insured by the Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF") of the FDIC, the Bank also is subject to insurance assessments imposed and set by the FDIC from time to time. The FDIC is further authorized to impose one or more special assessments in any amount deemed necessary to enable repayment of amounts borrowed by the FDIC from the Treasury Department. The actual assessments to be paid into

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the BIF and the SAIF are based on the institution's assessment risk classification, which is whether the institution is considered "well capitalized", "adequately capitalized", or "under-capitalized", as those terms have been defined in applicable federal regulations, and whether the institution is considered by its supervising agency to be financially sound or to have supervisory concerns.

Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act (the "Act") was signed into law in November 1999 to remove depression-era barriers that separate banking, securities and insurance functions. The Act allows full affiliation between banks and securities firms by permitting the creation of financial holding companies designed to engage in a range of financial activities, including securities underwriting and merchant banking. The Act also repeals the SAIF special reserve; modernizes the Federal Home Loan Bank System; provides for less frequent Community Reinvestment Act ("CRA") compliance examinations for community banks with \$250 million or less in assets, and gives customers the right to prevent banks from sharing information with third parties, such as telemarketers. The Act prohibits unitary savings and loan holding companies formed after May 4, 1999 from engaging in nonfinancial activities, and also prohibits purchase of unitary thrift holding companies by commercial firms. The Act contains requirements for the protection of consumer's financial privacy ("Regulation P"). The Bank has identified obligations, developed a privacy policy and provided disclosure of the policy to customers. The Bank is in full compliance with Regulation P.

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Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")

Among other things, the FDICIA provides the federal bank regulatory agencies with broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of those powers depends upon whether the institution in question is "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", or "critically undercapitalized." A depository institution's capital tier will depend upon where its capital levels compare to various established capital measures and certain other factors, as established by regulation. As of December 31, 2003, the Bank met the definition of a "well capitalized" institution.

The FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be "undercapitalized". "Undercapitalized" depository institutions are subject to growth limitations and are required to submit a capital restoration plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized". "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized", requirements to reduce total assets,

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and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The FDICIA further requires an increase in the frequency of "full-scope, on-site" examinations and expands audit requirements. In addition, federal bank regulatory agencies are required to review and prescribe uniform accounting standards that are at least as stringent as Generally Accepted Accounting Principles.

Pursuant to the FDICIA, the FRB and the other federal bank regulatory agencies adopted real estate lending guidelines pursuant to which each insured depository institution is required to adopt and maintain written real estate lending policies in conformity with the prescribed guidelines. Under these guidelines, each institution is expected to set loan-to-value ratios not exceeding the supervisory limits set forth in the guidelines. A loan-to-value ratio is generally defined as the total loan amount divided by the appraised value of the property at the time the loan is originated. The guidelines also require that the institution's real estate policy require proper loan documentation and that it establish prudent underwriting standards.

The FDICIA also contains the Truth in Savings Act. The purpose of the Truth in Savings Act is to require the clear and uniform disclosure of the rates of interest which are payable on deposit accounts by depository institutions and the fees that are assessable against deposit accounts, so that consumers can make a meaningful comparison between the competing claims of financial institutions with regard to deposit accounts and products.

The FDICIA also amended the prior law with respect to the acceptance of brokered deposits by insured depository institutions to permit only a "well capitalized" depository institution to accept brokered deposits without prior regulatory approval. Under implementing regulations, "well capitalized" banks may accept brokered deposits with a waiver from the FDIC (subject to certain restrictions on payments of rates), while "undercapitalized" banks may not accept brokered deposits. The regulations contemplate that the definitions of "well capitalized", "adequately capitalized", and "undercapitalized" will be the same as the definitions adopted by the agencies to implement the prompt corrective action provisions of the FDICIA (as described above).

The Bank became subject to the provisions of FDICIA relating to internal controls effective January 1, 2001. These provisions are required for banks over \$500 million in assets and require that the Bank document and test its internal control structure and report on it on an annual basis. As of December 31, 2003, the Bank complied with all applicable sections of the regulation and reported as required in 2003.

Payment of Dividends

The Bank is subject to legal limitations on the frequency and amount of dividends paid to the Company. The FRB or the FDIC may restrict the ability of a bank to pay dividends if such payments would constitute an unsafe or unsound banking practice. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and the payment of dividends, interest, and operating expenses.

In addition, Florida law places certain restrictions on the declaration of dividends from state-chartered banks to their holding companies. Pursuant to Section 658.37 of the Florida Banking Code, the Board of Directors of a state-chartered bank, after charging off bad debts, depreciation, and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually, or annually declare a dividend of up to the aggregate of net profits of that period, combined with the bank's retained net profits for the preceding two years and, with the approval of the Florida Department of Banking and Finance, declare a dividend from retained net profits which accrued prior to the preceding two years. Before declaring such dividends, 20% of the net profits for the preceding period as is covered by the dividend must be transferred to the surplus fund of the bank until this fund becomes equal to the amount of the bank's common stock then issued and outstanding. A state-chartered bank may not declare any dividend if (i) its net income from the current year combined with the retained net income for the preceding two years is a loss, or (ii) the payment of such dividend would cause the capital account of the bank to fall below the minimum amount required by law, regulation, order, or any written agreement with the Florida Department of Banking and Finance or a federal regulatory agency.

Depositor Preference Statute

Legislation has been enacted providing that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the "liquidation or other resolution" of such an institution by any receiver.

Recently Enacted Legislation

The Sarbanes-Oxley Act of 2002 (the "SOX Act") was signed into law on July 30, 2002 and comprised the most comprehensive reform of the securities acts since the 1930's. The SOX Act reaffirms the authority of the Securities and Exchange Commission ("SEC") with the goal of restoring investor confidence. Some of the rules the SEC has implemented require:

- * both the Chief Executive Officer and Chief Financial Officer to certify that disclosure of all material information is included in both quarterly and annual reports;
- * that the Company adopt a code of ethics;
- * that the Audit Committee have substantial financial expertise, among other requirements relating to the Audit Committee;
- * that Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, contained in public filings, fully disclose off-balance sheet arrangements and aggregate contractual obligations; and
- * fixes retention periods of records relevant to audits and

reviews.

Monetary Policy And Economic Control

The commercial banking business in which the Bank engages is affected not only by general economic conditions but also by the monetary policies of the FRB. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, the imposition of changes in reserve requirements against member banks' deposits and assets of foreign branches, and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the FRB. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments, and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks and are expected to do so in the future. The monetary policies of these agencies are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the United States Government. Future monetary policies and the effect of such policies on the future business and earnings of the Company and the Bank cannot be predicted.

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Item 2. Properties.

The Company occupies offices in a building located at 1550 S.W. 57th Avenue, Miami, Florida. This building also serves as the Bank's main office. Both the building and the 81,400 square foot parcel of commercial property on which it is situated, are owned by the Bank. The Bank's and the Company's offices occupy the entire 24,228 square foot building. Management believes that this location provides sufficient parking for its customers as well as visibility from S.W. 57th Avenue, a major thoroughfare.

The Bank owns ten of its fourteen full-service branches and leases the remaining four offices, all of which branches are located in Miami-Dade County or Broward County, Florida. Additional information relating to the Company's lease commitments is set forth in Note 4 on page 29 in the Company's 2003 Annual Report and is incorporated herein by reference. The condition of all properties is considered good. In the opinion of management, owned properties are adequately covered by insurance.

Item 3. Legal Proceedings.

The Company and the Bank are periodically parties to or otherwise involved in legal proceedings arising in the normal course of business, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to the

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Bank's business. Management does not believe that there is any pending or threatened proceeding against the Company or the Bank which, if determined adversely, would have a material effect on the business, results of operations, or financial position of the Company or the Bank.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Information required to be reported under this item is set forth on pages 13 and 14 of the Company's 2003 Annual Report and on page 8 of the Company's 2004 Proxy Statement and is incorporated herein by reference.

Item 6. Selected Financial Data.

Information required to be reported under this item is set forth on pages 2 and 3 of the Company's 2003 Annual Report and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information required to be reported under this item is set forth on pages 4 through 17 of the Company's 2003 Annual Report and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Information required to be reported under this item is set forth on pages 15 and 16 of the Company's 2003 Annual Report under the section entitled "Asset/Liability Management and Interest Rate Risk", and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The information required to be reported under this item is set forth on pages 18 through 38 of the Company's 2003 Annual Report and is incorporated herein by reference.

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Annual Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report in timely alerting them as to material information relating to the Company (including its consolidated subsidiary) required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934. It should be noted that the design of any system of controls is based in part upon certain assumptions, and there can be no assurance that any design will succeed in achieving its stated goals.

(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 December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

The Company has adopted a Code of Ethics that applies to the Company's Chairman and Chief Executive Officer, the Chief Financial Officer and Controller. The Code of Ethics is available on the Company's website at www.commercialbankfl.com.

Additional information required to be reported under this item is set forth on pages 2, 4, 6 and 20 of the Company's 2004 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

Information required to be reported under this item is set forth on page 4 and pages 6 through 12 of the Company's 2004 Proxy Statement and is incorporated herein by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required to be reported under this item is set forth on page 8 and pages 18 through 20 of the Company's 2004 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Information required to be reported under this item is set forth on page 21 of the Company's 2004 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information required to be submitted under this item is set forth on page 20 of the Company's 2004 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) The following documents are filed as part of this report:

1. Financial Statements:

Reference is made to Item 8 of Part II to this Annual Report on Form 10-K which incorporates by reference the Company's financial statements contained in the Company's 2003 Annual Report attached as Exhibit 13.1 to this report.

2. Financial Statement Schedules:

All schedules are omitted because they are not applicable or the required information is contained in the Company's financial statements or the notes thereto.

3. Exhibits

3.1 Articles of Incorporation, as amended, of the Company.

Incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form SB-2 as filed with the Securities and Exchange Commission, No. 33-67254, effective October 5, 1993 ("Registration Statement").

3.2 By-Laws, as amended, of the Company. Incorporated by reference to Exhibit 3.2 of the Registration Statement.

10.1 Standard Office Building Lease between Swire Brickell One, Inc., d/b/a "Courvoisier Center" (Landlord) and Commercial Bank of Florida (Tenant), dated December 21, 1990. Incorporated by reference to Exhibit 10.2 of the Registration Statement.

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- 10.2 Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.4 of the Registration Statement.
- 10.3* Employment Agreement between Commercial Bankshares, Inc., Commercial Bank of Florida, and Joseph W. Armaly, dated March 18, 1994 and amended and restated on December 18, 1998. Incorporated by reference to Exhibit 10.3 that accompanies the 1998 Annual Report on Form 10-K.
- 10.4* Employment Agreement between Commercial Bankshares, Inc., Commercial Bank of Florida, and Jack J. Partagas, dated March 18, 1994 and amended and restated on December 18, 1998. Incorporated by reference to Exhibit 10.4 that accompanies the 1998 Annual Report on Form 10-K.
- 10.5* Employment Agreement between Commercial Bank of Florida and Barbara Reed, dated February 5, 1997. Incorporated by reference to Exhibit 10.5 that accompanies the 1996 Annual Report on Form 10-K.
- 10.6* Employment Agreement between Commercial Bank of Florida and Bruce Steinberger, dated December 18, 1998. Incorporated by reference to Exhibit 10.6 that accompanies the 1998 Annual Report on Form 10-K.
- 10.7* Commercial Bankshares, Inc., 1994 Outside Director Stock Option Plan, effective as of March 18, 1994. Incorporated by reference to Exhibit 10.7 that accompanies the 1993 Annual Report on Form 10-KSB.
- 10.8* Commercial Bankshares, Inc., 1994 Performance Stock Option Plan, adopted March 18, 1994, effective April 1, 1994. Incorporated by reference to Exhibit 10.8 that accompanies the 1993 Annual Report on Form 10-KSB.
- 10.10 Standard Office Building Lease, dated December 10, 1996, between Promenade of Coral Springs, Inc. (Landlord) and Commercial Bank of Florida (Tenant). Incorporated by reference to Exhibit 10.12 that accompanies the 1997 Annual Report on Form 10-K.
- 10.11* Commercial Bankshares, Inc., Amendment to 1994 Outside Director Stock Option Plan, dated January 15, 1999. Incorporated by reference to Exhibit 10.13 that accompanies the 1998 Annual Report on Form 10-K.
- 10.12* Commercial Bankshares, Inc., Amendment to 1994 Performance Stock Option Plan dated January 15, 1999. Incorporated by reference to Exhibit 10.14 that accompanies the 1998 Annual Report on Form 10-K.
- 10.13 Commercial Bankshares, Inc., Amendment to Standard Office Building Lease between Swire Brickell One, Inc., d/b/a "Courvoisier Center" (Landlord) and Commercial Bank of Florida (Tenant), dated December 21, 2000. Incorporated by reference to Exhibit 10.14 that accompanies the 2000 Annual

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Report on Form 10-K.

- 10.14 Agreement to provide data processing and back office services between Electronic Data Systems and Commercial Bank of Florida, dated, December 7, 1999. Incorporated by reference to Exhibit 10.15 that accompanies the 2000 Annual Report on Form 10-K.
- 10.15 Commercial Bankshares, Inc., Standard Office Building Lease between Hallandale Place, Ltd., c/o Investment Management Associates, Inc. (Landlord) and Commercial Bank of Florida (Tenant), dated January 25, 2002. Incorporated by reference to Exhibit 10.15 that accompanies the 2001 Annual Report on Form 10-K.
- 10.16 Commercial Bankshares, Inc., Standard Office Building Lease between HFJ, LLC, as beneficiary of the KLS Flamingo Land Trust (Landlord) and Commercial Bank of Florida (Tenant), dated 10/30/2002. Incorporated by reference to Exhibit 10.16 that accompanies the 2002 Annual Report on Form 10-K.
- 11.1 Computation of Earnings per Common and Common Equivalent Share. Information required to be reported under this exhibit is set forth on page 31 of the 2003 Annual Report and is incorporated herein by reference.
- 13.1** 2003 Annual Report to Shareholders of Commercial Bankshares, Inc.
- 21.1 Subsidiaries of the Company (filed herewith).

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- 23.1 Consent of PricewaterhouseCoopers LLP (filed herewith).
- 31.1 Certification of the 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 the Chief Financial Officer pursuant to Rule 15A-14(A) or 15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(c) of

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this report.

** Except for those portions of the Annual Report which are expressly incorporated by reference in this Form 10-K, the Annual Report is furnished for the information of the Securities and Exchange Commission only and is not to be deemed "filed" as part of such Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCIAL BANKSHARES, INC.

By:/s/ Joseph W. Armaly

Joseph W. Armaly
Chairman of the Board and Chief Executive Officer
March 15, 2004

By:/s/ Barbara E. Reed

Barbara E. Reed
Senior Vice President and Chief Financial Officer
March 15, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature _____ | Title _____ | Date _____ |
|----------------------------------|---------------------------------------------------------------------------------------|----------------|
| By:/s/ Joseph W. Armaly _____ | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | March 15, 2004 |
| By:/s/ Jack J. Partagas | President, | March 15, 2004 |

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| | | |
|--------------------------------------|------------------------------------------------------|----------------|
| _____ | Chief Operating Officer, and Director | |
| By:/s/ Barbara E. Reed _____ | Senior Vice President and Chief Financial Officer | March 15, 2004 |
| By:/s/ Cromwell A. Anderson _____ | Director | March 15, 2004 |
| By:/s/ Robert Namoff _____ | Director | March 15, 2004 |
| By:/s/ Sherman Simon _____ | Director | March 15, 2004 |
| By:/s/ Michael W. Sontag _____ | Director | March 15, 2004 |
| By:/s/ Martin Yelen _____ | Director | March 15, 2004 |

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Exhibit 21.1

Subsidiaries of Commercial Bankshares, Inc.:

Commercial Bank of Florida, a Florida chartered banking corporation
(100%)

Exhibit 23.1

Consent of Independent Certified Public Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8/S-3 (No. 333-11295 and No. 33-96606) of Commercial Bankshares, Inc. of our report dated March 5, 2004 relating to the financial

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statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
Miami, Florida
March 15, 2004

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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 annual report on Form 10-K of Commercial Bankshares, Inc;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) [Reserved.]

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- 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: March 15, 2004

COMMERCIAL BANKSHARES, INC.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer

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Exhibit 31.2

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

I, Barbara E. Reed, certify that:

- 1. I have reviewed this annual report on Form 10-K of Commercial Bankshares, Inc;
- 2. Based on my knowledge, this annual 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

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misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) [Reserved.]
 - 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: March 15, 2004

COMMERCIAL BANKSHARES, INC.

/s/ Barbara E. Reed

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Barbara E. Reed
Chief Financial Officer

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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

In connection with the Annual Report of Commercial Bankshares, Inc., (the "Company") on Form 10-K for the year ended, December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Armaly, Chief Executive Officer of the Company, certify, pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Joseph W. Armaly

Joseph W. Armaly
Chief Executive Officer
March 15, 2004

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 Annual Report of Commercial Bankshares, Inc., (the "Company") on Form 10-K for the year ended, December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barbara E. Reed, Chief Financial Officer of the Company, certify, pursuant to 18.

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U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Barbara E. Reed

Barbara E. Reed
Chief Financial Officer
March 15, 2004

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.