

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. **0000950132-94-000150**

([HTML Version](#) on [secdatabase.com](#))

FILER

COMMERCIAL BANCSHARES INC /WV/

CIK: **726738** | IRS No.: **550622108** | State of Incorporation: **WV** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-20232** | Film No.: **94528363**
SIC: **6022** State commercial banks

Mailing Address	Business Address
415 MARKET ST PO BOX 1427 PARKERSBURG WV 26101	415 MARKET ST PO BOX 1427 PARKERSBURG WV 26101 3044240300

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

FORM 10-QSB

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

For the quarterly period ended March 31, 1994

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-20232

COMMERCIAL BANCSHARES, INCORPORATED

(Exact name of small business issuer as specified in its charter)

West Virginia

(State or other jurisdiction of
incorporation or organization)

55-0622108

(I.R.S Employer
identification No.)

415 Market Street, Parkersburg, WV 26101

(Address of principal executive offices)

304-424-0300

(Issuer's telephone number)

Check whether the issue (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be
filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court.

Yes No
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date:

Class -----	Outstanding at March 31, 1994 -----
Common Stock \$5.00 par value	758,506

COMMERCIAL BANCSHARES, INCORPORATED

INDEX

Part I Financial Information	Page No.
Condensed Consolidated Balance Sheet as of March 31, 1994 and December 31, 1993.....	3
Condensed Consolidated Statement of Income for Three Months ended March 31, 1994 and 1993.....	4
Condensed Statement of Changes in Stockholders Equity for Three months ended March 31, 1994.....	5
Consolidated Statement of Cash Flows for the Three Months ended March 31, 1994 and 1993.....	6
Notes to Condensed Consolidated Financial Statements.....	7-10
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11-12
Part II Other Information.....	13
Signatures.....	13

PART I FINANCIAL INFORMATION

COMMERCIAL BANCSHARES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands)

ASSETS

<TABLE>
<CAPTION>

	March 31, 1994 ----	Dec. 31, 1993 ----
	(unaudited) *	
	<C>	<C>
Cash and Due from Banks.....	\$ 9,262	\$ 10,172
Interest-Bearing Deposits in Banks.....	99	99
Federal Funds Sold.....	3,593	7,924
Investment Securities..... (Market Value: \$56,855 and \$57,274)	56,511	56,269
Loans - net of unearned discount.....	181,729	174,476
LESS: Reserve for Losses.....	(2,443)	(2,388)
Premises and Equipment.....	5,540	5,658
Notes Receivable.....	255	255
Accrued Interest Receivable.....	1,741	1,659
Foreclosed Properties - Net.....	1,249	1,253
Other Assets.....	3,349	2,840
	-----	-----
TOTAL ASSETS.....	\$260,885	\$258,217
	=====	=====

<CAPTION>

LIABILITIES AND CAPITAL

<S>

<C>

<C>

Deposits:		
Demand - Non-Interest Bearing.....	\$ 31,699	\$ 32,819
Demand - Interest Bearing.....	47,582	47,550
Savings.....	57,147	52,618
Time Deposits.....	99,645	101,095
	-----	-----
TOTAL DEPOSITS.....	\$236,073	\$234,082
Federal Funds Purchased and Securities		
Sold Under Agreements to Repurchase.....	963	0
ESOP Borrowings.....	0	424
Accrued Interest Payable.....	537	550
Other Liabilities.....	1,585	1,877
	-----	-----
TOTAL LIABILITIES.....	\$239,158	\$236,933
	-----	-----
Shareholders' Equity:		
Preferred Stock (Stated Value: \$100)		
Outstanding: 27,165 and 27,165 shares.....	\$ 2,716	\$ 2,716
Common Stock (Par Value \$5.00)		
Outstanding: 758,506 shares and 758,506 shares.....	3,793	3,792
Additional Paid In Capital.....	5,683	5,683
Undivided Profits.....	10,079	9,864
Net Unrealized Gain (Loss) on Available-for-Sale Securities..	(196)	
Less: Employee Stock Ownership Plan		
Shares Purchased with Debt.....	0	(424)
Treasury Stock, at cost.....	(347)	(347)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	\$ 21,727	\$ 21,284
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$260,885	\$258,217
	=====	=====

</TABLE>

*Condensed from audited financial statements.

The accompanying notes are an integral part of these condensed financial statement.

3

COMMERCIAL BANCSHARES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

<TABLE>
<CAPTION>

	(In thousands of dollars except for per share data)	
	Three Months Ended	
	March 31	
	1994	1993
<S>	<C>	<C>
INTEREST INCOME		
Interest and Fees on Loans.....	\$3,730	\$3,821
Interest on Investment Securities		
Taxable Investments.....	545	542
Non-taxable Investments.....	139	154
Interest on Federal Funds Sold.....	39	106
Interest on Notes Receivable.....	(1)	3
Interest on Time Deposits with Other Banks.....	1	1
	-----	-----
TOTAL INTEREST INCOME.....	\$4,453	\$4,627
	-----	-----

INTEREST EXPENSE		
Interest on Deposits.....	1,646	1,815
Interest on Federal Funds Purchased and Securities Sold Under Agreement to Repurchase.....	2	5
Interest on Notes Payable.....	0	0
	-----	-----
TOTAL INTEREST EXPENSE.....	\$1,648	\$1,820
	-----	-----
NET INTEREST INCOME.....	\$2,805	\$2,807
Provision for Loan Losses.....	67	164
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	\$2,738	\$2,656
OTHER INCOME		
Trust Department Income.....	119	117
Service Charges and Fees.....	184	169
Security Gains.....	0	15
Other Income.....	138	220
	-----	-----
Total Other Income.....	441	521
OTHER EXPENSES		
Employee Compensations & Benefits.....	\$1,345	\$1,105
Occupancy Expense (Net of Rental Income).....	144	153
Furniture and Equipment.....	176	169
Other Operating Expenses.....	670	627
	-----	-----
Total Other Expenses.....	2,336	2,054
INCOME BEFORE APPLICABLE INCOME TAXES.....	\$ 843	\$1,110
Applicable Income Taxes.....	373	401
	-----	-----
NET INCOME.....	\$ 471	\$ 709
	=====	=====
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS.....	\$ 403	\$ 641
EARNINGS PER SHARE DATA:		
Primary.....	\$.54	\$.87
Fully Diluted.....	.50	.75
Cash Dividends Declared.....	.25	.20

</TABLE>

The accompanying notes are an integral part of these statements.

4

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
for the three months ended March 31, 1994
(unaudited)

<TABLE>
<CAPTION>

(in thousands
of dollars)
<C>

<S>
Convertible Preferred stock (43,328 Shares authorized):
Cumulative Preferred \$100 Series:
Balance at Beginning of Year..... \$ 2,716

Balance at End of Period - 27,165 shares outstanding March 31, 1994.....	\$ 2,716	-----
Common Stock (\$5.00 Par Value; 2,000,000 Shares authorized)		
Balance at beginning of year.....	\$ 3,792	-----
Balance at end of period - 758,506 Shares Issued and Outstanding at March 31, 1994.....	\$ 3,792	-----
Additional Paid In Capital		
Balance at Beginning of Year.....	\$ 5,683	-----
Balance at End of Period.....	\$ 5,683	-----
Undivided Profits		
Balance at Beginning of Year.....	\$ 9,864	
Net Income.....	471	
Cash Dividend Declared on Preferred Stock.....	68	
Cash Dividend Declared on Common Stock.....	185	
Balance at End of Period.....	\$10,079	-----
Less: Employee Stock Ownership Plan Shares Collateralizing Debt, at Cost		
Balance at Beginning of Year.....	\$ 424	
Principal Reduction of ESOP Obligation.....	(424)	
Balance at End of Period.....	\$ 0	-----
Less: Treasury Stock, at Cost		
Balance at Beginning of Year.....	\$ 347	-----
Balance at End of Period (17,643 Shares).....	\$ 347	-----
Total Shareholders' Equity.....	\$21,727	-----

</TABLE>

The accompanying notes are an integral part of these statements.

5

COMMERCIAL BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	(In thousands of dollars)	
	Three Months Ended	
	March 31	
	1994	1993
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income.....	\$ 471	\$ 709
Adjustments to Reconcile Net Income to Net		
Cash from Operating Activities:		
Depreciation.....	170	162
Deferred Employee Benefits.....	424	
Provision for Loan Loss.....	66	164

Investment Amortization - Net.....	149	2
Other - Net.....	(4)	(3)
Realized Investment Securities (Gains) Losses.....		(15)
Income Tax Benefit.....	(48)	(58)
Provision for Deferred Taxes.....	31	212
(Increase) Decrease:		
Accrued Interest Receivable.....	(80)	(206)
Other Assets.....	(504)	(464)
Increase (Decrease):		
Income Taxes Payable.....	239	
Accrued Interest Payable.....	(12)	(28)
Other Liabilities.....	(367)	(92)
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 535	\$ 383
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (Increase) Decrease in Federal Funds Sold.....	\$ 4,331	\$ (2,156)
Proceeds from Maturities of Securities Reported at Amortized Cost..	2,413	3,434
Purchases of Securities Reported at Amortized Cost.....	(3,143)	(3,814)
Net (Loans Originated) Principal Collected.....	(7,246)	3,471
Capital Expenditures.....	(56)	(231)
NET CASH FLOWS FROM INVESTING ACTIVITIES.....	(\$3,701)	704
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Increase (Decrease) in Total Deposits.....	\$ 1,977	\$ (3,743)
Net Increase (Decrease) in Federal Funds Purchased.....	963	1,275
Principal Payments on ESOP Borrowing.....	(424)	
Proceeds from Issuance of ESOP Debt.....		43
Principal Payments on Capital Lease.....	(7)	(7)
Dividends Paid.....	(253)	(238)
FINANCING ACTIVITIES.....	\$ 2,256	\$ (2,670)
NET INCREASE (DECREASE) IN CASH AND		
CASH EQUIVALENTS.....		
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	\$ (910)	\$ (1,583)
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	10,172	10,499

</TABLE>

During the first quarter of 1994 and 1993, the Corporation paid \$1,661,000 and \$1,815,000, respectively, in interest on deposits and other borrowings and \$184,000 and \$982,000, respectively, for income taxes.

Disclosure of Accounting Policy:

For purposes of the statement of cash flows, BancShares has defined cash equivalents as those amounts included in the balance sheet caption "Cash and Due from Banks."

The accompanying notes are an integral part of these statements.

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1994, are not necessarily indicative of the results that may be expected for the year ended December 31, 1994. For further information, refer to the consolidated financial statements and footnotes thereto included in BancShares' annual report on Form 10-KSB for the year ended December 31, 1993.

NOTE 2: INVESTMENT SECURITIES

The book value and approximate market value of investment securities as of March 31, 1994 and 1993 are as follows:

<TABLE>
<CAPTION>

----- March 31, 1994 -----			
(Thousands of Dollars)			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Available for Sale			
U.S. Treasury and Government Agency Securities:			
Mortgage Backed Securities	\$ 3,686	\$ 7	\$ 53
Collateralized Mortgage Obligations	2,195		24
Other Treasury and Agency Securities	34,782	240	507
Obligations of States and their Subdivisions	0		0
Corporate Debt Securities	446		446
Equity Securities - FHLB Stock	542		542

TOTAL	\$41,651	\$247	\$584
=====			
Held to Maturity			
U.S. Treasury and Government Agency Securities:			
Mortgage Backed Securities	\$ 24		\$ 24
Collateralized Mortgage Obligations	0		0
Other Treasury and Agency Securities	3,289	4	9
Obligations of States and their Subdivisions	11,159	376	33
Corporate Debt Securities	727	4	731

TOTAL	\$15,199	\$384	\$42
=====			
----- March 31, 1994 -----			
<S>	<C>	<C>	<C>
U.S. Treasury and Government Agency Securities	\$29,094	\$ 712	\$29,806
Obligations of States and their Subdivisions	8,549	420	\$ 8,969
Other Investments	1,575	37	\$ 1,612

<CAPTION>

=====

</TABLE>

NOTE 3: LOANS

Major classifications of loans are summarized as follows:

<TABLE>

<CAPTION>

	March 31	
	1994	1993
	(thousands of dollars)	
	<C>	<C>
Real Estate Loans.....	\$ 61,770	\$ 58,148
Installment Loans.....	34,576	34,021
Credit Card Loans.....	3,009	2,823
Commercial Loans.....	82,374	77,714
	-----	-----
	\$181,727	\$172,706
	-----	-----
Unearned Income.....	0	43
	-----	-----
TOTAL LOANS.....	\$181,727	\$172,663
	=====	=====

</TABLE>

Changes in the allowance for loan losses were as follows for the three months ended March 31, 1994 and 1993.

<TABLE>

<CAPTION>

	1994	1993
	(thousands of dollars)	
	<C>	<C>
Balance, Beginning of Year.....	\$ 2,388	\$ 2,282
Provision Charged to Operation.....	67	164
Loans Charged Off.....	(20)	(18)
Recoveries.....	8	33
	-----	-----
Balance, End of Period.....	\$ 2,443	\$ 2,461
	=====	=====

</TABLE>

NOTE 4: DEPOSITS

Time deposits in denominations of \$100,000 or more at March 31, 1994 and 1993 were \$10,447,000 and \$8,239,000 respectively.

NOTE 5: FEDERAL FUNDS PURCHASED AND OTHER BORROWINGS

Federal funds purchased and securities sold under repurchase agreements generally represent overnight borrowing transactions.

The details of these classifications for the dates indicated are as follows:

<TABLE>

<CAPTION>

Three Months	Year
Ended	Ended
3-31-94	12-31-93

	-----	-----
<S>	<C>	<C>
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS		
Balance at End of Period	\$ 963	\$ 0
Average during Period	611	780
Maximum Month-end Balance	375	1,500
Average Rate during Period	3.28%	3.05%
Rate at the end of Period	3.75%	N/A

Long-term debt, as presented on the balance sheet is as follows:

LONG-TERM BORROWINGS

During 1992, the ESOP Trust obtained a revolving conversion note for the principal amount of one million dollars to finance the acquisition of the BancShares' common stock, pledging those shares as collateral. The revolving conversion note was a conversion line-of-credit up to \$1,000,000, available on a revolving basis until May 31, 1993. The amount of the credit outstanding on May 31, 1993, converted to a term loan. Interest on the unpaid principal balance of the loan was payable at the end of each calendar quarter since September 30, 1992. The principal balance of the term loan was payable at the end of each calendar quarter commencing June 30, 1993, in 28 equal quarterly installments. Interest was at a rate of the lender's prime plus 1/2%, fluctuating accordingly. The interest rate as of December 31, 1993, was 6.50%. The ESOP paid off the loan in its entirety in March, 1994.....

\$ 0	\$ 424
=====	=====

</TABLE>

NOTE 6: INCOME TAX EXPENSE

The provision for income taxes is summarized as follows:

<TABLE>

<CAPTION>

	Three Months ended March 31	
	1994	1993
	-----	-----
Current:	(In thousands of dollars)	
<S>	<C>	<C>
State.....	\$ 49	\$ 109
Federal.....	293	395
Deferred Income Taxes.....	31	(103)
	-----	-----
TOTAL PROVISION FOR INCOME TAXES..	\$ 373	\$ 401
	=====	=====

</TABLE>

NOTE 7: CONVERTIBLE PREFERRED STOCK

In conjunction with the acquisition of Jackson County Bank, Ravenswood, West Virginia, BancShares issued 28,717 shares of Convertible Preferred Stock to former owners of Jackson County Bank Common Stock. The Convertible Preferred has a stated value of \$100 per share and pays cumulative dividends of \$10.00 per

share per year, paid quarterly. Shares of Convertible Preferred are convertible by the holders into 7.332 shares of BancShares Common Stock at any time. Convertible Preferred may be redeemed during 1994 at \$105 per share, and after January 1, 1995, at \$100 per share. Holders of Convertible Preferred voted as a class on the election of two members of BancShares Board of Directors as long as more than 13,673 shares of Convertible Preferred remain outstanding. Thereafter one member of the Board will be elected by holders of Convertible Preferred as long as any shares remain outstanding. To date, 1,599 shares of Convertible Preferred stock have been converted to BancShares Common Stock. No shares have been redeemed.

NOTE 8: CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

COMMERCIAL BANCSHARES, INCORPORATED (PARENT COMPANY ONLY)
CONDENSED BALANCE SHEET

<TABLE>
<CAPTION>

	March 31, 1994 ----	December 31, 1993 ----
	(In Thousands of Dollars)	
	<C>	<C>
ASSETS		
<S>		
Cash and Due from Banks (All from Subsidiaries).....	\$ 406	\$ 215
Accounts Receivable.....	124	91
Notes Receivable.....	255	255
Investment in Subsidiaries (Equity Basis).....	20,660	20,888
Premises and Equipment - Net.....	436	478
Other Assets.....	308	287
	-----	-----
TOTAL ASSETS.....	\$22,189	\$22,214
	=====	=====
LIABILITIES		
ESOP Borrowings.....	\$ 0	\$ 424
Other Liabilities.....	462	506
	-----	-----
TOTAL LIABILITIES.....	\$ 462	\$ 930
	-----	-----
STOCKHOLDERS EQUITY		
Preferred Stock (Stated Value \$100.00)		
Outstanding: 27,165 shares and 27,165 Shares at March 31, 1994 and December 31, 1993, respectively.....	\$ 2,716	\$ 2,716
Common Stock (Par Value \$5.00, Authorized: 1,000,000 Shares. Outstanding : 758,506 Shares and 758,506 Shares at March 31, 1994 and December 31,1993, respectively).....	3,792	3,792
Surplus.....	5,683	5,683
Undivided Profits.....	10,079	9,863
Unrealized Gain (Loss) on Securities Available for Sale, Net.....	(196)	
LESS:		
Employee Stock Ownership Plan Shares Collateralizing Debt.....	0	(424)
Treasury Stock.....	(347)	(347)
	-----	-----
TOTAL STOCKHOLDERS EQUITY.....	\$21,727	\$21,284
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY.....	\$22,189	\$22,214
	=====	=====

</TABLE>

COMMERCIAL BANCSHARES, INCORPORATED (PARENT COMPANY ONLY)
CONDENSED STATEMENT OF INCOME
FOR THREE MONTHS ENDED MARCH 31, 1994

(In thousands)

<TABLE>
<CAPTION>

<u><S></u>	<u><C></u>
REVENUE	
Dividend from Subsidiary Banks.....	\$658
Fees from Subsidiaries.....	216

TOTAL REVENUE.....	\$874

EXPENSES	
Employee Compensation and Benefits.....	\$295
Occupancy and Furniture Expense.....	71
Other Expenses.....	\$ 51

TOTAL EXPENSES.....	\$417

Income before Tax Benefit and Equity in	
Undistributed Net Income of Subsidiaries.....	\$457
Income Tax Benefit.....	(46)

Income before Equity in Undistributed	
Net Income of Subsidiaries.....	\$503
Equity in Undistributed Net Income of Subsidiaries..	(32)

NET INCOME.....	\$471
	=====

</TABLE>

COMMERCIAL BANCSHARES, INCORPORATED (PARENT COMPANY ONLY)
STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDING MARCH 31, 1994

(In Thousands)

<TABLE>
<CAPTION>

<u><S></u>	<u><C></u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income.....	\$ 471
Adjustments to Reconcile Net Income to Cash	
Provided by Operating Activities:	
Depreciation and Amortization.....	41
Net Amortization of Purchase Accounting Adjustments..	1
Undistributed Net(Income) Loss on Subsidiaries.....	32
Deferred Employee Benefits.....	424
Increase(Decrease) Accounts Receivable.....	(32)
Accrued Interest Receivable.....	2
Other Assets.....	(23)
Other Liabilities.....	2
Income Tax Benefit.....	\$(48)

NET CASH PROVIDED BY OPERATING ACTIVITIES.....	\$ 870

CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital Expenditures.....	\$ (2)

NET CASH USED BY INVESTING ACTIVITIES.....	\$ (2)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on ESOP and long-term debts.....	\$ (424)
Dividends paid.....	(253)

NET CASH USED BY FINANCING ACTIVITIES.....	\$ (677)

NET DECREASE IN CASH AND CASH EQUIVALENTS.....	\$ 191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	215

CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$ 406
	=====

</TABLE>

During the first three months of 1994, BancShares paid \$184,000 in income taxes.

10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SOURCES AND USES OF FUNDS

During the first three months of 1994, BancShares' largest source of funds, its deposits grew \$2.0 million, or 0.9% from December 31, 1993, to \$236.1 million. The largest increase was in savings deposits, which were up 8.6% (\$4.5 million). Interest-bearing demand deposits were up slightly, while time deposits decreased 1.43% (\$1.45 million), and non-interest bearing demand deposits were down 3.4% (\$1.1 million). Customers apparently were content to maintain short term, liquid deposits, in anticipation of rising interest rates.

BancShares' position in the Federal funds market was lower than at year end. Net sales of funds were \$3.6 million at March 31, 1994, compared to \$7.9 million at year end. Federal funds purchased increased from \$0 to \$963,000. BancShares banks undertake borrowings to accommodate smaller correspondent banks and in such cases those funds are ordinarily invested in federal funds sold. Funds sold represent temporary liquid investments which may be used to meet loan or deposit demands, as well as funds that are awaiting investment in longer-term instruments.

The long-term debt of the ESOP was eliminated, as the \$424,000 balance was paid off by the ESOP during the quarter.

Cash and due from banks decreased by \$910,000 or 8.95% from December 31, 1993, to March 31, 1994. Changes in this category are not unusual, as the balance fluctuating with inflows and outflows of deposits.

Total loans increased by \$7.3 million or 4.16% during the first quarter of the year. Commercial and Consumer loans experienced the greatest growth. Credit card loans usually decline during the first quarter as holiday charges are reduced by the card holders.

The securities portfolio increased slightly, up \$242,000 or 0.43% over the year end. It is anticipated that loan volume will continue to increase and securities decline through 1994.

EARNINGS - THREE MONTHS

Consolidated net income for the first quarter of 1994 was 33.57% less than the first quarter of 1993 (\$471,000 in 1994, \$709,000 in 1993). Fully diluted earnings per common share were \$0.50 compared to \$0.75 for the 1993 quarter.

Total interest income decreased 3.76%, or \$174 thousand, from \$4.627 million in 1993 to \$4.453 million in 1994. Similarly, total interest expense decreased 9.45%, or \$172 thousand from the 1993 level. This resulted in net interest income being virtually unchanged, down \$2,000 or 0.07%.

The provision for loan losses was 59.15% less in 1994 than it was in the first quarter of 1993. The 1994 provision was \$67,000 compared to net loan losses of \$12,000. In 1993, the first quarter provision was \$164,000 and net recoveries were \$15,000. At March 31, 1994, the reserve for possible loan losses of \$2,443,000 was equal to 1.34% of net loans outstanding. This compares with \$2,388,000 or 1.37% of net loans outstanding at December 31, 1993.

Non-interest income decreased 15.16% from the first quarter of 1993 to the first quarter of 1994. Trust department fees were up by 2.56%. Service charges and fees grew 3.88%. However, Other Income declined \$82,000 or 37.27% from 1993 to 1994. In 1993, the gain on loans sold was \$76,000 higher than it was in 1994. The reason for the decline was a reduction in the number and volume of loans offered for sale. Additionally, rent from other real estate was down by \$24,000 in the first quarter of 1994, principally due to a timing difference in the payment of substantial real estate taxes. In 1993 the taxes were paid in the third quarter, but in 1994 they were paid in the first quarter. Because the income is passed to the owners, one of which is a BancShares subsidiary, essentially on a cash basis, the timing of the tax payment created more impact than if the taxes were handled on an accrual basis.

None of BancShares' subsidiary banks sold securities during the first quarter of either 1993 or 1994. However, in 1993 there were securities gains arising from a security being called at a premium. Therefore, there was a \$15,000 decrease in gains on securities from 1994 to 1993.

Non-interest expense increased 13.73%, or \$282,000 from 1993 to 1994. The major cause of the increase is attributed to employee compensation and benefits, which grew \$241,000. A new incentive bonus program was implemented in 1993. Although it was announced early in the year that there would be a new program, the details were not approved by the Board of BancShares until the beginning of October. Because of the impact of the program, BancShares saw an unusually large proportion of 1993's employee expense delayed until the fourth quarter of the year. Since that program is now in place, BancShares and its banks have begun accruing the 1994 expense from the beginning of the year. This added \$123,000 to the first quarter's expense, compared with the prior year. Additionally, the FICA taxes on the 1993 bonuses were expensed in January of 1994 and exceeded \$40,000. This increase plus increases in salaries and wages amounting to \$61,000 result in the substantial first quarter growth in employee cost. It is anticipated that the remaining quarters will be somewhat less than the first quarter, because they will not include the FICA on the bonus. The total for the year is expected to be approximately 10% higher than the total for 1993. Since the bonus program is based upon the level of earnings, the total will be less if earnings of the banks do not meet return on assets expectations and more if they exceed their budgets.

Occupancy expense was \$9,000, or 5.88% less than the same quarter in 1993. Furniture and equipment expenses were up \$7,000 or 4.14% from the prior year. Together, these fixed assets expenses declined \$2,000, from a combined total of \$322,000 in 1993 to \$320,000 in 1994.

Other Operating Expense increased \$43,000 (6.86%) from the first quarter of 1993. Most items that are included in the category were not significantly different from the prior year. Marketing expense did increase nearly 80%, or

\$36,000. The first quarter of 1993 was \$30,000 less than any of the other quarters of that year, therefore the first quarter 1994 expense is much nearer the amounts expended in the second, third and fourth quarters of 1993. The

11

major reason for the expense being greater was development expenses for new advertising materials that will have continuing use throughout the year.

Net income before taxes was down \$238,000 (23.96%) from the 1993 quarter but the provision for Federal and state income taxes decreased only \$28,000, or 6.98%. The deferred tax calculation on the reserve for loan losses, in compliance with FAS 109, caused an increase in the effective tax rate for the quarter. This was the result of the change in the years over which the company's experience is calculated.

LIQUIDITY

BancShares primary source of liquidity has been the attraction and retention of retail deposit accounts. The total deposit growth over the three month period was 0.85%, or an increase of \$1,991. Savings deposits, a prime component of core deposit relationships, grew \$4.5 million, an 8.61% increase. Deposits promise to continue to be a good source of funds. Also available to BancShares are short-term market-rate liabilities, including Federal funds purchased and securities sold under agreements to repurchase. These instruments are currently used to accommodate customers and on a limited basis to provide a short-term source of funds. BancShares' largest subsidiary is a member of the Federal Home Loan Bank of Pittsburgh, which makes available to its members a number of credit products, any or all of which could be used to meet liquidity needs. Additionally, BancShares is aware of brokers who could, in a short period of time, provide large amounts of certificates of deposit at market rates. None of BancShares' banks currently use or intend to use brokered funds, but the source exists should liquidity needs require its use. BancShares' banks also have extensions of credit which are guaranteed by various U.S. government agencies and are, therefore, salable.

Although liabilities provide its primary sources of liquidity, BancShares also maintains an adequate level of cash and near-cash items on hand to meet day-to-day operating needs. Additionally, BancShares owns marketable securities and short-term investments which can be converted to cash in a very short time. Maturing within one year are 19.18% of the total securities portfolio.

CAPITAL

During the first three months of 1994, BancShares increased its stockholders' equity by \$443,000 (2.1%), bringing the balance at March 31, 1994, to \$21.7 million or, 8.32% of total assets. The increase was from internal capital growth.

In January 1989, banking industry regulators officially released risk-adjusted capital guidelines for banks and bank holding companies. The guidelines established final requirements that must be achieved by year-end 1992. As of March 31, 1994, BancShares' Tier 1 ratio of 11.82% and combined Tier 1 and Tier 2 ratio of 13.07% exceed the requirements. Additionally, BancShares' ratios of primary capital to total assets of 8.09% and total capital to total assets of 8.94% exceed the final requirements which became effective at year-end 1992 for those relationships.

12

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The company is a defendant in certain legal actions arising from normal business activities. The ultimate liability, if any, resulting from them will not materially affect the company's financial position.

Item 6. Exhibits and Reports on Form 8-K

BancShares did not file any reports on Form 8-K during the three months ended March 31, 1994.

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 BANCSHARES, INC.
(Registrant)

Date: May 11, 1994

/s/ William E. Mildren, Jr.

William E. Mildren, Jr.
Chairman, President and
Chief Executive Officer

Date: May 11, 1994

/s/ Larry G. Johnson

Larry G. Johnson
Secretary-Treasurer