



Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

NEW COMMERCE BANCORP AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

|  | March 31,<br>2003<br>----- | December 31,<br>2002<br>----- |
|--|----------------------------|-------------------------------|
| <b>Assets:</b>   |                            |                               |
| Cash and due from banks  | \$ 2,345,911               | \$ 3,017,238                  |
| Federal funds sold   | 114,854                    | 3,342,348                     |
| Investment securities, available for sale  | 11,173,257                 | 12,736,310                    |
| Investment securities, held to maturity  | 1,215,851                  | 1,286,650                     |
| Federal Reserve Bank stock   | 237,250                    | 237,250                       |
| Federal Home Loan Bank stock   | 236,300                    | 250,000                       |
| Loans, net   | 42,135,483                 | 37,937,537                    |
| Property and equipment, net  | 4,199,140                  | 4,232,820                     |
| Accrued interest receivable  | 217,672                    | 251,725                       |
| Other assets   | 369,027                    | 341,221                       |
|  | -----                      | -----                         |
| Total assets   | \$ 62,244,745<br>=====     | \$ 63,633,099<br>=====        |
| <br><b>Liabilities and Shareholders' Equity:</b>   |                            |                               |
| <b>Liabilities:</b>  |                            |                               |
| Deposits   | \$ 48,129,168              | \$ 47,522,005                 |
| Advances from Federal Home Loan Bank   | 4,800,000                  | 4,725,000                     |
| Drafts outstanding   | 178,380                    | 2,289,560                     |
| Other borrowings   | 150,000                    | -                             |
| Other liabilities  | 202,268                    | 257,429                       |
|  | -----                      | -----                         |
| Total liabilities  | 53,459,816<br>-----        | 54,793,994<br>-----           |
| <br><b>Shareholders Equity:</b>  |                            |                               |
| Preferred stock, \$.01 par value, 10,000,000 shares<br>authorized, no shares issued              | -                          | -                             |
| Common stock, \$.01 par value, 10,000,000 shares<br>authorized, 1,000,000 issued and outstanding | 10,000                     | 10,000                        |
| Additional paid-in capital   | 9,741,658                  | 9,741,658                     |
| Retained deficit   | (1,197,079)                | (1,203,432)                   |
| Accumulated other comprehensive income   | 230,350                    | 290,879                       |
|  | -----                      | -----                         |
| Total shareholders' equity   | 8,784,929<br>-----         | 8,839,105<br>-----            |
|  | -----                      | -----                         |
| Total liabilities and shareholders' equity   | \$ 62,244,745<br>=====     | \$ 63,633,099<br>=====        |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

NEW COMMERCE BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2003                            | 2002       |
|   | -----                           | -----      |
| Interest Income:                                    |                                 |            |
| Interest and fees on loans                          | \$ 563,728                      | \$ 470,234 |
| Investment securities                               | 201,491                         | 231,286    |
| Federal funds sold                                  | 3,424                           | 141        |
|   | -----                           | -----      |
| Total interest income                               | 768,643                         | 701,661    |
|   | -----                           | -----      |
| Interest Expense:                                   |                                 |            |
| Deposits  | 209,135                         | 206,425    |
| Securities sold under agreements to repurchase      | -                               | 28,782     |
| Advances from Federal Home Loan Bank                | 34,325                          | -          |
| Federal funds purchased                             | 1,589                           | 4,127      |
|   | -----                           | -----      |
| Total interest expense                              | 245,049                         | 239,334    |
|   | -----                           | -----      |
| Net Interest Income                                 | 523,594                         | 462,327    |
| Provision for Loan Losses                           | 44,225                          | 9,325      |
|   | -----                           | -----      |
| Net Interest Income After Provision for Loan Losses | 479,369                         | 453,002    |
|   | -----                           | -----      |
| Non-Interest Income:                                |                                 |            |
| Service fees on deposit accounts                    | 37,775                          | 23,755     |
| Mortgage brokerage income                           | 37,840                          | 16,730     |
| Gain on sale of investment securities               | 11,714                          | -          |
| Other   | 13,556                          | 15,051     |
|   | -----                           | -----      |
| Total non-interest income                           | 100,885                         | 55,536     |
|   | -----                           | -----      |
| Total Income  | 580,254                         | 508,538    |
|   | -----                           | -----      |
| Non-Interest Expense:                               |                                 |            |
| Salaries and benefits                               | 316,380                         | 284,039    |
| Occupancy, furniture and equipment                  | 96,173                          | 85,045     |
| Data processing                                     | 49,239                          | 48,396     |
| Marketing   | 17,138                          | 14,697     |
| Printing, supplies and postage                      | 18,564                          | 9,440      |
| Other   | 72,607                          | 59,049     |
|   | -----                           | -----      |

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

|   |           |           |
|---|-----------|-----------|
| Total non-interest expenses                   | 570,101   | 500,666   |
|   | -----     | -----     |
| Income Before Income Taxes                    | 10,153    | 7,872     |
| Income Tax Provision                          | 3,800     | 3,366     |
|   | -----     | -----     |
| Net Income                                    | \$ 6,353  | \$ 4,506  |
|   | =====     | =====     |
| Basic and Diluted Earnings per Share          | \$ 0.01   | \$ 0.00   |
| Weighted Average Shares Outstanding - Basic   | 1,000,000 | 1,000,000 |
| Weighted Average Shares Outstanding - Diluted | 1,017,977 | 1,000,000 |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

3

NEW COMMERCE BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2003 AND 2002  
(UNAUDITED)

|  | Common Stock |           | Additional<br>Paid-in<br>Capital | Retained<br>Deficit | C<br>I |
|--|--------------|-----------|----------------------------------|---------------------|--------|
|  | Shares       | Amount    |                                  |                     |        |
|  | -----        | -----     | -----                            | -----               | -----  |
| Balance, December 31, 2001   | 1,000,000    | \$ 10,000 | \$ 9,741,658                     | \$ (1,240,960)      |        |
| Net income   | -            | -         | -                                | 4,506               |        |
| Other comprehensive loss, net of<br>tax:   |              |           |                                  |                     |        |
| Unrealized holding gain on<br>securities available for sale<br>net of tax effect of \$62,573 | -            | -         | -                                | -                   |        |
| Comprehensive loss   | -            | -         | -                                | -                   |        |
|  | -----        | -----     | -----                            | -----               |        |
| Balance, March 31, 2002  | 1,000,000    | \$ 10,000 | \$ 9,741,658                     | \$ (1,236,454)      |        |
|  | =====        | =====     | =====                            | =====               |        |
| Balance, December 31, 2002   | 1,000,000    | \$ 10,000 | \$ 9,741,658                     | \$ (1,203,432)      |        |
| Net income   | -            | -         | -                                | 6,353               |        |
| Other comprehensive loss, net of   |              |           |                                  |                     |        |

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

|  |           |           |              |               |
|--|-----------|-----------|--------------|---------------|
| tax:   |           |           |              |               |
| Unrealized holding gain on securities available for sale, net of tax effect of \$31,214                            | -         | -         | -            | -             |
| Reclassification of net gain on securities available for sale included in net income, net of tax effect of \$4,334 | -         | -         | -            | -             |
| Other comprehensive loss   | -         | -         | -            | -             |
| Comprehensive loss   | -         | -         | -            | -             |
| Balance, March 31, 2003  | 1,000,000 | \$ 10,000 | \$ 9,741,658 | \$(1,197,079) |

See Notes to Consolidated Financial Statements, which are an integral part of these statements

4

NEW COMMERCE BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|  | Three Month<br>March 31<br>2003 |
|--|---------------------------------|
| Operating Activities:  |                                 |
| Net income   | \$ 6,353                        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                 |
| Provision for loan losses  | 44,225                          |
| Depreciation and amortization  | 36,564                          |
| Gain on sale of investment securities  | (11,714)                        |
| Decrease in accrued interest receivable  | 34,053                          |
| Decrease (increase) in other assets  | 7,743                           |
| (Decrease) in other liabilities  | (55,161)                        |
| Net cash provided by (used for) operating activities                                     | 62,063                          |
| Investing Activities:  |                                 |
| Increase in loans, net   | (4,242,171)                     |
| Purchase of investment securities available for sale                                     | -                               |
| Purchase of investment securities held to maturity                                       | -                               |

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

|  |              |
|--|--------------|
| Redemption (purchase) of Federal Home Loan Bank stock                        | 13,700       |
| Proceeds from principal payments on investment securities available for sale | 1,066,260    |
| Proceeds from principal payments on investment securities held to maturity   | 74,513       |
| Proceeds from sale or call of investment securities available for sale       | 415,147      |
| Purchase of property and equipment   | (9,316)      |
|  | -----        |
| Net cash used for investing activities                                       | (2,681,867)  |
|  | -----        |
| Financing Activities:  |              |
| Increase (decrease) in deposits, net   | 607,163      |
| Net increase in advances from Federal Home Loan Bank                         | 75,000       |
| Net decrease in securities sold under agreement to repurchase                | -            |
| (Decrease) increase in drafts outstanding                                    | (2,111,180)  |
| Net increase in federal funds purchased                                      | 150,000      |
|  | -----        |
| Net cash used for financing activities                                       | (1,279,017)  |
|  | -----        |
| Net Decrease in Cash and Cash Equivalents                                    | (3,898,821)  |
| Cash and Cash Equivalents, Beginning of Period                               | 6,359,586    |
|  | -----        |
| Cash and Cash Equivalents, End of Period                                     | \$ 2,460,765 |
|  | =====        |
| Supplemental Disclosures of Cash Flow Information:                           |              |
| Cash Paid For:   |              |
| Interest   | \$ 241,552   |
|  | =====        |
| Income Taxes   | \$ 2,675     |
|  | =====        |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.

NEW COMMERCE BANCORP AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

Note 1 - Organization and Basis of Presentation

Organization

-----  
 New Commerce BanCorp (the "Holding Company"), is incorporated under the laws of the State of South Carolina for the purpose of operating as a bank holding

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

company for New Commerce Bank (the "Bank"). The Bank provides full commercial banking services to customers and is subject to regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Holding Company is subject to the regulation of the Federal Reserve Board.

### Basis of Presentation

The accompanying unaudited 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. 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 and adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in our Form 10-KSB for the period ended December 31, 2002 (Registration Number 333-70589) as filed with the Securities and Exchange Commission.

### Note 2 - Earnings per Share

The following schedule reconciles the numerators and denominators of the basic and diluted earnings per share ("EPS") computations for the three-month periods ended March 31, 2003 and 2002. Diluted common shares arise from the potentially dilutive effect of the stock options and warrants outstanding.

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2003                            | 2002      |
| <b>Basic EPS:</b>                             |                                 |           |
| Net income                                    | \$ 6,353                        | \$ 4,506  |
| Average common shares outstanding             | 1,000,000                       | 1,000,000 |
|   | -----                           | -----     |
| Basic earnings per share                      | \$ 0.01                         | \$ 0.00   |
|   | =====                           | =====     |
| <b>Diluted EPS:</b>                           |                                 |           |
| Net income                                    | \$ 6,353                        | \$ 4,506  |
|   | -----                           | -----     |
| Average common shares outstanding             | 1,000,000                       | 1,000,000 |
| Dilutive effect of stock options and warrants | 17,977                          | -         |
|   | -----                           | -----     |
| Average dilutive shares outstanding           | 1,017,977                       | 1,000,000 |
|   | -----                           | -----     |
| Diluted earnings per share                    | \$ 0.01                         | \$ 0.00   |
|   | =====                           | =====     |

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

Note 3 - Stock Options and Warrants

-----

We have two stock-based employee compensation plans and we account for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income (loss), as all stock options and warrants granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if we had applied the fair value recognition provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" to stock-based employee compensation.

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2003                            | 2002       |
|  | -----                           | -----      |
| Net income as reported   | \$ 6,353                        | \$ 4,506   |
| Deduct: Total stock-based employee<br>compensation expense determined under<br>fair value based method for all awards,<br>net of related income tax effect | 8,534                           | \$ 8,915   |
|  | -----                           | -----      |
| Pro forma net loss   | \$ (2,181)                      | \$ (4,409) |
|  | =====                           | =====      |
| Earnings (loss) per share:   |                                 |            |
| Basic and diluted - as reported  | \$ 0.01                         | \$ 0.00    |
|  | =====                           | =====      |
| Basic and diluted - pro forma  | \$ (0.00)                       | \$ (0.00)  |
|  | =====                           | =====      |

The following is an analysis of stock option activity for the three months ended March 31, 2003 and 2002:

|                                    | 2003    |  | 2002     |
|------------------------------------|---------|--|----------|
|                                    | Shares  | Weighted<br>Average<br>Exercise<br>Price | Shares   |
|                                    | -----   | -----                                    | -----    |
| Outstanding at beginning of period | 128,000 | \$ 8.22                                  | 113,000  |
| Granted                            | -       | -  | 20,000   |
| Forfeitures                        | -       | -  | (14,000) |
|                                    | -----   |  | -----    |
| Outstanding at end of period       | 128,000 | 8.22                                     | 119,000  |
|                                    | =====   |  | =====    |



## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

|                            |                 |      |                 |
|----------------------------|-----------------|------|-----------------|
| Options exercisable        | 40,400<br>===== | 8.85 | 19,200<br>===== |
| Shares available for grant | 22,000<br>===== |      | 40,000<br>===== |

Upon completion of the 1999 stock offering, each of our organizers received warrants to purchase 7,500 shares of common stock or a total of 90,000 shares at \$10.00 per share. The warrants vested immediately and are exercisable through January 12, 2009.

7

### Item 2. Management's Discussion and Analysis or Plan of Operation

-----

The following is our discussion and analysis of certain significant factors that have affected our financial position and operating results and those of our subsidiary, New Commerce Bank, during the periods included in the accompanying consolidated financial statements. This commentary should be read in conjunction with the financial statements and the related notes and the other statistical information included in this report.

This report contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by and information currently available to management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," "may," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance each quarter is subject to various risks and uncertainties that are discussed in detail in our filings with the Securities and Exchange Commission, including, without limitation:

- o significant increases in competitive pressure in the banking and financial services industries;
- o changes in the interest rate environment which could reduce anticipated or actual margins;
- o changes in political conditions or the legislative or regulatory environment;
- o the level of allowance for loan loss;
- o the rate of delinquencies and amounts of charge-offs;
- o the rates of loan growth;
- o adverse changes in asset quality and resulting credit risk-related losses and expenses;
- o general economic conditions, either nationally or regionally and

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

especially in primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;

- o changes occurring in business conditions and inflation;
- o changes in technology;
- o changes in monetary and tax policies;
- o changes in the securities markets; and
- o other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

8

### Critical Accounting Policies

We have adopted various accounting policies which govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Certain accounting policies involve significant judgments and assumptions by management. These judgments have a material impact on the carrying value of certain assets and liabilities. Management judgments and assumptions are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of these judgments, actual results could differ and could have a material impact on the carrying values of assets and liabilities and the results of operations. We believe that the allowance for loan losses methodology represents a significant accounting policy, which requires the most critical judgments and estimates used in preparation of our consolidated financial statements. Refer to the "Results of Operations for the Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002 - Provision for Loan Losses" as well as the "Balance Sheet Review at March 31, 2003 - Loans and Allowance for Loan Losses" discussions below.

### Results of Operations for the Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2002

Consolidated net income for our first quarter of 2003, which ended March 31, 2003, was \$6,353, or \$0.01 per share, compared to net income of \$4,506, or \$0.00 per share, for the first quarter of 2002, which ended March 31, 2002. Following is a discussion of the more significant components of our net income.

9

### Net Interest Income

-----  
The largest component of total income is net interest income, the difference between the income earned on assets and the interest accrued or paid on deposits and borrowings used to support such assets. The volume and mix of assets and liabilities and their sensitivity to interest rate movement determine changes in

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

net interest income. Net interest margin is determined by dividing annualized net interest income by average earning assets. Net interest spread is derived from determining the weighted-average rate of interest paid on deposits and borrowings and subtracting them from the weighted-average yield on earning assets. Net interest income for the quarter ended March 31, 2003 was \$523,594, compared to \$462,327 for the same period last year, an increase of 13%. This increase was the result of increased balances of earning assets and the impact of lower interest rates on our interest-bearing liabilities, offset partially by the effect of lower interest rates on earning assets.

For the quarter ended March 31, 2003, average earning assets totaled \$54.8 million with an annualized average yield of 5.61%. Average earning assets and annualized average yield were \$44.8 million and 6.26%, respectively, for the quarter ended March 31, 2002. For the quarter ended March 31, 2003, average interest-bearing liabilities totaled \$51.6 million with an annualized average cost of 1.90%. Average interest-bearing liabilities and annualized average cost were \$41.7 million and 2.30%, respectively, for the quarter ended March 31, 2002.

Because loans often provide a higher yield than other types of earning assets, one of our goals is to maintain our loan portfolio as the largest component of total earning assets. Loans comprised approximately 73% and 64% of average earning assets for the first quarter of 2003 and 2002, respectively. Loan interest income for the quarter ended March 31, 2003 totaled \$563,728, compared to \$470,234 for the same period in 2002. The annualized average yield on loans was 5.64% for the quarter ended March 31, 2003, compared to 6.51% for the same period in 2002. The yield decreased as a result of the declining interest rate environment and its impact on our variable rate loan portfolio (which is about 73% of our loans). Average balances of loans increased to \$40.0 million during the quarter ended March 31, 2003, an increase of \$11.2 million over the average of \$28.8 million during the comparable quarter in 2002. The increase in average balances offset the impact of the decrease in yield on interest income.

Investment securities averaged \$14.1 million, or 26% of average earning assets, for the first quarter of 2003, compared to \$15.9 million, or 35% of average earning assets, for the same period in 2002. Interest earned on investment securities amounted to \$201,491 for the quarter ended March 31, 2003, compared to \$231,286 for the quarter ended March 31, 2002. Investment securities yielded 5.71% during the first quarter of 2003, compared to 5.82% during the same period last year. This difference resulted from the effect of the sale of securities held in the portfolio during the period ended March 31, 2002 that had a higher yield than the average yield on securities held in the portfolio during the quarter ended March 31, 2003 and the purchase of lower yielding securities subsequent to the prior year quarter.

Interest expense for the quarter ended March 31, 2003 was \$245,049 compared to \$239,334 for the same period last year. The largest component of interest expense is interest on deposit accounts. The average balance of deposits increased to \$46.2 million during the quarter ended March 31, 2003 from \$35.7 million during the quarter ended March 31, 2002. The annualized average cost of deposits was 1.81% for the quarter ended March 31, 2003, compared to 2.31% for the same period in 2002. The decrease was due to market interest rates declining throughout 2002, which has impacted the rates we offer to our depositors. Interest on other interest-bearing liabilities for the quarter ended March 31, 2003 was \$35,914 at an average cost of 2.64% compared to \$32,909 at an average rate of 2.21% during the same period in 2002. The overall cost of funds was 1.90% for the quarter ended March 31, 2003, compared to 2.30% for the same period in 2002.

### Provision for Loan Losses

-----  
The provision for loan losses is the charge to operating earnings that our

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

management believes is necessary to maintain the allowance for loan losses at an adequate level. The amount charged to the provision is based on a review of past-due loans and delinquency trends, actual losses, classified and criticized loans, loan portfolio growth, concentrations of credit, economic conditions, historical charge-off activity and internal credit risk ratings. Loan charge-offs and recoveries are charged or credited directly to the allowance. For the quarter ended March 31, 2003, the provision for loan losses was \$44,225 compared to \$9,325 for the same period last year. This increase of \$34,900 reflects, and is consistent with, our loan growth since the quarter ended March 31. See "Balance Sheet Review at March 31, 2003 - Loans and Allowance for Loan Losses.

10

### Non-Interest Income

-----  
Non-interest income for the quarter ended March 31, 2003 was \$100,885, compared to \$55,536 for the same period in 2002, an increase of \$45,349. Mortgage brokerage income was \$37,840, compared to \$16,730 for the same period in 2002, an increase of \$21,110. Mortgage loan originations in recent months have increased due to refinancing activity related to the current low mortgage loan interest rate environment. Another component of the increase was a gain of \$11,714 on the sale of investment securities during the quarter ended March 31, 2003 that was not present in the prior year quarter. We sell securities from time to time for various reasons including liquidity needs, changes in credit quality, market valuation factors, etc. Since the principal purpose of our investment portfolio is liquidity management and not to derive income from trading activity, we consider this gain a nonrecurring item. Currently, we have no plans to sell additional securities. All other fees and charges increased due to the growth in account relationships experienced during the current period, particularly checking accounts.

### Non-Interest Expense

-----  
Non-interest expense for the quarter ended March 31, 2003 was \$570,101, compared to \$500,666 for the same period in 2002. The principal component of this increase was in salaries and benefits, the largest component of non-interest expense, which increased by \$32,341 to \$316,380 for the quarter ended March 31, 2003 from \$284,039 for the quarter ended March 31, 2002. This increase is the result of annual raises and the hiring of additional staff since the prior year quarter, particularly an additional commercial lender and a retail banking manager. Additionally, commissions paid on mortgage loan originations increased during the current quarter due to the increase in mortgage origination income as previously discussed. We expect salaries and benefits to continue to increase as we continue to grow and add personnel to support the growth.

### Balance Sheet Review at March 31, 2003

#### General

-----  
Total consolidated assets decreased \$1.4 million to \$62.2 million at March 31, 2003 from \$63.6 at December 31, 2002. This 2% decrease in assets was comprised principally of a \$3.9 million decrease in cash and federal funds sold. These assets decreased as the result of the settlement of \$2.1 million of drafts that were outstanding at December 31, 2002. Loans outstanding increased \$4.2 million during the quarter. Our loans have increased in part due to the hiring of an additional commercial loan officer late in the first quarter of the 2002 and our continued focus on establishing new client relationships. Investment securities decreased by \$1.6 million due to the sale of securities and from principal

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

collections on mortgage-backed securities.

There was a \$607,000 increase in deposits, bringing deposits up to \$48.1 million at March 31, 2003. There were both increases and decreases in deposit balances of several of our larger commercial and personal account relationships. The net effect was that we had a decrease in balances of deposits of clients in our market area. We obtained additional brokered deposits to fund our loan growth. The total of such brokered deposits at March 31, 2002 was \$1.8 million.

For more analysis of the components of the changes in asset and liabilities, see the following discussion of major balance sheet categories and the Consolidated Statements of Cash Flows included in "Item 1. Financial Statements."

We closely monitor and seek to maintain appropriate levels of interest earning assets and interest bearing liabilities so that maturities of assets are such that adequate funds are provided to meet customer withdrawals and loan demand.

11

### Loans and Allowance for Loan Losses

-----  
 Outstanding loans represented the largest component of earning assets as of March 31, 2003 at \$42.7 million, or 77% of total earning assets, compared to 68% at December 31, 2002. Loans have increased 11% since December 31, 2002. Balances within the major loan categories were as follows:

|                            | March 31, 2003 |         | December 31, 2002 |         |
|----------------------------|----------------|---------|-------------------|---------|
|                            | Amount         | Percent | Amount            | Percent |
| Commercial                 | \$ 7,106,968   | 16.6%   | \$ 6,462,271      | 16.6%   |
| Real estate - construction | 1,848,308      | 4.4     | 1,781,866         | 4.4     |
| Real estate - mortgage     | 27,125,243     | 63.5    | 24,760,074        | 64.4    |
| Consumer                   | 6,632,066      | 15.5    | 5,474,605         | 14.6    |
|                            | -----          | -----   | -----             | -----   |
| Total loans                | 42,712,585     | 100.0%  | 38,478,816        | 100.0%  |
|                            |                | =====   |                   | =====   |
| Allowance for loan losses  | (534,000)      |         | (492,000)         |         |
| Deferred loan costs, net   | (43,102)       |         | (49,279)          |         |
|                            | -----          |         | -----             |         |
| Net loans                  | \$42,135,483   |         | \$37,937,537      |         |
|                            | =====          |         | =====             |         |

The loan portfolio is periodically reviewed to evaluate the outstanding loans, to measure both the performance of the portfolio and the adequacy of the allowance for loan losses, and to provide for probable losses inherent in the loan portfolio.

This analysis and determination of the level of the allowance includes a review of past-due loans and delinquency trends, actual losses, classified and

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

criticized loans, loan portfolio growth, concentrations of credit, economic conditions, historical charge-off activity and internal credit risk ratings. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events, which it believes to be reasonable, but which may or may not be accurate. Because of the inherent uncertainty of assumptions made during the evaluation process, there can be no assurance that loan losses in future periods will not exceed the allowance for loan losses or that additional allocations will not be required. The following is an analysis of the allowance for loan losses:

|   |            |       |
|---|------------|-------|
| Allowance for loan losses, December 31, 2002    | \$ 492,000 |       |
| Provision                                       | 44,225     |       |
| Charge-offs - consumer                          | (2,225)    | ----- |
| <br>  |            |       |
| Allowance for loan losses, March 31, 2003       | \$ 534,000 | ===== |
| <br>  |            |       |
| Allowance for loan losses to loans outstanding: |            |       |
| March 31, 2003                                  | 1.25%      | ===== |
| December 31, 2002                               | 1.28%      | ===== |

Nonperforming assets consist of nonaccrual loans, other real estate owned, and repossessed collateral. Generally, loans are placed on nonaccrual status when they become 90 days past due, or when management believes that the borrower's financial condition is such that collection of the loan is doubtful. Interest stops accruing when a loan is placed on nonaccrual status. Interest income on these loans is recognized when payments are received. There were neither any nonaccrual loans nor any loans delinquent more than 90 days at March 31, 2003 and December 31, 2002.

12

### Investment Portfolio

-----

Investment securities represented 22% and 26% of earning assets at March 31, 2003 and December 31, 2002, respectively. We primarily invest in government agency or government-sponsored agency securities, mortgage-backed securities, collateralized mortgage obligations and credit quality corporate bonds. We also own stock in the Federal Reserve Bank and the Federal Home Loan Bank of Atlanta.

The following is a table of investment securities by category at March 31, 2003 and December 31, 2002:

|                                     | March 31,<br>2003 | December 31,<br>2002 |
|-------------------------------------|-------------------|----------------------|
|                                     | -----             | -----                |
| Federal agency obligations          | \$ 783,820        | \$ 786,123           |
| Mortgage-backed securities          | 7,505,058         | 8,217,642            |
| Collateralized mortgage obligations | 345,576           | 1,186,470            |
| Corporate bonds                     | 2,538,803         | 2,546,075            |
|                                     | -----             | -----                |

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

|                            |               |               |
|----------------------------|---------------|---------------|
| Total available for sale   | \$ 11,173,257 | \$ 12,736,310 |
|                            | =====         | =====         |
| Held to maturity           |               |               |
| Federal agency obligations | \$ 199,088    | \$ 199,001    |
| Mortgage-backed securities | 516,763       | 587,649       |
| Trust preferred securities | 500,000       | 500,000       |
|                            | -----         | -----         |
| Total held to maturity     | \$ 1,215,851  | \$ 1,286,650  |
|                            | =====         | =====         |

### Deposits

-----

Balances within the major deposit categories as of March 31, 2003 and December 31, 2002 were as follows:

|                                      | March 31,<br>2003 | December 31,<br>2002 |
|--------------------------------------|-------------------|----------------------|
|                                      | -----             | -----                |
| Non-interest bearing demand deposits | \$ 6,914,096      | \$ 4,877,681         |
| Interest bearing checking            | 3,422,858         | 3,332,544            |
| Savings deposits                     | 764,066           | 564,582              |
| Money market accounts                | 13,373,984        | 17,279,741           |
| Time deposits less than \$100,000    | 10,989,842        | 10,707,188           |
| Time deposits of \$100,000 or more   | 12,664,322        | 10,760,269           |
|                                      | -----             | -----                |
|                                      | \$ 48,129,168     | \$ 47,522,005        |
|                                      | =====             | =====                |

### Other Borrowings

-----

We maintain federal funds lines of credit with correspondent banks to meet short-term liquidity needs. As a member of the FHLB, we have access to borrowings through various FHLB programs. At March 31, 2003, and December 31, 2002 there were short-term borrowings outstanding of \$150,000 and \$0, respectively, and FHLB advances of \$4,800,000 and \$4,725,000, respectively.

### Interest Rate Sensitivity

-----

Interest rate sensitivity is defined as the exposure to variability in net interest income resulting from changes in market-based interest rates. Asset/liability management is the process by which we monitor and control the mix, maturities, and interest sensitivity of our assets and liabilities. Asset/liability management seeks to ensure adequate liquidity and to maintain an appropriate balance between interest-sensitive assets and liabilities to minimize potentially adverse impacts on earnings from changes in market interest rates. Interest rate sensitivity can be managed by repricing assets or

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. We believe that interest rate risk management becomes increasingly important in an interest rate environment and economy such as the one that we are currently experiencing.

We monitor interest rate sensitivity by measuring our interest sensitivity through a "gap" analysis, which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given time period. However, since interest rates and yields on various interest sensitive assets and liabilities do not all adjust in the same degree when there is a change in prevailing interest rates (such as prime rate), the traditional gap analysis is only a general indicator of rate sensitivity and net interest income volatility. Therefore, we also contract with a third-party to assist in the preparation of a rate sensitivity model which applies rate sensitivity measures to assets and liabilities that will reprice within one year at assumed upward and downward shifts in prime rate. From our latest analysis, we have estimated that net interest income over a one-year timeframe generally would decrease with a decrease in prime rate and increase with an increase in prime rate. The estimates, using a 100 basis point shift in prime rate downward and upward, shows an effect on net interest income of approximately minus \$100,000 and plus \$100,000, respectively. These numbers are to be taken as general indications only, in that they were derived from a methodology that utilizes numerous assumptions about sensitivities of various assets and liabilities to changes in interest rates. These estimates are used as a guide by management, recognizing that model risk is always present whenever assumptions of the future must be made. Actual results may differ from the estimates, should there be changes in interest rates.

### Liquidity Management

-----

Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. We must maintain adequate liquidity to respond to short-term deposit withdrawals, maturities of short-term borrowings, loan demand and payment of operating expenses.

At March 31, 2003, our liquid assets, consisting of cash and due from banks and federal funds sold, amounted to \$2.5 million and represented 4% of total assets. Investment securities totaled \$12.4 million and represented 20% of total assets. Investment securities that have not been pledged as collateral for deposits in excess of FDIC coverage or for other borrowings (and classified as available-for sale) provide a secondary source of liquidity since they can be converted to cash in a timely manner. At March 31, 2003, we had securities with a market value of \$3.1 million classified as available for sale that were not pledged. Our ability to maintain and expand our deposit base and borrowing capabilities also serves as a source of liquidity. Our loan to deposit ratio at March 31, 2003 was 89%. We plan to meet our future cash needs through the liquidation of temporary investments, maturities of loans, maturities and cash flows from investment securities, generation of deposits, and the utilization of borrowing arrangements with correspondent banks. We maintain federal funds lines of credit with correspondent banks in the amount of \$5,800,000, lines of credit with the Federal Reserve Bank, and we are a member of the Federal Home Loan Bank, from which application for borrowings can be made for leverage purposes. At March 31,



## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

2003, we had approximately \$12.4 million in available credit under our FHLB facility, of which \$4.8 million had been utilized. Any advances under the FHLB facility must be collateralized with qualifying collateral, which at March 31, 2003 consisted of non-pledged investment securities and FHLB stock. We believe that our existing stable base of core deposits and other funding sources along with continued growth in our deposit base, are adequate to meet our operating needs and we are not aware of any events which may result in a significant adverse impact on liquidity.

14

Through the operations of our bank, we have made contractual commitments to extend credit in the ordinary course of our business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At March 31, 2003, we had issued commitments to extend credit of \$7.5 million through various types of commercial lending arrangements (principally unfunded lines of credit). We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. We manage the credit risk on these commitments by subjecting them to normal underwriting and risk management processes

The bank has a five-year contract for data processing services through April 2004. Costs under this contract are approximately \$10,500 per month.

### Capital Adequacy

Shareholders' equity was \$8.8 million at March 31, 2003 and \$8.8 million at December 31, 2002. The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%.

The Federal Reserve guidelines also contain an exemption from the capital requirements for bank holding companies with less than \$150 million in consolidated assets. Because we have less than \$150 million in assets, our holding company is not currently subject to these guidelines. However, the bank falls under these rules as set by bank regulatory agencies.

Under the capital adequacy guidelines, capital is classified into two tiers. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. Tier 2 capital consists of the general reserve for loan losses subject to certain limitations. The qualifying capital base for purposes of the risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The bank is also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio. The bank exceeded the minimum capital requirements set by the regulatory agencies at March 31, 2003. Below is a table that reflects the leverage and risk-based regulatory capital ratios of the bank at March 31, 2003.

| Required<br>amount<br>(in \$000's) | Required<br>Percent | Actual amount<br>(in \$000's) | Actual<br>Percent |
|------------------------------------|---------------------|-------------------------------|-------------------|
|------------------------------------|---------------------|-------------------------------|-------------------|

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

|                         |         |      |       |       |
|-------------------------|---------|------|-------|-------|
| Total capital           | \$4,149 | 8.0% | 7,629 | 14.7% |
| Tier 1 capital          | 2,075   | 4.0  | 7,095 | 13.7  |
| Tier 1 leverage capital | 2,384   | 4.0  | 7,095 | 11.9  |

### Impact of Inflation

The assets and liabilities of financial institutions such as ours are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and changing prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management seeks to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those, which may result from inflation.

### Recently Issued Accounting Standards

Accounting standards that have been issued or proposed that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

15

### Item 3. Controls and Procedures

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

16

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

-----  
There are no material pending legal proceedings to which we or our subsidiary is party to or which any of their property is the subject.

Item 2. Changes in Securities  
-----

Not Applicable.

Item 3. Defaults upon Senior Securities  
-----

Not Applicable.

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

There were no matters submitted to a vote of security holders during the quarter ended March 31, 2003.

Item 5. Other Information  
-----

None.

Item 6. Exhibits and Reports on Form 8-K  
-----

(a) Exhibits:

99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

The following reports were filed on Form 8-K during the first quarter ended March 31, 2003.

99.1 The Company filed a Form 8-K on March 28, 2003 to disclose that the Chief Executive Officer, Frank W. Wingate, and the Chief Financial Officer, R. Lamar Simpson, each furnished to the SEC the certification required pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

-----  
(Registrant)

Date: May 14, 2003

By: /s/ Frank W. Wingate

-----  
Frank W. Wingate  
President and Chief Executive Officer

Date: May 14, 2003

By: /s/ R. Lamar Simpson

-----  
R. Lamar Simpson  
Senior Vice President and Chief Financial  
Officer

18

Certification

I, Frank W. Wingate, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of New Commerce BanCorp;
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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

## Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

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

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ Frank W. Wingate

-----  
Frank W. Wingate  
President and Chief Executive Officer

19

### Certification

I, R. Lamar Simpson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of New Commerce BanCorp;

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 officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

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

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our

Edgar Filing: NEW COMMERCE BANCORP - Form 10QSB

evaluation as of the Evaluation Date;

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

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

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

By: /s/ R. Lamar Simpson

-----  
R. Lamar Simpson  
Senior Vice President and Chief Financial  
Officer