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COMMERCE BANCORP INC /NJ/
Form 10-K
March 31, 2003

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

FORM 10-K

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

For the fiscal year ended December 31, 2002

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 #0-12874

[GRAPHIC OMITTED][GRAPHIC OMITTED]

(Exact name of registrant as specified in its charter)

New Jersey	22-2433468
State of other jurisdiction of incorporation	(I.R.S. Employee Identification Number)
or organization)	
Commerce Atrium	
1701 Route 70 East	08034-5400
Cherry Hill, New Jersey	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: 856-751-9000

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

Common Stock	New York Stock E
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Title of Class	Name of Each Exchange on

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) 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 Rule 12b-2 of the Act). Yes X No ____.

The aggregate market value of the voting stock held by non-affiliates of

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the Registrant was approximately \$2,750,085,590. (1)

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common Stock \$1.00 Par Value	68,766,342
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Title of Class	No. of Shares Outstanding a

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2003 Annual Meeting of Shareholders.

(1) The aggregate dollar amount of the voting stock set forth equals the number of shares of the Registrant's Common Stock outstanding reduced by the number of shares of Common Stock held by officers, directors, and shareholders owning 10% or more of the Registrant's Common Stock, multiplied by \$44.20, the last sale price for the Registrant's Common Stock on June 28, 2002, the last business day of the Registrant's most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the Registrant or that such person is the beneficial owner of the shares reported as being held by him, and any such inference is hereby disclaimed. The information provided herein is included solely for the recordkeeping purposes of the Securities and Exchange Commission.

COMMERCE BANCORP, INC.
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PART I

Item 1. Business

Forward-Looking Statements

Commerce Bancorp, Inc. (the "Company") may from time to time make various written or oral "forward looking statements" including statements contained in the Company's filings with the Securities and Exchange Commission ("SEC") (including this Annual Report on Form 10-K and the exhibits hereto), in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company pursuant to the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties and are subject to change based on various factors that are sometimes beyond the Company's control. You will generally be able to recognize a forward-looking statement because it contains the words "anticipate," "believe," "estimate," "expect," "project," "objective," "may," "could," "should," "would," "intend," "forecast," "plan" or similar expressions to identify it as a forward-looking statement.

The following factors, among others, could cause the Company's financial performance to differ materially from that expressed in such forward-looking statements: the strength of the United States and world economies in general and the strength of the local economies in which the Company conducts its operations; the effects of, and changes in, trade, monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation; interest rates, market and monetary fluctuations; the Company's timely development of competitive new products and services and the acceptance of such products and services by customers; the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa; the impact of changes in financial services laws and regulations, including laws concerning taxes, banking, securities and insurance; technological changes; future acquisitions; the growth and profitability of the Company's noninterest or fee income being less than expected; the ability to maintain the growth and further development of the Company's community-based retail branch network; the ability to hire and train qualified personnel to sustain the Company's expansion plans; the Company's ability to expand its community-based retail branch network to new markets; unanticipated regulatory or judicial proceedings; changes in consumer spending

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and saving habits; and the Company's success at managing the risks involved in the foregoing. The Company cautions that the foregoing list of important factors is not exclusive.

The Company cautions you that any such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to differ materially from the future results, performance or achievements the Company has anticipated in such forward-looking statements. You should note that many factors, some of which are discussed in this Annual Report on Form 10-K could affect the Company's future financial results and could cause those results to differ materially from those expressed or implied in the Company's forward-looking statements contained or incorporated by reference in this document. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

General

The Company is a New Jersey business corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("Holding Company Act"). The Company was incorporated on December 9, 1982 and became an active bank holding company on June 30, 1983 through the acquisition of Commerce Bank, N.A., referred to as Commerce NJ.

As of December 31, 2002, the Company had total assets of \$16.4 billion, total loans of \$5.8 billion, and total deposits of \$14.5 billion. The address of the Company's principal executive office is Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey, 08034-5400 and the telephone number is (856) 751-9000. The Company operates:

- o four nationally chartered bank subsidiaries:
 - o Commerce Bank, N.A., Cherry Hill, New Jersey;
 - o Commerce Bank/Pennsylvania, N.A., Devon, Pennsylvania;
 - o Commerce Bank/Shore, N.A., Toms River, New Jersey;
 - o Commerce Bank/Delaware, N.A., Wilmington Delaware; and
- o one New Jersey state chartered bank subsidiary:
 - o Commerce Bank/North, Ramsey, New Jersey.

These five bank subsidiaries, referred to collectively as the banks, as of December 31, 2002 had over 224 full service retail branch offices located in the states of New Jersey, Pennsylvania, Delaware and New York. These banks provide a full range of retail and commercial banking services for consumers and small and mid-sized companies. Lending services are focused on commercial real estate and commercial and consumer loans to local borrowers. These banks' lending and investment activities are funded principally by retail deposits gathered through each bank's retail branch office network.

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The Company's primary growth strategy is the opening of new full service branch offices of which 40 opened in 2002 and 34 opened in 2001. The Company expects to open an additional 45 full service branch offices in 2003. The Company has also developed its full service branch office network through the following strategic acquisitions:

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- o on January 2, 1987, the Company acquired all of the outstanding shares of Commerce Bank/Pennsylvania, N.A., referred to as Commerce PA;
- o on December 31, 1988 the Company acquired all of the outstanding shares of Citizens State Bank of New Jersey, Forked River, which was subsequently converted to a national charter and renamed Commerce Bank/Shore, N.A., referred to as Commerce Shore;
- o on September 30, 1993, the Company acquired all of the outstanding shares of The Coastal Bank, Ocean City, New Jersey, which was merged with and into Commerce NJ;
- o on January 21, 1997, the Company acquired Independence Bancorp, Inc., a bank holding company headquartered in Bergen County, New Jersey. Independence Bancorp, Inc.'s wholly-owned state-chartered bank subsidiary, Independence Bank of New Jersey, was subsequently renamed Commerce Bank/North, referred to as Commerce North;
- o on January 15, 1999, the Company acquired Community First Banking Company, referred to as CFBC, a one-bank holding company headquartered in Tinton Falls, New Jersey. CFBC's wholly-owned bank subsidiary, Tinton Falls State Bank, was merged with and into Commerce Shore; and
- o on January 15, 1999, the Company acquired Prestige Financial Corp., referred to as PFC, a one-bank holding company headquartered in Flemington, New Jersey. PFC's wholly-owned state-chartered bank subsidiary, Prestige State Bank, was subsequently re-chartered as a national bank and renamed Commerce Bank/Central, N.A. Commerce Central was merged with and into Commerce NJ in 2001.

In 1998, the Company received regulatory approvals to open Commerce Bank/Delaware, N.A., referred to as Commerce Delaware. Commerce Delaware's first branch opened in New Castle County, Delaware, on December 18, 1999.

Commerce NJ operates a nonbank subsidiary, Commerce Capital Markets, Inc., Philadelphia, Pennsylvania, referred to as Commerce Capital Markets, which engages in various securities, investment banking and brokerage activities. On March 27, 1998, the Company completed the acquisition of A.H. Williams & Co., Inc., Philadelphia, Pennsylvania, a public finance investment firm, and combined A.H. Williams & Co., Inc. with Commerce Capital, the bank securities dealer division of Commerce NJ, to form Commerce Capital Markets.

In addition, the Company, through Commerce Insurance Services, Inc. (formerly Commerce National Insurance Services, Inc.), a nonbank subsidiary of Commerce Bank/North, referred to as Commerce Insurance, operates an insurance brokerage agency concentrating on commercial property, casualty and surety as well as personal lines of insurance and employee benefits for clients in multiple states, primarily Delaware, New Jersey, New York and Pennsylvania. Since 1996, Commerce Insurance has completed several strategic acquisitions of insurance brokerage agencies the most recent of which include the following:

- o in 2001, Fitzsimmons Insurance and Financial Services, Inc., Business Training Systems, Inc. and Brettler Financial Group, Inc. were acquired.
- o in 2002, Sanford and Purvis, Inc., Upper Montclair, NJ, was acquired.

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- o in 2003, The Porch Agency, Bridgeton, NJ, was acquired.

As a legal entity separate and distinct from its bank and non-bank subsidiaries, the Company's principal sources of revenues are dividends and fees from its bank and non-bank subsidiaries. The subsidiaries that operate in the banking, insurance and securities business can pay dividends only if they are in compliance with the applicable regulatory requirements imposed on them by federal and state regulatory authorities.

The Banks

As of December 31, 2002, Commerce NJ had total assets of \$10.1 billion, total deposits of \$7.8 billion, and total shareholders' equity of \$582.1 million; Commerce PA had total assets of \$3.4 billion, total deposits of \$3.1 billion and total shareholders' equity of \$231.7 million; Commerce Shore had total assets of \$2.1 billion, total deposits of \$1.9 billion and total shareholders' equity of \$130.5 million; Commerce North had total assets of \$1.9 billion, total deposits of \$1.7 billion, and total shareholders' equity of \$130.4 million; and Commerce Delaware had total assets of \$225.6 million, total deposits of \$203.7 million, and total shareholders' equity of \$19.9 million.

Commerce NJ provides retail and commercial banking services through 111 retail branch offices in Central and Southern New Jersey, and Metropolitan New York.; Commerce PA provides retail and commercial banking services through 53 retail branch offices in Philadelphia, Bucks, Chester, Delaware and Montgomery Counties in Southeastern Pennsylvania; Commerce Shore provides retail and commercial banking services through 29 retail branch offices in Ocean and Monmouth Counties, New Jersey; Commerce North provides retail and commercial banking services through 25 retail branch offices in Bergen and Passaic Counties, New Jersey; and Commerce Delaware provides retail and commercial banking services through 6 retail branch offices in New Castle County, Delaware.

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Service Areas

The Company's primary service areas includes New Jersey, Metropolitan Philadelphia and New York, and Northern Delaware. The Company has attempted to locate its branches in the fastest growing communities within its service areas. Retail deposits gathered through these focused branching activities are used to support lending throughout the Company.

Retail Banking Services and Products

Each bank provides a broad range of retail banking services and products, including free checking accounts, subject to minimum balances, savings programs, money market accounts, negotiable orders of withdrawal accounts, certificates of deposit, safe deposit facilities, consumer loan programs, including installment loans for home improvement and the purchase of consumer goods and automobiles, home equity and Visa Gold card revolving lines of credit, overdraft checking and automated teller facilities. Each bank also offers construction loans and permanent mortgages for houses.

Trust Services

Commerce NJ, Commerce PA and Commerce Delaware each offer trust services primarily focusing on corporate trust services, particularly as bond trustee, paying agent, and registrar for municipal bond offerings.

Commercial Banking Services and Products

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Each bank offers a broad range of commercial banking services, including free checking accounts, subject to minimum balance, night depository facilities, money market accounts, certificates of deposit, short-term loans for seasonal or working capital purposes, term loans for fixed assets and expansion purposes, revolving credit plans and other commercial loans and leases to fit the needs of its customers. Each bank also finances the construction of business properties and makes real estate mortgage loans on completed buildings. Where the needs of a customer exceed a bank's legal lending limit for any one customer, such bank may participate with other banks, including the other banks owned by the Company, in making a loan.

Additional information pertaining to the Company's segments is set forth in "Note 19 - Segment Reporting" of the Company's Notes to Consolidated Financial Statements which appear elsewhere herein.

Commerce Insurance

Commerce Insurance operates one of the nation's largest regional insurance brokerage firm concentrating on commercial property, casualty and surety as well as personal lines. In addition, Commerce Insurance offers a line of employee benefit programs including group as well as individual medical, life, disability, pension, and risk management services. Commerce Insurance currently operates out of 12 locations in New Jersey, 2 locations in Pennsylvania, and 2 locations in Delaware. Commerce Insurance places insurance for clients in multiple states, primarily New Jersey, Pennsylvania, New York, and Delaware.

Commerce Capital Markets

Commerce Capital Markets engages in various securities, investment management and brokerage activities, including trading, underwriting, and advisory services. Commerce Capital Markets' principal place of business is Philadelphia, Pennsylvania, with branch locations in Cherry Hill, South Plainfield, Ramsey and Toms River, New Jersey; New York, New York; Burlingame, California; and Cambridge, Massachusetts.

Commerce Capital Trust II

Commerce Capital Trust II, a wholly-owned subsidiary of the Company, is a statutory business trust created under Delaware law. On March 11, 2002 the Company issued \$200.0 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II.

Other Activities

NA Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ that purchases, holds and sells investments of Commerce NJ. Commerce Mortgage Acceptance Corp., a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ that is utilized in the securitization of residential mortgage loans. Shore Asset Management Corporation, a Delaware corporation, is a wholly-owned subsidiary of Commerce Shore that purchases, holds and sells investments of Commerce Shore. North Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce North that purchases, holds, and sells investments of Commerce North. Delaware Asset Management, a New Jersey corporation, is a wholly-owned subsidiary of Commerce Delaware that purchases, holds, and sells investments of Commerce Delaware. Commerce Commercial Leasing LLC, a New Jersey Limited Liability Company, is a wholly-owned subsidiary of Commerce NJ that provides business leasing services.

The Company has an equity investment in Pennsylvania Commerce Bancorp, Inc., Camp Hill, Pennsylvania (14.47% beneficial ownership assuming the exercise of all outstanding warrants held by the Company). The Company and its

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subsidiaries provide marketing support and technical support services to Pennsylvania Commerce Bancorp, Inc. and its wholly owned subsidiary, Commerce Bank/Harrisburg.

Risk Factors

The Company is subject to a number of risk factors including, among others, business and economic conditions, monetary and other governmental policies, and competition. These factors, and others, could impact the Company's business, financial

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condition and results of operations. In the normal course of business, the Company assumes various types of risk, which include, among others, credit risk, interest rate risk, liquidity risk and risk associated with trading activities. The Company has risk management processes designed to provide for risk identification, measurement and monitoring.

Competition

The Company's service area is characterized by intense competition in all aspects and areas of its business from commercial banks, savings and loan associations, mutual savings banks and other financial institutions. The Company's competitors, including credit unions, consumer finance companies, factors, insurance companies and money market mutual funds, compete with lending and deposit gathering services offered by the Company. Many competitors have substantially greater financial resources with larger lending limits and larger branch systems than the Company's.

In commercial transactions, Commerce NJ's, Commerce PA's, Commerce Shore's, Commerce North's, and Commerce Delaware's legal lending limit to a single borrower (approximately \$88.8 million, \$31.3 million, \$19.7 million, \$18.7 million, and \$2.8 million, respectively, as of December 31, 2002) enables the banks to compete effectively for the business of smaller and mid-sized businesses. The combined legal lending limit of the Company is \$161.3 million. These legal lending limits are lower than that of various competing institutions and may act as a constraint on the bank's effectiveness in competing for financing in excess of these limits.

The Company believes that it is able to compete on a substantially equal basis with larger financial institutions because its banks offer longer hours of operation than those offered by most of the Company's competitors, free checking accounts for customers maintaining minimum balances and competitive interest rates on savings and time accounts with low minimum deposit requirements.

The Company seeks to provide personalized services through management's knowledge and awareness of its market area, customers and borrowers. The Company believes this knowledge and awareness provides a business advantage in serving the retail depositors and the small and mid-sized commercial borrowers that comprise the Company's customer base.

Supervision and Regulation

THE FOLLOWING DISCUSSION SETS FORTH CERTAIN OF THE MATERIAL ELEMENTS OF THE REGULATORY FRAMEWORK APPLICABLE TO BANK HOLDING COMPANIES AND THEIR SUBSIDIARIES AND PROVIDES CERTAIN SPECIFIC INFORMATION RELEVANT TO THE COMPANY AND ITS SUBSIDIARIES. THE REGULATORY FRAMEWORK IS INTENDED PRIMARILY FOR THE PROTECTION OF DEPOSITORS, OTHER CUSTOMERS AND THE FEDERAL DEPOSIT INSURANCE FUNDS AND NOT FOR THE PROTECTION OF SECURITY HOLDERS. TO THE EXTENT THAT THE FOLLOWING INFORMATION DESCRIBES STATUTORY AND REGULATORY PROVISIONS, IT IS QUALIFIED IN

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ITS ENTIRETY BY REFERENCE TO THE PARTICULAR STATUTORY AND REGULATORY PROVISIONS. A CHANGE IN APPLICABLE STATUTES, REGULATIONS OR REGULATORY POLICY MAY HAVE A MATERIAL EFFECT ON THE BUSINESS OF THE COMPANY.

The Company

The Company is registered as a bank holding company under the Holding Company Act, and is therefore subject to supervision and regulation by the Federal Reserve Board ("FRB"). The Company is also regulated by the New Jersey Department of Banking and Insurance (the "Department").

Under the Holding Company Act, the Company is required to secure the prior approval of the FRB before it can merge or consolidate with any other bank holding company or acquire all or substantially all of the assets of any bank or acquire direct or indirect ownership or control of any voting shares of any bank that is not already majority owned by it, if after such acquisition it would directly or indirectly own or control more than 5% of the voting shares of such bank.

The Company is generally prohibited under the Holding Company Act from engaging in, or acquiring direct or indirect ownership or control or more than 5% of the voting shares of any company engaged in nonbanking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making such a determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public which outweigh the possible adverse effects.

Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act, as amended ("CRA") ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions. All of the Company's subsidiary banks are currently rated "satisfactory" under the CRA.

In addition, under the Holding Company Act, the Company is required to file periodic reports of its operations with, and is subject to examination by, the FRB.

The Company is under the jurisdiction of the SEC and various state securities commissions for matters relating to the offering and sale of its securities and is subject to the SEC's rules and regulations relating to periodic reporting, reporting to shareholders, proxy solicitation and insider trading.

There are various legal restrictions on the extent to which the Company and its nonbank subsidiaries can borrow or otherwise obtain credit from its banking subsidiaries. In general, these restrictions require that any such extensions of credit must be secured

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by designated amounts of specified collateral and are limited, as to any one of the Company or such nonbank subsidiaries, to ten percent of the lending bank's capital stock and surplus, and as to the Company and all such nonbank subsidiaries in the aggregate, to 20 percent of such lending bank's capital stock and surplus. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

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The Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA") contains a "cross-guarantee" provision that could result in any insured depository institution owned by the Company being assessed for losses incurred by the FDIC in connection with assistance provided to, or the failure of, any other depository institution owned by the Company. Also, under FRB policy, the Company is expected to act as a source of financial strength to each of its banking subsidiaries and to commit resources to support each such bank in circumstances where such bank might not be in a financial position to support itself. Consistent with the "source of strength" policy for subsidiary banks, the FRB has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation's capital needs, asset quality and overall financial condition.

A discussion of capital guidelines and capital is included in the section entitled "Stockholders' Equity and Dividends" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein. Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware

Commerce NJ, Commerce PA, Commerce Shore, and Commerce Delaware, as national banks, are subject to the National Bank Act. Each is also subject to the supervision of, and is regularly examined by, the Office of the Comptroller of the Currency ("OCC") and is required to furnish quarterly reports to the OCC. The approval of the OCC is required for the establishment of additional branch offices by any national bank, subject to applicable state law restrictions.

Commerce North, as a New Jersey state-chartered bank, is subject to the New Jersey Banking Act. Commerce North is also subject to the supervision of, and is regularly examined by, the Department and the FDIC, and is required to furnish quarterly reports to each agency. The approval of the Department and the FDIC is necessary for the establishment of any additional branch offices by any New Jersey state-chartered bank, subject to applicable state law restrictions.

Under present New Jersey law, Commerce NJ, Commerce Shore, and Commerce North would be permitted to operate offices at any location in New Jersey, subject to prior regulatory approval. Under present New York law, Commerce NJ would be permitted to operate offices at any location in New York, subject to certain home office protection rules and subject to regulatory approval. Under present Pennsylvania law, Commerce PA would be permitted to operate offices within any county in Pennsylvania, subject to prior regulatory approval. Under present Delaware law, Commerce Delaware would be permitted to operate offices at any location in Delaware at which deposits are received, checks are paid, or money is lent, subject to prior regulatory approval.

Under the CRA, a bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA requires that the applicable regulatory agency to assess an institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution's CRA rating and requires that the applicable regulatory agency provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. An institution's CRA rating is considered in determining whether to grant charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than

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satisfactory may be the basis for denying an application. In addition, under applicable regulations a bank having a less than satisfactory rating is not entitled to participate on the bid list for FDIC offerings. For their most recent examinations, Commerce NJ, Commerce PA, Commerce Shore, Commerce Delaware and Commerce North each received a "satisfactory" rating.

Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware are also members of the FDIC and, except for Commerce North, members of the FRB and, therefore, are subject to additional regulation by these agencies. Some of the aspects of the lending and deposit business of Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware which are regulated by these agencies include personal lending, mortgage lending and reserve requirements. The operation of Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware are also subject to numerous federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to interest rates on loans, the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware are subject to certain limitations on the amount of cash dividends that they can pay. See Note 18 of the Company's Notes to Consolidated Financial Statements which appears elsewhere herein.

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A discussion of capital guidelines and capital is included in the section entitled "Stockholders' Equity and Dividends" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

The OCC has authority under the Financial Institutions Supervisory Act to prohibit national banks from engaging in any activity which, in the OCC's opinion, constitutes an unsafe or unsound practice in conducting their businesses. The FRB has similar authority with respect to the Company and the Company's non-bank subsidiaries. The FDIC has similar authority with respect to Commerce North.

All of the deposits of the banking subsidiaries are insured up to applicable limits by the FDIC and are subject to deposit insurance assessments. The insurance assessments are based upon a matrix that takes into account a bank's capital level and supervisory rating. Effective January 1, 1996, the FDIC reduced the insurance premiums it charged on bank deposits to the statutory minimum of \$2,000 annually for "well capitalized" banks.

Commerce Insurance/ Commerce Capital Markets

Commerce Insurance, a nonbank subsidiary of Commerce North, is currently subject to supervision, regulation and examination by the Department, as well as other state insurance departments where it operates. Commerce Capital Markets, a nonbank subsidiary of Commerce NJ, engages in certain permitted securities activities and is regulated by the SEC. Commerce Capital Markets is also subject to rules and regulations promulgated by the National Association of Securities Dealers, Inc., the Securities Investors Protection Corporation and various state securities commissions and with respect to public finance activities the Municipal Securities Rulemaking Board.

Both Commerce Insurance and Commerce Capital Markets are also subject to various state laws and regulations in which they do business. These laws and

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regulations are primarily intended to benefit clients and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws and regulations. In such event, the possible sanctions which may be imposed include the suspension of individual employees, limitations on engaging in business for specific periods, censures and fines.

Gramm-Leach-Bliley Act

On November 12, 1999 the Gramm-Leach-Bliley Act (the "Act") became law, repealing the 1933 Glass-Steagall Act's separation of the commercial and investment banking industries. The Act expanded the range of nonbanking activities a bank holding company may engage in, while preserving existing authority for bank holding companies to engage in activities that are closely related to banking. The Act created a category of holding company called a "Financial Holding Company," a subset of bank holding companies that satisfy the following criteria: (1) all of the depository institution subsidiaries must be well capitalized and well managed; and (2) the holding company must have made an effective election with the FRB that it elects to be a financial holding company to engage in activities that would not have been permissible before the Act. In order for the election to be effective, all of the depository institution subsidiaries must have a CRA rating of "satisfactory" or better as of its most recent examination. The Company has not elected to be a financial holding company. Financial holding companies may engage in any activity that (i) is financial in nature or incidental to such financial activity or (ii) is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Act specifies certain activities that are financial in nature. These activities include acting as principal, agent or broker for insurance; underwriting, dealing in or making a market in securities; and providing financial and investment advice. The FRB and the Secretary of the Treasury have authority to decide whether other activities are also financial in nature or incidental to financial activity, taking into account changes in technology, changes in the banking marketplace, competition for banking services and so on.

These financial activities authorized by the Act may also be engaged in by a "financial subsidiary" of a national or state bank, except for annuity underwriting, insurance company portfolio investments, real estate investment and development, and merchant banking, which must be conducted in a financial holding company. In order for the new financial activities to be engaged in by a financial subsidiary of a national or state bank, the Act requires each of the parent bank (and its sister-bank affiliates) to be well capitalized and well managed; the aggregate consolidated assets of all of that bank's financial subsidiaries may not exceed the lesser of 45% of its consolidated total assets or \$50.0 billion; the bank must have at least a satisfactory CRA rating; and, if that bank is one of the 100 largest national banks, it must meet certain financial rating or other comparable requirements.

The Act establishes a system of functional regulation, under which the federal banking agencies will regulate the banking activities of financial holding companies and banks' financial subsidiaries, the SEC will regulate their securities activities and state insurance regulators will regulate their insurance activities. The Act also provides new protections against the transfer and use by financial institutions of consumers' nonpublic, personal information.

The foregoing discussion is qualified in its entirety by reference to the statutory provisions of the Act and the implementing regulations which are adopted by various government agencies pursuant to the Act.

THE RULES GOVERNING THE REGULATION OF FINANCIAL SERVICES INSTITUTIONS AND THEIR HOLDING COMPANIES ARE VERY DETAILED AND TECHNICAL. ACCORDINGLY, THE ABOVE DISCUSSION IS GENERAL IN NATURE AND DOES NOT PURPORT TO BE COMPLETE OR TO

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DESCRIBE ALL OF THE LAWS AND REGULATIONS THAT APPLY TO THE COMPANY AND ITS SUBSIDIARIES.

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National Monetary Policy

In addition to being affected by general economic conditions, the Company's earnings and growth are affected by the policies of regulatory authorities, including the OCC, the FRB and the FDIC. An important function of the FRB, is to regulate the money supply and credit conditions. Among the instruments used to implement these objectives are open market operations in U.S. Government securities, setting the discount rate, and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the FRB have had significant effects on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of these policies upon the Company's future business, earnings and growth cannot be predicted.

Employees

As of December 31, 2002, the Company had in excess of 6,800 full-time equivalent employees.

Available Information

The Company's internet address is www.yesbank.com. The Company makes available free of charge on or through www.yesbank.com its annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

In addition, the Company will provide, at no cost, paper or electronic copies of its reports and other filings (excluding exhibits) made with the SEC. Requests should be directed to:

Commerce Bancorp, Inc.
Commerce Atrium
1701 Route 70 East
Cherry Hill, NJ 08034-5400
Attn: C. Edward Jordan, Jr.
Executive Vice President

The information on the website listed above, is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document. This website is and is only intended to be an inactive textual reference.

Item 2. Properties

The executive and administrative offices of the Company and Commerce NJ are located at 1701 Route 70 East, Cherry Hill, New Jersey. This six-story structure is owned by the Company. The Company and Commerce NJ occupy the majority of this building.

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The Company and its subsidiaries own or lease numerous other premises for use in conducting business activities. The facilities owned or occupied under lease by the Company's subsidiaries are considered by management to be adequate.

Additional information pertaining to the Company's properties is set forth in "Note 7 - Bank Premises, Equipment and Leases" of the Company's Notes to Consolidated Financial Statements which appear elsewhere herein.

Item 3. Legal Proceedings

Other than routine litigation incidental to its business, neither the Company or any of its subsidiaries, nor any of the Company's or any of its subsidiaries' properties, are subject to any material legal proceedings, nor are any such proceedings known to be contemplated.

Item 4. Submission of matters to a vote of security holders

There were no matters submitted to a vote of security holders in the fourth quarter of 2002.

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Part II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; Stockholders' Equity and Dividends included elsewhere herein.

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for disclosure regarding the Company's Equity Compensation Plans.

Dividend Policy

It is the present intention of the Company's Board of Directors to pay quarterly cash dividends on the Company's common stock. However, the declaration and payment of future dividends will be subject to determination and declaration by the Board of Directors, which will consider the Company's earnings, financial condition and capital needs and applicable regulatory requirements. See Note 18 of the Company's Notes to Consolidated Financial Statements which appears elsewhere herein.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and accompanying notes included elsewhere herein.

	Year Ended December 31		
(dollars in thousands, except per share data)	2002	2001	2000
Income Statement Data:			
Net interest income	\$ 572,755	\$ 401,326	\$ 296,930
Provision for loan losses	33,150	26,384	13,931
Noninterest income	257,466	196,805	150,760
Noninterest expense	579,168	420,036	315,357
Income before income taxes	217,903	151,711	118,402
Net income	144,815	103,022	80,047
Balance Sheet Data:			
Total assets	\$16,403,981	\$11,363,703	\$8,296,516
Loans (net)	5,731,856	4,516,431	3,638,580
Securities available for sale	7,806,779	4,152,704	2,021,326
Securities held to maturity	763,026	1,132,172	1,513,456
Trading securities	326,479	282,811	109,306
Federal funds sold			52,000
Deposits	14,548,841	10,185,594	7,387,594
Long-term debt		23,000	23,000
Trust preferred securities		57,500	57,500
Convertible trust preferred securities	200,000		
Stockholders' equity	918,010	636,570	492,224
Per Share Data:			
Net income-basic	\$ 2.16	\$ 1.59	\$ 1.30
Net income-diluted	2.04	1.51	1.25
Cash dividends	0.60	0.55	0.48
Book value	13.53	9.70	7.77
Average shares outstanding:			
Basic	66,795	64,666	61,755
Diluted	70,903	68,102	64,223
Selected Ratios:			
Performance			
Return on average assets	1.05 %	1.08 %	1.09 %
Return on average equity	18.50	17.64	19.81
Net interest margin	4.69	4.76	4.62
Liquidity and Capital			
Average loans to average deposits	42.48 %	48.04 %	52.17 %
Dividend payout	27.78	34.59	37.45
Stockholders' equity to total assets	5.60	5.60	5.93
Risk-based capital:			
Tier 1	11.47	10.81	10.79
Total	12.51	11.96	11.92
Leverage capital	6.37	6.24	6.92
Asset Quality			
Non-performing assets to total year-end assets	0.11 %	0.16 %	0.20 %
Net charge-offs to average loans outstanding	0.18	0.19	0.11
Non-performing loans to total year-end loans	0.24	0.37	0.37
Allowance for loan losses to total end of year loans	1.56	1.46	1.32
Allowance for loan losses to non-			

performing loans

640.18

397.73

356.84

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

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company analyzes the major elements of the Company's consolidated balance sheets and statements of income. This section should be read in conjunction with the Company's consolidated financial statements and accompanying notes.

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

The Company's accounting policies are fundamental to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company has identified two policies as being critical: the policies related to the allowance for loan losses and capitalization of branch costs. The Company, in consultation with the Audit Committee, has reviewed and approved these critical accounting policies (further described in Note 1 Significant Accounting Policies to the Consolidated Financial Statements.)

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio of the Company. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Note 1 to the Consolidated Financial Statements describes the methodology used to determine the allowance for loan losses and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Allowance for Loan Losses discussion within this Management's Discussion and Analysis of Financial Condition and Results of Operations.

In addition, due to the Company's recent growth and plans for future expansion, management has identified the accounting for the capitalization of fixed assets, including costs related to branch construction, as an application of a critical accounting policy. In accordance with accounting principles generally accepted in the United States, when capitalizing costs for branch construction, the Company includes the costs of purchasing the land, developing the site, constructing the building (or leasehold improvements if the property is leased), and furniture, fixtures and equipment necessary to equip the branch. All other

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pre-opening and post-opening costs related to branches are expensed as incurred.

2002 Overview

In 2002, the Company again posted increases in net income, deposits, loans, and assets. The increase in net income was due to increases in net interest income and noninterest income, which offset increases in both the provision for loan losses and noninterest expenses. Loan growth totaled 27% for 2002, and deposit growth totaled 43%. At December 31, 2002, the Company had total assets of \$16.4 billion, total loans of \$5.8 billion, total investment securities of \$8.9 billion, and total deposits of \$14.5 billion. The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for sound growth and profitability. The Company's continued ability to grow deposits, resulting in significant earning asset growth, permitted the Company to report \$585.9 million in net interest income on a tax equivalent basis in 2002, an increase of \$173.2 million or 42% over 2001. As more fully depicted in the chart below, the increase in net interest income in both 2002 and 2001 was almost entirely due to volume increases in the Company's earning assets.

----- Net Interest Income -----				
	Volume Increase (in millions)	Rate Change (in millions)	Total Increase (in millions)	% increase
2002	\$174.0	(\$0.8)	\$173.2	42%
2001	91.4	15.1	\$106.5	35%

Segment Reporting

The Company operates one reportable segment of business, Community Banks, as more fully described in Note 19 to the Consolidated Financial Statements. The following table summarizes net income by segment for each of the last three years:

----- Net Income -----			
	2002	2001	2000
Community Banks	\$139,560	\$ 95,574	\$77,262
Parent/Other	5,255	7,448	2,785
Consolidated total	\$144,815	\$103,022	\$80,047

Average Balances and Net Interest Income

The table on page 12 sets forth balance sheet items on a daily average basis for the years ended December 31, 2002, 2001 and 2000 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2002, average interest earning assets totaled \$12.5 billion, an increase of \$3.8 billion, or 44% over 2001. This increase resulted primarily from the increase in the average balance of investments, which rose \$2.8 billion, and the average balance of loans, which rose \$1.1 billion.

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during 2002. The growth in the average balance of interest earning assets was funded primarily by an increase in the average balance of deposits (including noninterest-bearing demand deposits) of \$3.8 billion.

Net Interest Income and Net Interest Margin

Net interest margin on a tax equivalent basis was 4.69% for 2002, a decrease of 7 basis points from 2001.

Net interest income is the difference between the interest income on loans, investments and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. Net interest income is the primary source of earnings for the Company.

Net interest income on a tax-equivalent basis (which adjusts for the tax-exempt status of income earned on certain loans and investments to express such income as if it were taxable) for 2002 was \$585.9 million, an increase of \$173.2 million, or 42%, over 2001. Interest income on a tax-equivalent basis increased to \$768.5 million from \$615.7 million, or 25%. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2002 fell \$20.4 million to \$182.6 million from \$203.0 million in 2001. This decrease was primarily related to decreases in the rates paid on the Company's deposits and debt instruments.

The tax-equivalent yield on interest earning assets during 2002 was 6.15%, a decrease of 95 basis points from 7.10% in 2001. The cost of interest-bearing liabilities decreased 115 basis points in 2002 to 1.81% from 2.96% in 2001. The decrease resulted primarily from decreased general market interest rates during 2002 as compared to 2001. The cost of total funding sources decreased 88 basis points in 2002 to 1.46% from 2.34%.

The following table presents the major factors that contributed to the changes in net interest income for the years ended December 31, 2002 and 2001 as compared to the respective previous periods.

2002 vs. 2001 Increase (Decrease) Due to Changes in (1)			2001 vs. Increase (D Due to C		
Volume	Rate	Total	Volume		R
(dollars in thousands)					
Interest on					
Investments:					
Taxable	\$ 156,146	(\$ 29,870)	\$ 126,276	\$ 71,674	\$ (
Tax-exempt	1,968	(214)	1,754	297	
Trading	1,558	253	1,811	3,669	(
Federal					
Funds sold	(1,802)	(3,270)	(5,072)	3,448	(
Interest on					
loans:					
Commercial					
mortgages	31,083	(17,921)	13,792	27,325	(1

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Commercial	16,240	(17,045)	(805)	18,542	(1
Consumer	27,817	(13,936)	13,881	8,428	
Tax-exempt	1,612	(499)	1,113	5,492	
<hr/>					
Total					
interest					
Income	234,622	(81,872)	152,750	138,875	(3
<hr/>					
Interest					
expense:					
Regular					
Savings	9,678	(12,093)	(2,415)	5,777	(1
N.O.W.					
Accounts	1,128	(2,606)	(1,478)	1,821	(
Money					
Market plus	17,669	(24,332)	(6,663)	12,622	(2
Time					
Deposits	20,708	(20,730)	(22)	17,471	(
Public funds	2,960	(19,455)	(16,495)	(16,495)	(
<hr/>					
Other					
Borrowed					
Money	379	(2,048)	(1,669)	16,247	(
Long-term					
Debt	8,090	227	8,317		(
<hr/>					
Total					
interest					
Expense	60,612	(81,037)	(20,425)	47,461	(5
Net increase	\$ 174,010	(\$ 835)	\$ 173,175	\$ 91,413	\$ 1

(1) Changes due to both volume and rate have been allocated to volume or rate changes in proportion to the absolute dollar amounts of the change in each.

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Commerce Bancorp, Inc. and Subsidiaries Average Balances and Net Interest

Year Ended December 31,						
2002			2001			
(dollars in thousands)	Average		Average	Average		Average
Earning Assets	Balance	Interest	Rate	Balance	Interest	Rate
<hr/>						
Investment securities						
Taxable	\$ 6,835,820	\$387,811	5.67 %	\$4,083,493	\$261,535	6.40

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Tax-exempt	110,235	6,852	6.22	78,572	5,098	6.49
Trading	214,016	12,193	5.70	186,678	10,382	5.56
<hr/>						
Total investment securities	7,160,071	406,856	5.68	4,348,743	277,015	6.37
Federal funds sold	54,043	865	1.60	166,619	5,937	3.56
<hr/>						
Loans						
Commercial mortgages	2,037,091	138,864	6.82	1,581,118	125,072	7.91
Commercial	1,219,182	73,338	6.02	949,205	74,143	7.81
Consumer	1,815,679	130,143	7.17	1,427,586	116,262	8.14
Tax-exempt	212,261	18,416	8.68	193,678	17,303	8.93
<hr/>						
Total loans	5,284,213	360,761	6.83	4,151,587	332,780	8.02
<hr/>						
Total earning assets	\$12,498,327	\$768,482	6.15 %	\$8,666,949	\$615,732	7.10
<hr/>						
Sources of Funds						
<hr/>						
Interest-bearing liabilities						
Regular savings	\$ 2,416,884	\$ 30,232	1.25 %	\$1,643,145	\$ 32,647	1.99
N.O.W. accounts	344,951	4,156	1.20	251,352	5,634	2.24
Money market plus	4,193,963	51,257	1.22	2,748,236	57,920	2.11
Time deposits	1,882,823	61,393	3.26	1,247,741	61,415	4.92
Public funds	925,827	20,174	2.18	790,001	36,669	4.64
<hr/>						
Total deposits	9,764,448	167,212	1.71	6,680,475	194,285	2.91
<hr/>						
Other borrowed money	118,734	1,839	1.55	94,257	3,508	3.72
Long-term debt	199,464	13,565	6.80	80,500	5,248	6.52
<hr/>						
Total deposits and interest-bearing liabilities	10,082,646	182,616	1.81	6,855,232	203,041	2.96
Noninterest-bearing funds (net)	2,415,681			1,811,717		
<hr/>						
Total sources to fund earning assets	\$12,498,327	182,616	1.46	\$8,666,949	\$203,041	2.34
<hr/>						
Net interest income and margin tax-equivalent basis		\$585,866	4.69		412,691	4.76
Tax-exempt adjustment		13,111			11,365	
<hr/>						
Net interest income and margin		\$572,755	4.58 %		\$401,326	4.63
<hr/>						
Other Balances						
<hr/>						
Cash and due from banks	\$ 630,134			\$ 417,110		
Other assets	702,898			519,799		
Total assets	13,752,237			9,546,794		
Demand deposits (noninterest-bearing)	2,674,233			1,962,354		
Other liabilities	212,775			145,084		
Stockholders' equity	782,583			584,124		
<hr/>						

Notes --Weighted average yields on tax-exempt obligations have been computed on a tax-equivalent basis assuming a federal tax rate of 35%.

--Non-accrual loans have been included in the average loan balance.

--Investment securities include investments available for sale.

--Consumer loans include loans held for sale.

Noninterest Income

For 2002, noninterest income totaled \$257.5 million, an increase of \$60.7 million or 31% from 2001. The growth in noninterest income was primarily reflected in increased deposit and service fees and other operating income, including the Company's insurance and capital markets divisions. Commerce Insurance, the Company's insurance brokerage subsidiary recorded a 12% increase in revenues or \$6.1 million to \$55.9 million from \$49.8 million in 2001. Commerce Capital Markets generated noninterest revenues of \$35.1 million in 2002, an increase of \$13.0 million or 59% from revenues of \$22.0 million in 2001. The growth in noninterest income is more fully depicted in the following chart.

	2002	2001
	-----	-----
Deposit Charges & Service Fees	\$130,993	\$100,912
Other Operating Income:		
Insurance	55,875	49,803
Capital Markets	35,082	22,049
Loan Brokerage Fees	18,655	10,976
Other	16,861	13,065
	-----	-----
	126,473	95,893
	-----	-----
Total NonInterest Income	\$257,466	\$196,805

Noninterest Expenses

Noninterest expenses totaled \$579.2 million for 2002, an increase of \$159.1 million, or 38% over 2001. Contributing to this increase was the addition of 40 new branches. With the addition of these new offices, staff, facilities, marketing, and related expenses rose accordingly. Other noninterest expenses rose \$37.2 million to \$124.1 million in 2002. This increase included increased bank-card related service charges of \$8.3 million, increased business development expenses of \$6.6 million, and increased professional services and insurance expenses of \$5.4 million.

A key industry productivity measure is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses (excluding other real estate expenses) to net interest income plus noninterest income (excluding non-recurring gains). This ratio equaled 69.73%, 70.06%, and 70.72%, in 2002, 2001, and 2000, respectively. The Company's efficiency ratio remains above its peer group primarily due to its aggressive expansion activities. Income Taxes

The provision for federal and state income taxes for 2002 was \$73.1 million compared to \$48.7 million in 2001 and \$38.4 million in 2000. The effective tax rate was 33.5%, 32.1% and 32.4% in 2002, 2001, and 2000, respectively. The increase in the effective income tax rate for 2002 is due primarily to higher state income taxes under newly enacted tax laws in New Jersey.

Net Income

Net income for 2002 was \$144.8 million, an increase of \$41.8 million, or 41% over the \$103.0 million recorded for 2001. The increase in net income was due to

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increases in net interest income and noninterest income, which offset increases in both the provision for loan losses and noninterest expenses.

Diluted net income per share of common stock for 2002 was \$2.04 compared to \$1.51 per common share for 2001.

Return on Average Equity and Average Assets

Two industry measures of the performance by a banking institution are its return on average assets and return on average equity. Return on average assets ("ROA") measures net income in relation to total average assets and indicates a company's ability to employ its resources profitably. The Company's ROA was 1.05%, 1.08%, and 1.09% for 2002, 2001, and 2000, respectively. Return on average equity ("ROE") is determined by dividing annual net income by average stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its stockholders. The Company's ROE was 18.50%, 17.64%, and 19.81% for 2002, 2001, and 2000, respectively.

The Company's ROE excluding the accumulated other comprehensive income component of stockholders equity (the unrealized appreciation /depreciation of its available for sale securities) was 20.28%, 18.33%, and 18.00% for 2002, 2001 and 2000 respectively.

Loan Portfolio

The following table summarizes the loan portfolio of the Company by type of loan as of December 31, for each of the years 1998 through 2002.

	December 31,			
	2002	2001	2000	1999
(dollars in thousands)				
Commercial real estate:				
Owner-occupied	\$1,345,306	\$1,028,408	\$ 945,599	\$ 634,
Investor/developer	885,276	799,799	578,982	452,
Residential construction	102,080	47,917	13,743	5,
	2,332,662	1,876,124	1,538,324	1,092,
Commercial:				
Term	842,869	600,374	469,564	393,
Line of credit	683,640	556,977	430,811	277,
Demand	317	440	1,400	1,
	1,526,826	1,157,791	901,775	673,
Consumer:				
Mortgages (1-4 family residential)	626,652	471,680	351,644	428,
Installment	140,493	161,647	154,415	125,
Home equity	1,139,589	872,974	710,848	621,
Credit lines	56,367	43,196	30,254	19,
	1,963,101	1,549,497	1,247,161	1,195,
Total loans	\$5,822,589	\$4,583,412	\$3,687,260	\$2,961,

The Company manages risk associated with its loan portfolio through diversification, underwriting policies and procedures, and ongoing loan monitoring efforts. The commercial real estate portfolio includes owner-occupied permanent and construction loans (owner occupies greater than 50% of the property); investor/developer permanent and construction loans; and residential construction loans. Owner-occupied and investor/developer loans generally have

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five year call provisions and bear the personal guarantees of the principals involved. Financing for investor/developer construction is generally for pre-leased or pre-sold property, while residential construction is provided against firm agreements of sale with speculative construction generally limited to two samples per project. The commercial loan portfolio is comprised of loans to businesses in New Jersey, Philadelphia and the New York City metropolitan areas. These loans are generally secured by business assets, personal guarantees, and/or personal assets of the borrower. The consumer loan portfolio is comprised primarily of loans secured by first and second mortgage liens on residential real estate. The contractual maturity ranges of the loan portfolio and the amount of loans with predetermined interest rates and floating rates in each maturity range, as of December 31, 2002, are summarized in the following table.

December 31, 2002				
	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years	Total
(dollars in thousands)				
Commercial real estate:				
Owner-occupied	\$ 394,166	\$ 804,569	\$ 146,571	\$1,345,306
Investor/developer	220,464	626,545	38,267	885,276
Residential construction	77,127	24,797	156	102,080
	691,757	1,455,911	184,994	2,332,662
Commercial:				
Term	296,311	457,426	89,132	842,869
Line of credit	656,650	26,990		683,640
Demand	129	188		317
	953,090	484,604	89,132	1,526,826
Consumer:				
Mortgages (1-4 family Residential)	73,065	57,901	495,686	626,652
Installment	54,920	64,085	21,488	140,493
Home equity	110,573	379,274	649,742	1,139,589

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Credit lines	24,480	31,887		56,367
	263,038	533,147	1,166,916	1,963,101
Total loans	\$1,907,885	\$2,473,662	\$1,441,042	\$5,822,589
Interest rates:				
Predetermined	\$ 686,249	\$1,782,506	\$ 874,323	\$3,343,078
Floating	1,221,636	691,156	566,719	2,479,511
Total loans	\$1,907,885	\$2,473,662	\$1,441,042	\$5,822,589

During 2002, loans increased \$1.2 billion, or 27% from \$4.6 billion to \$5.8 billion. At December 31, 2002, loans represented 40% of total deposits and 35% of total assets. All segments of the loan portfolio experienced growth in 2002, especially owner-occupied loans, commercial loans, and consumer loans.

The Company has traditionally been an active provider of commercial real estate loans to creditworthy local borrowers, with such loans secured by properties within the Company's primary trade area. Owner occupied properties grew \$317.0 million or 31% and the \$1.3 billion outstanding at December 31, 2002 represented 58% of commercial real estate. Commercial loan growth of \$369.0 million or 32% was led by activity in the middle market and healthcare sectors. Growth in consumer loans of \$414.0 million, or 27%, was primarily in home equity lending.

Non-Performing Loans and Assets

Non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at December 31, 2002 were \$17.8 million or .11% of total assets, as compared to \$18.4 million or .16% of total assets at December 31, 2001.

Total non-performing loans (non-accrual loans, and restructured loans, excluding loans past due 90 days or more and still accruing interest) at December 31, 2002 were \$14.2 million as compared to \$16.8 million a year ago. The Company generally places a loan on non-accrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory. Generally loans past due 90 days are placed on non-accrual status, unless the loan is both well secured and in the process of collection. At December 31, 2002, loans past due 90 days or more and still accruing interest amounted to \$620 thousand, compared to \$519 thousand at December 31, 2001. Additional loans considered by the Company's internal loan review department as potential problem loans of \$30.3 million at December 31, 2002 have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) totaled \$3.6 million at December 31, 2002 as compared to \$1.5 million at December 31, 2001. These properties have been written down to the lower of cost or fair value less disposition costs.

The Company has on an ongoing basis updated appraisals on non-performing loans secured by real estate. In those instances where updated appraisals reflect reduced collateral values, an evaluation of the borrowers' overall financial condition is made to determine the need, if any, for possible writedowns or appropriate additions to the allowance for loan losses.

The following summary presents information regarding non-performing loans and assets as of December 31, 1998 through 2002.

Year Ended December 31,					
	2002	2001	2000	1999	1998
(dollars in thousands)					
Non-accrual loans (1):					
Commercial	\$ 5,412	\$ 6,835	\$ 4,955	\$ 2,254	\$ 2,655
Consumer	2,734	1,484	1,295	674	831
Real estate					
Construction	131	1,590	1,459	55	
Mortgage	5,891	6,924	5,840	5,230	4,849
Total non-accrual loans	14,168	16,833	13,549	8,213	8,335
Restructured loans (1):					
Commercial	5	8	11	277	17
Real estate mortgage			82	192	217
Total restructured loans	5	8	93	469	234
Total non-performing loans	14,173	16,841	13,642	8,682	8,569
Other real estate	3,589	1,549	2,959	3,523	6,081
Total non-performing assets(1):	\$17,762	\$18,390	\$16,601	\$12,205	\$14,650
Non-performing assets as a percent of total assets	0.11%	0.16%	0.20%	0.18%	0.27%
Loans past due 90 days or more and still accruing interest	\$620	\$519	\$ 489	\$ 499	\$ 1,029

(1) Interest income of approximately \$1,352,000, \$2,092,000, \$1,731,000, \$986,000, and \$1,030,000 would have been recorded in 2002, 2001, 2000, 1999, and 1998 respectively, on non-performing loans in accordance with their original terms. Actual interest recorded on these loans amounted to \$275,000 in 2002, \$237,000 in 2001, \$525,000 in 2000, \$255,000 in 1999, and \$266,000 in 1998.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by

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management to absorb losses inherent in the loan portfolio. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risks on a timely basis so that an appropriate allowance can be maintained. Based on an evaluation of the loan portfolio, management presents a quarterly review of the loan loss reserve to the Board of Directors, indicating any changes in the reserve since the last review and any recommendations as to adjustments in the reserve. In making its evaluation, in addition to the factors discussed below, management considers the results of recent regulatory examinations, which typically include a review of the allowance for loan losses as an integral part of the examination process.

In establishing the allowance, management evaluates individual large classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. An allowance for the remainder of the loan portfolio is also determined based on historical loss experience within the components of the portfolio. These allocations may be modified if current conditions indicate that loan losses may differ from historical experience, based on economic factors and changes in portfolio mix and volume.

In addition, a portion of the allowance is established for losses inherent in the loan portfolio which have not been identified by the more quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in the Company's historical loss experience. Those factors include changes in levels and trends of charge-offs, delinquencies, and nonaccrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions. While the allowance for loan losses is maintained at a level believed to be adequate by management for estimated losses in the loan portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

The allowance for loan losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Charge-offs occur when loans are deemed to be uncollectible. During 2002, net charge-offs amounted to \$9.4 million, or .18% of average loans outstanding for the year, compared to \$8.1 million, or .19% of average loans outstanding for 2001. During 2002, the Company recorded provisions of \$33.2 million to the allowance for loan losses compared to \$26.4 million for 2001. At December 31, 2002, the allowance aggregated \$90.7 million or 1.56% of total loans. The increase in the provision in 2002 reflects the increases in charge-offs and the growth in the loan portfolio. Additionally, the increase in the provision for 2002 reflects the ongoing uncertainty with the overall economy and risks associated with the mix of the loan portfolio, tenure of loan officers and entrance into new geographic markets.

The following table presents, for the periods indicated, an analysis of the allowance for loan losses and other related data.

	Year Ended December 31,				
	2002	2001	2000	1999	1998

(dollars in thousands)
Balance at beginning

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of period	\$66,981	\$48,680	\$38,382	\$31,265	\$24,150
Provisions charged to operating expenses	33,150	26,384	13,931	9,175	8,762
	100,131	75,064	52,313	40,440	32,912
Recoveries of loans previously charged-off:					
Commercial	815	552	313	551	418
Consumer	339	288	249	286	305
Commercial real estate	176	134	14	132	764
Total recoveries	1,330	974	576	969	1,487
Loans charged-off:					
Commercial	(7,181)	(5,862)	(2,936)	(1,599)	(1,281)
Consumer	(3,514)	(2,784)	(1,220)	(1,078)	(1,352)
Commercial real estate	(33)	(411)	(53)	(350)	(501)
Total charged-off	(10,728)	(9,057)	(4,209)	(3,027)	(3,134)
Net charge-offs	(9,398)	(8,083)	(3,633)	(2,058)	(1,647)
Balance at end of period	\$90,733	\$66,981	\$48,680	\$38,382	\$31,265
Net charge-offs as a percentage of average loans outstanding	0.18%	0.19%	0.11%	0.08%	0.08%
Allowance for loan losses as a percentage of year-end loans	1.56%	1.46%	1.32%	1.30%	1.37%

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Allocation of the Allowance for Loan Losses

The following table details the allocation of the allowance for loan losses to the various categories. The allocation is made for analytical purposes and it is not necessarily indicative of the categories in which future loan losses may occur. The total allowance is available to absorb losses from any segment of loans.

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Allowance for Loan Losses at December 31,								
	2002		2001		2000		1999	
	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans
(dollars in thousands)								
Commercial	\$33,708	26%	\$24,110	25%	\$20,396	24%	\$14,268	24%
Consumer	14,497	34	9,915	34	4,632	34	4,120	41
Commercial real estate	42,528	40	32,956	41	23,652	42	19,994	33
	\$90,733	100%	\$66,981	100%	\$48,680	100%	\$38,382	100%

Investment Securities

The following table summarizes the book value of securities available for sale and securities held to maturity by the Company as of the dates shown.

	December 31,		
	2002	2001	2000
(dollars in thousands)			
U.S. Government agency and mortgage-backed obligations	\$7,659,737	\$3,994,523	\$1,900,912
Obligations of state and political subdivisions	23,185	82,922	46,544
Equity securities	24,054	16,325	16,825
Other	99,803	58,934	57,045
Securities available for sale	\$7,806,779	\$4,152,704	\$2,021,326
U.S. Government agency and mortgage-backed obligations	\$ 624,688	\$1,044,266	\$1,437,993
Obligations of state and political subdivisions	91,204	50,602	42,938
Other	47,134	37,304	32,525
Securities held to maturity	\$ 763,026	\$1,132,172	\$1,513,456

The Company has segregated a portion of its investment portfolio as securities available for sale. The balance of the investment portfolio (excluding trading securities) is categorized as securities held to maturity. Investment securities are classified as available for sale if they might be sold in response to changes in interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, liquidity needs or other similar factors. These securities are carried at fair market value with unrealized gains

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and losses, net of income tax effects, recognized in Stockholders' Equity. Investment securities are classified as held to maturity when the Company has the intent and ability to hold those securities to maturity. Securities held to maturity are carried at cost and adjusted for accretion of discounts and amortization of premiums. Trading securities, primarily municipal securities, are carried at market value, with gains and losses, both realized and unrealized, included in other operating income.

In total, investment securities increased \$3.3 billion from \$5.6 billion to \$8.9 billion at December 31, 2002. Deposit growth and other funding sources were used to increase the Company's investment portfolio. The available for sale portfolio increased \$3.7 billion to \$7.8 billion, and the securities held to maturity portfolio decreased \$369.0 million to \$763.0 million at year-end 2002. The portfolio of trading securities increased \$43.7 million from year-end 2001 to \$326.5 million at year-end 2002. At December 31, 2002, the average life and duration of the investment portfolio were approximately 3.0 years and 2.5 years, respectively, as compared to 5.8 years and 4.3 years, respectively, at December 31, 2001. At December 31, 2002 the yield on the portfolio was 5.30%, down from 6.38% at December 31, 2001. The decrease in yield was due to lower reinvestment rates, which reflect lower general market interest rates in 2002 as compared to 2001. The decrease in duration and average life was due to the decline in general market interest rates, which resulted in increased prepayments and a decrease in the duration of the Company's existing portfolio. In addition management made a conscious decision to maintain a shorter duration when reinvesting funds in 2002, in anticipation of a rise in interest rates in 2003 and subsequent years.

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations. These securities have little, if any, credit risk since they are either backed by the full faith and credit of the U.S. Government, or are guaranteed by an agency of the U.S. Government, or are AAA rated. These investment securities carry fixed coupons whose rate does not change over the life of the securities. Certain securities are purchased at premiums or discounts. Their yield will change depending on any change in the estimated rate of prepayments. The Company amortizes premiums and accretes discounts over the estimated average life of the securities. Changes in the estimated average life of the investment portfolio will lengthen or shorten the period in which the premium or discount must be amortized or accreted, thus affecting the Company's investment yields. For the year ended December 31, 2002, the yield on the investment portfolio was 5.68%, a decrease of 69 basis points from 6.37% in fiscal 2001. The decrease in yield is a reflection of the general decline in

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market interest rates in 2002, which impacted returns on the Company's reinvestment of funds.

At December 31, 2002, the net unrealized appreciation in securities available for sale included in stockholders' equity totaled \$113.6 million, net of tax, compared to net unrealized appreciation of \$15.8 million, net of tax, at December 31, 2001.

The contractual maturity distribution and weighted average yield of the Company's investment portfolio (excluding equity and trading securities) at December 31, 2002, are summarized in the following table. Weighted average yield is calculated by dividing income within each maturity range by the outstanding amortized cost amount of the related investment and has been tax effected, assuming a federal tax rate of 35%, on tax-exempt obligations.

December 31, 2002							
	Due Under 1 Year		Due 1-5 Years		Due 5-10 Years		Due Over 10
	Amount	Yield	Amount	Yield	Amount	Yield	Amount Y
(dollars in thousands)							
Securities available for sale:							
U.S. Government agency and mortgage-backed obligations	\$36,954	1.73%	\$32,676	2.12%	\$252,972	4.52%	\$7,337,135
Obligations of state and political subdivisions	3,211	6.91	14,468	7.03	3,581	6.78	1,925
Other securities	10,786	1.54	10,907	5.78	49,000	7.85	29,110
	\$50,951	2.01%	\$58,051	4.03%	\$305,553	5.08%	\$7,368,170
Securities held to maturity:							
U.S. Government agency and mortgage-backed obligations	\$ 907	7.89%	\$12,192	7.30%	\$77,670	6.85%	\$533,919
Obligations of state and political subdivisions	37,357	2.86	224	2.17	4,798	7.20	48,825
Other securities	47,134	3.81					
	\$85,398	3.44%	\$12,416	7.22%	\$82,468	6.87%	\$582,744

Deposits

Total deposits at December 31, 2002 were \$14.5 billion, an increase of \$4.4 billion or 43% above total deposits of \$10.2 billion at December 31, 2001. The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for sound growth and profitability. The Company regards core deposits as all deposits other than public certificates of deposit. Deposits in the various core categories increased \$4.3 billion from year-end 2001 to year-end 2002. Certificates of deposit in excess of \$100 thousand, retail and public, increased \$69.0 million from year-end 2001.

Total deposits averaged \$12.4 billion for 2002, an increase of \$3.8 billion or 44% above the 2001 average. The average balance of noninterest-bearing demand deposits in 2002 was \$2.7 billion, a \$711.9 million or 36% increase over the average balance for 2001. The average total balance of passbook and statement savings accounts increased \$773.7 million, or 47% compared to the prior year. The average balance of interest-bearing demand accounts (money market and N.O.W. accounts) for 2002 was \$4.5 billion, a \$1.5 billion or 51% increase over the average balance for the prior year. The average balance of time deposits for 2002 was \$2.8 billion, a \$770.9 million or 38% increase over the average balance for 2001. For 2002, the cost of total deposits was 1.34% as compared to 2.25% in 2001.

The Company believes that its record of sustaining core deposit growth is reflective of the Company's retail approach to banking which emphasizes a combination of superior customer service, convenient branch locations, extended hours of operation, free checking accounts (subject to a small minimum balance requirement) and active marketing.

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The average balances and weighted average rates of deposits for each of the years 2002, 2001, and 2000 are presented below.

	2002		2001	
	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)				
Demand deposits:				
Noninterest-bearing	\$ 2,674,233		\$1,962,354	
Interest-bearing (money market and N.O.W. accounts)	4,538,914	1.22%	2,999,588	2.12%
Savings deposits	2,416,884	1.25	1,643,145	1.99
Time deposits/public funds	2,808,650	2.90	2,037,742	4.81
Total deposits	\$12,438,681		\$8,642,829	

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The remaining maturity of certificates of deposit for \$100,000 or more as of December 31, 2002, 2001 and 2000 is presented below:

Maturity	2002	2001
(dollars in thousands)		
3 months or less	\$ 950,299	\$ 897,304
3 to 6 months	116,721	137,388
6 to 12 months	103,449	70,630
Over 12 months	10,646	6,820
Total	\$1,181,115	\$1,112,142

Interest Rate Sensitivity and Liquidity

The Company's risk of loss arising from adverse changes in the fair value of financial instruments, or market risk, is composed primarily of interest rate risk. The primary objective of the Company's asset/liability management activities is to maximize net interest income while maintaining acceptable levels of interest rate risk. The Company's Asset/Liability Committee (ALCO) is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with those policies. The guidelines established by ALCO are reviewed and approved by the Company's Board of Directors.

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An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market interest rates. Historically, the most common method of estimating interest rate risk was to measure the maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time ("GAP"), typically one year. Under this method, a company is considered liability sensitive when the amount of its interest-bearing liabilities exceeds the amount of its interest-earning assets within the one year horizon. However, assets and liabilities with similar repricing characteristics may not reprice at the same time or to the same degree. As a result, the Company's GAP does not necessarily predict the impact of changes in general levels of interest rates on net interest income.

The following table illustrates the GAP position of the Company as of December 31, 2002.

Interest Rate Sensitivity Gaps December 31, 2002					
	1-90 Days	91-180 Days	181-365 Days	1-5 Years	Beyond 5 Years
(dollars in millions)					
Rate sensitive:					
Interest-earning assets					
Loans	\$2,899.4	\$ 118.5	\$ 189.1	\$1,703.7	\$ 994.7
Investment securities	1,287.2	1,124.0	1,479.0	4,172.0	834.1
Total interest-earning assets	4,186.6	1,242.5	1,668.1	5,875.7	1,828.8
Interest-bearing liabilities					
Transaction accounts	2,689.8				5,807.2
Time deposits	1,204.6	380.7	752.0	471.4	
Other borrowed money	391.6				
Long-term debt					200.0
Total interest-bearing liabilities	4,286.0	380.7	752.0	471.4	6,007.2
Period gap	(99.4)	861.8	916.1	5,404.3	(4,178.4)
Cumulative gap	\$ (99.4)	\$762.4	\$1,678.5	\$7,082.8	\$2,904.4
Cumulative gap as a percentage of total interest-earning assets	(0.7)%		5.2%	11.3%	47.9%

Management believes that the simulation of net interest income in different interest rate environments provides a more meaningful measure of interest rate risk. Income simulation analysis captures not only the potential of all assets and liabilities to mature or reprice, but also the probability that they will do so. Income simulation also attends to the relative interest rate sensitivities of these items, and projects their behavior over an extended period of time. Finally, income simulation permits management to assess the probable effects on the balance sheet not only of changes in interest rates, but also of proposed strategies for responding to them.

The Company's income simulation model analyzes interest rate sensitivity by projecting net income over the next 24 months in a flat rate scenario versus net income in alternative interest rate scenarios. Management continually reviews and refines its interest rate risk management process in response to the changing economic climate. Currently, the Company's model projects a proportionate plus 200 and minus 100 basis point change during the next year, with rates remaining constant in the second year.

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The Company's Asset/Liability Committee (ALCO) policy has established that interest income sensitivity will be considered acceptable if net income in the above interest rate scenario is within 15% of net income in the flat rate scenario in the first year and within 30% over the two year time frame. At December 31, 2002, the Company's income simulation model indicates net income would decrease by 5.4% and 7.3% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to a decrease of 3.3% and 13.1%, respectively, at December 31, 2001. The model projects that net income would increase by 8.8% and increase by 13.5% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease of 2.1% and an increase of 1.7%, respectively, at December 31, 2001. All of these forecasts are within an acceptable level of interest rate risk per the policies established by ALCO.

In the event the model indicates an unacceptable level of risk, the Company could undertake a number of actions that would reduce this risk, including the sale of a portion of its available for sale investment portfolio, the use of risk management strategies such as interest rate swaps and caps, or the extension of the maturities of its short-term borrowings.

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off balance sheet items. The model calculates the market value of the Company's assets and liabilities in excess of book value in the current rate scenario, and then compares the excess of market value over book value given an immediate plus 200 and minus 100 basis point change in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate plus 200 or minus 100 basis point change would result in the loss of 50% or more of the excess of market value over book value in the current rate scenario. At December 31, 2002, the market value of equity indicates an acceptable level of interest rate risk.

The market value of equity model reflects certain estimates and assumptions regarding the impact on the market value of the Company's assets and liabilities given an immediate plus 200 or minus 100 basis point change in interest rates.

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One of the key assumptions is the market value assigned to the Company's core deposits, or the core deposit premium. The Company has completed and updated comprehensive core deposit studies in order to assign its own core deposit premiums as permitted by regulation. The studies have consistently confirmed management's assertion that the Company's core deposits have stable balances over long periods of time, and are generally insensitive to changes in interest rates. Thus, these core deposit balances provide an internal hedge to market value fluctuations in the Company's fixed rate assets. Management believes the core deposit premiums produced by its core deposit study and utilized in its market value of equity model at December 31, 2002 provide an accurate assessment of the Company's interest rate risk.

Although the use of derivatives in 2002 was minimal, the Company may utilize interest rate derivatives to manage interest rate risk, including interest rate swaps, interest rate caps and floors, interest rate forwards, and exchange-traded futures and options contracts. Further discussion of the accounting for derivative instruments is included in Note 1 to the consolidated financial statements.

Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, and cash flow from its amortizing investment and loan portfolios. If necessary, the Company has the ability to raise liquidity through collateralized borrowings, FHLB advances, or the sale of its available for sale investment portfolio. As of December 31, 2002 the Company had in excess of \$6.9 billion in immediately available liquidity which includes securities that could be sold or used for collateralized borrowings, cash on hand, and borrowing capacities under existing lines of credit. During 2002, deposit growth and short-term borrowings were used to fund growth in the loan portfolio and purchase additional investment securities.

Other Borrowed Money

Other borrowed money, or short-term borrowings, which consist primarily of securities sold under agreement to repurchase, federal funds purchased, and lines of credit, were used in 2002 to meet short-term liquidity needs. For 2002, short-term borrowings averaged \$118.7 million as compared to \$94.3 million in 2001. The average rate on the Company's short-term borrowings was 1.55% and 3.72% during 2002 and 2001, respectively. As of December 31, 2002, short-term borrowings included \$391.6 million of securities sold under agreements to repurchase at an average rate of 1.56%, compared to \$199.6 million at an average rate of 1.71% as of December 31, 2001.

Long-Term Debt

On March 11, 2002 the Company issued \$200 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. The Convertible Trust Capital Securities mature in 2032. Holders of the Convertible Trust Capital Securities may convert each security into 0.9478 shares of Company common stock, subject to adjustment, if (1) the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter beginning with the quarter ending June 30, 2002 is more than 110% of the Convertible Trust Capital Securities conversion price (\$52.75 at December 31, 2002) then in effect on the last day of such calendar quarter, (2) the assigned credit rating by Moody's of the Convertible Trust Capital Securities is at or below Bal, (3) the Convertible Trust Capital Securities are called for redemption, or (4) specified corporate transactions have occurred. All \$200 million of the Convertible Trust Capital

Securities qualify as Tier 1 capital for regulatory capital purposes. As of December 31, 2002, the Convertible Trust Capital Securities were not convertible. Th