COMMERCE BANCORP INC /NJ/
Form 10-Q
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 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

COMMERCE BANCORP [LOGO OMITTED]
(Exact name of registrant as specified in its charter)

New Jersey	22-2433468
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey 08034-5400
(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

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 practical date.

Common Stock	67,261,646
(Title of Class)	(No. of Shares Outstanding as of 8/7/02)

COMMERCE BANCORP, INC. AND SUBSIDIARIES

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COMMERCE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

	(dollars in thousands)	June 30, 2002
Assets	Cash and due from banks	$ 659,667
	Federal funds sold	85,000
	Cash and cash equivalents	744,667
	Loans held for sale	34,758
	Trading securities	218,854
	Securities available for sale	5,946,271
	Securities held to maturity (market value 06/02-$942,693; 12/01-$1,146,345)	920,893
	Loans	5,259,543
	Less allowance for loan losses	80,098

		5,179,445
	Bank premises and equipment, net	412,299
	Other assets	271,908
		$13,729,095
Liabilities	Deposits:	
	Demand:	
	Interest-bearing	$ 4,292,382
	Noninterest-bearing	2,767,743
	Savings	2,387,166
	Time	2,940,098
	Total deposits	12,387,389
	Other borrowed money	118,491
	Other liabilities	193,127
	Trust Capital Securities - Commerce Capital Trust I	57,500
	Convertible Trust Capital Securities - Commerce Capital Trust II	200,000
	Long-term debt	0
		12,956,507
Stockholders' Equity	Common stock, 67,000,422 shares issued (65,832,559 shares in 2001)	67,000
	Capital in excess of par or stated value	493,800
	Retained earnings	141,459
	Accumulated other comprehensive income	71,950
		774,209
	Less treasury stock, at cost, 200,018 shares (200,118 shares in 2001)	1,621
	Total stockholders' equity	772,588
		$13,729,095

See accompanying notes.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

		Three Months Ended June 30,		
	(dollars in thousands, except per share amounts)	2002	2001	20
Interest	Interest and fees on loans	$ 86,959	$ 81,616	$1

income	Interest on investments	101,293	64,643	1
	Other interest	116	850	
	Total interest income	188,368	147,109	3
Interest expense	Interest on deposits:			
	Demand	14,707	15,948	
	Savings	8,133	8,345	
	Time	21,538	25,103	
	Total interest on deposits	44,378	49,396	
	Interest on other borrowed money	282	909	
	Interest on long-term debt	5,082	1,401	
	Total interest expense	49,742	51,706	
	Net interest income	138,626	95,403	2
	Provision for loan losses	10,250	7,982	
	Net interest income after provision for loan losses	128,376	87,421	2
Noninterest income	Deposit charges and service fees	31,629	25,194	
	Other operating income	30,100	22,187	
	Net investment securities gains	0	0	
	Total noninterest income	61,729	47,381	1
Noninterest expense	Salaries and benefits	64,178	45,574	1
	Occupancy	13,083	9,129	
	Furniture and equipment	15,588	12,241	
	Office	7,454	6,589	
	Audit and regulatory fees and assessments	1,181	1,005	
	Marketing	6,112	4,211	
	Other	29,944	19,191	
	Total noninterest expenses	137,540	97,940	2
	Income before income taxes	52,565	36,862	
	Provision for federal and state income taxes	17,763	11,752	
	Net income	$ 34,802	$ 25,110	$
	Net income per common and common equivalent share:			
	Basic	$ 0.52	$ 0.39	$
	Diluted	$ 0.49	$ 0.37	$
	Average common and common equivalent shares outstanding:			
	Basic	66,552	64,452	
	Diluted	71,007	67,873	
	Cash dividends, common stock	$ 0.15	$ 0.14	$

See accompanying notes.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	(dollars in thousands)	Si 2002
Operating activities	Net income	$ 66,
	Adjustments to reconcile net income to net cash provided by operating activities:	
	Provision for loan losses	17,
	Provision for depreciation, amortization and accretion	27,
	Gains on sales of securities available for sale	
	Proceeds from sales of mortgages held for sale	777,
	Originations of mortgages held for sale	(739,
	Net loan chargeoffs	(4,
	Net decrease (increase) in trading securities	63,
	Increase in other assets	(17,
	(Decrease) increase in other liabilities	(3,
	Net cash provided by operating activities	189,
Investing activities	Proceeds from the sales of securities available for sale	609,
	Proceeds from the maturity of securities available for sale	760,
	Proceeds from the maturity of securities held to maturity	242,
	Purchase of securities available for sale	(3,078,
	Purchase of securities held to maturity	(32,
	Net increase in loans	(686,
	Proceeds from sales of loans	10,
	Purchases of premises and equipment	(74,
	Net cash used by investing activities	(2,248,
Financing activities	Net increase in demand and savings deposits	1,509,
	Net increase in time deposits	692,
	Net decrease in other borrowed money	(146,
	Redemption of long term debt	(23,
	Issuance of Convertible Trust Capital Securities	200,
	Dividends paid	(19,
	Proceeds from issuance of common stock under dividend reinvestment and other stock plans	33,
	Other	
	Net cash provided by financing activities	2,246,
	Increase in cash and cash equivalents	186,
	Cash and cash equivalents at beginning of year	557,
	Cash and cash equivalents at end of period	$ 744,

Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$ 94,
Income taxes	29,

See accompanying notes.

COMMERCE BANCORP, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity

Six months ended June 30, 2002
(in thousands, except per share amounts)

	Common Stock	Capital in Excess of Par or Stated Value	Retained Earnings	Treasur Stock
Balances at December 31, 2001	$65,833	$461,897	$94,698	$(1,62
Net income			66,552	
Other Comprehensive Income, net of tax				
Unrealized gain on securities (pre-tax $87,170)				
Total comprehensive income				
Cash dividends paid			(19,792)	
Shares issued under dividend reinvestment and compensation and benefit plans (1,168 shares)	1,168	31,899		
Other	(1)	4	1	
Balances at June 30, 2002	$67,000	$493,800	$141,459	$(1,62

See accompanying notes.

COMMERCE BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. Consolidated Financial Statements

The consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted pursuant to such rules and regulations. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the period ended December 31, 2001. The results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. and all of its subsidiaries, including Commerce Bank, N.A. (Commerce NJ), Commerce Bank/Pennsylvania, N.A., Commerce Bank/Shore, N.A., Commerce Bank/North, Commerce Bank/Delaware, N.A., Commerce National Insurance Services, Inc. (Commerce National Insurance), Commerce Capital Trust I, Commerce Capital Trust II, and Commerce Capital Markets, Inc. (CCMI). All material intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with 2002 presentation. All common stock and per share amounts have been adjusted to reflect the 2 for 1 stock split with a record date of December 3, 2001.

On August 1, 2002 the Company completed the acquisition of Sanford and Purvis, Inc., an insurance brokerage agency which will operate as a wholly-owned subsidiary of Commerce National Insurance. The Company issued approximately 113,000 shares in connection with this acquisition.

B. Commitments

In the normal course of business, there are various outstanding commitments to extend credit, such as letters of credit and unadvanced loan commitments, which are not reflected in the accompanying consolidated financial statements. Management does not anticipate any material losses as a result of these transactions.

C. Comprehensive Income

Total comprehensive income, which for the Company included net income and unrealized gains and losses on the Company's available for sale securities, amounted to $116.2 million and $14.5 million, respectively, for the three months ended June 30, 2002 and 2001. For the six months ended June 30, 2002 and 2001, total comprehensive income was $122.7 and $57.4 million, respectively.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

D. Segment Information

Selected segment information is as follows:

	Three Months Ended June 30, 2002			Three M June
	Community Banks	Parent/ Other	Total	Community Banks

	Community Banks	Parent/ Other	Total	Community Banks
Net interest income	$ 142,291	$ (3,665)	$ 138,626	$ 95,512
Provision for loan losses	10,250		10,250	7,982
Net interest income after provision	132,041	(3,665)	128,376	87,530
Noninterest income	39,893	21,836	61,729	29,901
Noninterest expense	118,295	19,245	137,540	83,293
Income before income taxes	53,639	(1,074)	52,565	34,138
Income tax expense	19,034	(1,271)	17,763	11,270
Net income	$ 34,605	$ 197	$ 34,802	$ 22,868
Average assets (in billions)	$ 11,505	$ 1,661	$ 13,166	$ 8,058

	Six Months Ended June 30, 2002 Community Banks	Parent/ Other	Total	Six Mo June Community Banks
Net interest income	$ 267,761	$ (5,056)	$ 262,705	$ 181,392
Provision for loan losses	17,150		17,150	12,591
Net interest income after provision	250,611	(5,056)	245,555	168,801
Noninterest income	75,941	41,678	117,619	56,279
Noninterest expense	226,147	37,314	263,461	159,401
Income before income taxes	100,405	(692)	99,713	65,679
Income tax expense	34,290	(1,129)	33,161	21,565
Net income	$ 66,115	$ 437	$ 66,552	$ 44,114
Average assets (in billions)	$ 11,002	$ 1,431	$ 12,433	$ 7,822

E. Recent Accounting Statements

In conjunction with the issuance of the new guidance for business combinations, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets" (FAS 142), which addresses the accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion 17. Under the provisions of FAS 142, goodwill and certain other intangible assets, which do not possess finite useful lives, will no longer be amortized into net income over an estimated life but rather will be tested at least annually for impairment based on specific guidance provided in the new standard. Intangible assets determined to have finite lives will continue to be amortized over their estimated useful lives and also continue to be subject to impairment testing. The provisions of FAS 142, which were adopted by the Company as required effective January 1, 2002, did not have a material impact on the results of operations of the Company. It is anticipated there will not be any material categorical reclassifications or adjustments to the useful lives of finite-lived intangible assets as a result of adopting the new guidance.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

F. Trust Capital Securities

On June 9, 1997, the Company issued $57.5 million of 8.75% Trust Capital Securities through Commerce Capital Trust I, a Delaware business trust subsidiary of the Company. The net proceeds of the offering were used for general corporate purposes. All $57.5 million of the Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes. All of these Trust Capital Securities were redeemed on July 1, 2002 at the stated liquidation amount ($25 per capital security) plus accrued and unpaid distributions thereon to July 1, 2002.

On March 11, 2002 the Company issued $200 million of 5.95% convertible trust preferred securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. Holders of the convertible trust preferred 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 preferred securities conversion price then in effect on the last day of such calendar quarter, (2) the assigned credit rating by Moody's of the convertible trust preferred securities is at or below Bal, (3) the convertible trust preferred securities are called for redemption, or (4) specified corporate transactions have occurred. The net proceeds of this offering will be used for general corporate purposes, including the redemption of the Company's $57.5 million of 8.75% Capital Trust I securities on July 1, 2002 and the repayment of the Company's $23.0 million of 8 3/8% subordinated notes on May 20, 2002.

G. Earnings Per Share

The calculation of earnings per share follows (in thousands, except for per share amounts):

	Three Months Ended June 30		Six
	2002	2001	2002
Basic:			
Net income	$34,802	$25,110	$66,5
Average common shares outstanding	66,552	64,452	66,2
Net income per share of common stock	$ 0.52	$ 0.39	$ 1.
Diluted:			
Net income	$34,802	$25,110	$66,5
Average common shares outstanding	66,552	64,452	66,2
Additional shares considered in diluted computation assuming:			
Exercise of stock options	4,455	3,421	4,2
Average common shares outstanding on a diluted basis	71,007	67,873	70,5

Net income per common share - diluted	$ 0.49	$ 0.37	$ 0.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Capital Resources

At June 30, 2002, stockholders' equity totaled $772.6 million or 5.63% of total assets, compared to $636.6 million or 5.60% of total assets at December 31, 2001.

The table below presents the Company's and Commerce NJ's risk-based and leverage ratios at June 30, 2002 and 2001:

			Per Regulatory Guide		
	Actual		Minimum		"We
	Amount	Ratio	Amount	Ratio	Amo
June 30, 2002					
Company					
Risk based capital ratios:					
Tier 1	$ 931,146	12.54%	$296,929	4.00%	$4
Total capital	1,035,198	13.95	593,858	8.00	7
Leverage ratio	931,146	7.10	524,807	4.00	6
Commerce NJ Risk based capital ratios:					
Tier 1	$ 463,215	10.39%	$178,329	4.00%	$2
Total capital	515,483	11.56	356,658	8.00	4
Leverage ratio	463,215	6.25	296,235	4.00	3
June 30, 2001					
Company					
Risk based capital ratios:					
Tier 1	$ 610,816	10.77%	$226,758	4.00%	$3
Total capital	677,564	11.95	453,517	8.00	5
Leverage ratio	610,816	6.78	360,420	4.00	4
Commerce NJ Risk based capital ratios:					
Tier 1	$ 353,611	9.88%	$143,215	4.00%	$2
Total capital	391,832	10.94	286,430	8.00	3
Leverage ratio	353,611	6.53	216,581	4.00	2

At June 30, 2002, the Company's consolidated capital levels and each of the Company's bank subsidiaries met the regulatory definition of a "well capitalized" financial institution, i.e., a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6%, and a total risk-based capital ratio exceeding 10%. Management believes that as of June 30, 2002, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Deposits

Total deposits at June 30, 2002 were $12.4 billion, up $4.0 billion, or 48% over total deposits of $8.4 billion at June 30, 2001, and up by $2.2 billion, or 22% from year-end 2001. Deposit growth during the first six months of 2002 included core deposit growth in all categories as well as growth from the public sector. The Company experienced "same-store core deposit growth" of 30% at June 30, 2002 as compared to deposits a year ago for those branches open for more than two years.

Interest Rate Sensitivity and Liquidity

The Company's risk of loss arising from adverse changes in the fair market 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 these policies. The guidelines established by ALCO are reviewed by the Company's Board of Directors.

Management considers the simulation of net interest income in different interest rate environments to be the best indicator of the Company's 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 200 basis point change during the next year, with rates remaining constant in the second year. The Company's 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 June 30, 2002, the Company's income simulation model indicates net income would decrease by 0.35% and by 9.62% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 2.33% and decrease of 3.32%, respectively, at June 30, 2001. At June 30, 2002, the model projects that net income would decrease by 0.18% and increase 5.71% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease by 5.14% and 3.78%, respectively, at June 30, 2001. All of these net income projections are within an acceptable level of interest rate risk pursuant to the policy established by

ALCO.

In the event the Company's interest rate risk models indicate 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 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 200 basis point change in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate 200 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 June 30, 2002, the market value of equity model indicates an acceptable level of interest rate risk.

Liquidity involves the Company's ability to raise funds to support asset growth or decrease 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, cash flow from its amortizing investment and loan portfolios, as well as the use of short-term borrowings, as required. 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 June 30, 2002 the Company had in excess of $5.4 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 the first six months of 2002, deposit growth and long-term borrowings (Commerce Capital Trust II) were used to fund growth in the loan portfolio and purchase additional investment securities.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

Short-Term Borrowings

Short-term borrowings, or other borrowed money, consist primarily of securities sold under agreements to repurchase and overnight lines of credit, and are used to meet short term funding needs. During the first six months of 2002, the Company significantly reduced its short-term borrowings, primarily through increased deposits. At June 30, 2002, short-term borrowings aggregated $118.5 million and had an average rate of 1.18%, as compared to $264.6 million at an average rate of 1.78% at December 31, 2001.

Interest Earning Assets

For the six month period ended June 30, 2002, interest earning assets increased $2.3 billion from $10.2 billion to $12.5 billion. This increase was primarily in investment securities and the loan portfolio as described below.

Loans

During the first six months of 2002, loans increased $676.1 million from $4.6 billion to $5.3 billion. At June 30, 2002, loans represented 42% of total deposits and 38% of total assets. All segments of the loan portfolio experienced growth in the first six months of 2002, including loans secured by commercial real estate properties, commercial loans, and consumer loans.

The following table summarizes the loan portfolio of the Company by type of loan as of the dates shown.

(dollars in thousands)	June 30, 2002	December 31, 2001
Commercial real estate:		
Owner-occupied	$ 880,179	$ 750,562
Investor developer	799,494	664,605
Construction	478,485	460,957
	2,158,158	1,876,124
Commercial:		
Term	687,953	600,374
Line of credit	626,755	556,977
Demand	379	440
	1,315,087	1,157,791
Consumer:		
Mortgages (1-4 family residential)	553,452	471,680
Installment	150,254	161,647
Home equity	1,035,738	872,974
Credit lines	46,854	43,196
	1,786,298	1,549,497
Total loans	$5,259,543	$4,583,412

Investments

For the first six months of 2002, total securities increased $1.5 billion from $5.6 billion to $7.1 billion. The available for sale portfolio increased $1.8 billion to $5.9 billion at June 30, 2002 from $4.2 billion at December 31, 2001, and the securities held to maturity portfolio decreased $211.3 million to $920.9 million at June 30, 2002 from $1.1 billion at year-end 2001. The portfolio of trading securities decreased $63.9 million from year-end 2001 to $218.9 million at June 30, 2002. At June 30, 2002, the average life of the investment portfolio was approximately 4.2 years, and the duration was approximately 3.3 years. At June 30, 2002, total securities represented 52% of total assets.

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.

	June 30, 2002	December 31, 2001
	(dollars in thousands)	
U.S. Government agency and mortgage backed obligations	$5,742,496	$3,994,523
Obligations of state and political subdivisions	71,989	82,922
Equity securities	18,289	16,325
Other	113,497	58,934
Securities available for sale	$5,946,271	$4,152,704
U.S. Government agency and mortgage backed obligations	$840,524	$1,044,266
Obligations of state and political subdivisions	35,919	50,602
Other	44,450	37,304
Securities held to maturity	$920,893	$1,132,172

Net Income

Net income for the second quarter of 2002 was $34.8 million, an increase of $9.7 million or 39% over the $25.1 million recorded for the second quarter of 2001. Net income for the first six months of 2002 totaled $66.6 million, an increase of $18.1 million or 37% from $48.5 million in the first six months of 2001. On a per share basis, diluted net income for the second quarter and first six months of 2002 was $0.49 and $0.94 per common share compared to $0.37 and $0.72 per common share for the 2001 periods.

Return on average assets (ROA) and return on average equity (ROE) for the second quarter of 2002 were 1.06% and 18.99%, respectively, compared to 1.11% and 18.16%, respectively, for the same 2001 period. ROA and ROE for the first six months of 2002 were 1.07% and 18.99%, respectively, compared to 1.11% and 18.04% a year ago.

Net Interest Income

Net interest income totaled $138.6 million for the second quarter of 2002, an increase of $43.2 million or 45% from $95.4 million in the second quarter of 2001. Net interest income for the first six months of 2002 was $262.7 million, up $81.6 million or 45% from 2001. The improvement in net interest income was due primarily to volume increases in the loan and investment portfolios.

The following table sets forth balance sheet items on a daily average basis for the three months ended June 30, 2002, March 31, 2002 and June 30, 2001 and presents the daily average interest earned on assets and paid on liabilities for such periods.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

Average Balances and Net Interest Income

(dollars in thousands)	June 2002 Average Balance	June 2002 Interest	June 2002 Average Rate	March 2002 Average Balance	March 2002 Interest	March 2002 Averag Rate
Earning Assets						
Investment securities						
Taxable	$6,484,728	$97,970	6.06%	$5,511,447	$83,211	6.
Tax-exempt	128,237	2,043	6.39	110,293	1,665	6.
Trading	225,231	3,069	5.47	189,651	2,960	6.
Total investment securities	6,838,196	103,082	6.05	5,811,391	87,836	6.
Federal funds sold	27,592	116	1.69	40,672	164	1.
Loans						
Commercial mortgages	1,928,153	33,683	7.01	1,828,586	31,304	6.
Commercial	1,194,310	17,952	6.03	1,087,048	16,338	6.
Consumer	1,787,395	32,026	7.19	1,656,000	30,936	7.
Tax-exempt	241,226	5,073	8.43	233,669	4,992	8.
Total loans	5,151,084	88,734	6.91	4,805,303	83,570	7.
Total earning assets	$12,016,872	$191,932	6.41%	$10,657,366	$171,570	6.
Sources of Funds						
Interest-bearing liabilities						
Regular savings	$2,304,839	$8,133	1.42%	$2,044,873	$7,078	1.
N.O.W. accounts	331,878	1,152	1.39	300,742	1,053	1.
Money market plus	3,858,362	13,555	1.41	3,459,619	11,855	1.
Time deposits	1,840,499	15,992	3.49	1,673,580	16,004	3.
Public funds	984,503	5,546	2.26	874,379	5,277	2.
Total deposits	9,320,081	44,378	1.91	8,353,193	41,267	2.
Other borrowed money	70,078	282	1.61	102,611	426	1.
Long-term debt	269,885	5,082	7.55	127,167	2,432	7.
Total deposits and interest-bearing liabilities	9,660,044	49,742	2.07	8,582,971	44,125	2.
Noninterest-bearing funds (net)	2,356,828			2,074,395		
Total sources to fund earning assets	$12,016,872	49,742	1.66	$10,657,366	44,125	1.
Net interest income and margin tax-equivalent basis		$142,190	4.75%		$127,445	4.
Other Balances						
Cash and due from banks	$547,088			$510,269		
Other assets	677,551			592,129		
Total assets	13,166,040			11,690,615		
Total deposits	11,885,164			10,684,272		
Demand deposits (noninterest-bearing)	2,565,083			2,331,079		
Other liabilities	207,939			108,125		
Stockholders' equity	732,974			668,440		
Allowance for loan losses	75,471			69,149		

Noninterest Income

Noninterest income totaled $61.7 million for the second quarter of 2002, an increase of $14.3 million or 30% from $47.4 million in the second quarter of 2001. Noninterest income for the first six months of 2002 increased to $117.6 million from $91.5 million in the first six months of 2001, a 29% increase. The increase was due primarily to increased deposit charges and service fees, which rose $6.4 million over the second quarter of 2001 and $13.6 million for the first six months of 2002 primarily due to higher transaction volumes. The growth in non-interest income for the second quarter and the first six months of 2002 is more fully depicted below:

	Quarter Ended			Six Mon	
	6/30/02	6/30/01	% Increase	6/30/02	6/30
	(Dollars in thousands)			(Dollars in	
Deposit Charges & Service Fees	$31,629	$25,194	26%	$60,592	$47
Other Operating Income:					
Insurance	14,241	12,216	17%	27,629	24
Capital Markets	8,082	5,256	54%	14,528	10
Loan Brokerage Fees	4,118	1,400	194%	8,143	2
Other	3,659	3,315	10%	6,727	6
Total Other	30,100	22,187	36%	57,027	44
Total Non-Interest Income	$61,729	$47,381	30%	$117,619	$91

Noninterest Expense

For the second quarter of 2002, noninterest expense totaled $137.5 million, an increase of $39.6 million or 40% over the same period in 2001. Contributing to this increase was new branch activity over the past twelve months, with the number of branches increasing from 159 at June 30, 2001 to 196 at June 30, 2002. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. Other noninterest expenses rose $10.8 million over the second quarter of 2001. This increase resulted primarily from higher bank card-related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

For the first six months of 2002, noninterest expense totaled $263.5 million, an increase of $75.2 million or 40% over $188.3 million for the first six months of 2001. Contributing to this increase was the growth in branches as noted above. Other noninterest expense rose $19.6 million over the first six months of 2001. This increase resulted primarily from higher bank card-related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

The Company's operating efficiency ratio (noninterest expenses, less other real estate expense, divided by net interest income plus noninterest income excluding non-recurring gains) was 69.11% for the first six months of 2002 as compared to 69.02% for the same 2001 period. The Company's efficiency ratio remains above its peer group primarily due to its aggressive growth expansion activities.

Loan and Asset Quality

Total non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at June 30, 2002 were $17.6 million, or 0.13% of total assets compared to $18.4 million or 0.16% of total assets at December 31, 2001 and $20.7 million or 0.22% of total assets at June 30, 2001.

Total non-performing loans (non-accrual loans and restructured loans, excluding loans past due 90 days or more and still accruing interest) at June 30, 2002 were $15.1 million or 0.29% of total loans compared to $16.8 million or 0.37% of total loans at December 31, 2001 and $19.1 million or 0.47% of total loans at June 30, 2001. At June 30, 2002, loans past due 90 days or more and still accruing interest amounted to $834 thousand compared to $519 thousand at December 31, 2001 and $1.4 million at June 30, 2001. Additional loans considered as potential problem loans by the Company's internal loan review department ($21.2 million at June 30, 2002) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) at June 30, 2002 totaled $2.5 million compared to $1.5 million at December 31, 2001 and $1.6 million at June 30, 2001. These properties have been written down to the lower of cost or fair value less disposition costs.

Following "Forward Looking Statements" are tabular presentations showing detailed information about the Company's non-performing loans and assets and an analysis of the Company's allowance for loan losses and other related data for June 30, 2002, December 31, 2001, and June 30, 2001.

Forward-Looking Statements

The Company may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Form 10-Q), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of 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 (some of which are beyond the Company's control). The words "may", "could", "should", "would", believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. 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 economy in general and the strength of the local economies in which the Company conducts 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 (the "FRB"); inflation; interest rates, market and monetary fluctuations; the timely development of competitive new products and services by the Company 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 expense savings and revenue enhancements from acquisitions being less than expected; the growth and profitability of the Company's noninterest or fee income being less than expected; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. 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.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

The following summary presents information regarding non-performing loans and assets as of June 30, 2002 and the preceding four quarters (dollar amounts in thousands).

	June 30, 2002	March 31, 2002	December 31, 2001	Septembe 2001
Non-accrual loans:				
Commercial	$7,581	$ 9,473	$ 6,835	$ 9
Consumer	1,557	1,537	1,484	1
Real estate:				
Construction	181	181	1,590	1
Mortgage	5,778	5,695	6,924	6
Total non-accrual loans	15,097	16,886	16,833	19
Restructured loans:				
Commercial	6	7	8	
Consumer				
Real estate:				
Construction				
Mortgage				
Total restructured loans	6	7	8	
Total non-performing loans	15,103	16,893	16,841	19
Other real estate	2,471	2,602	1,549	1

Total non-performing assets	17,574	19,495	18,390	20
Loans past due 90 days or more and still accruing	834	484	519	
Total non-performing assets and loans past due 90 days or more	$18,408	$19,979	$18,909	$21
Total non-performing loans as a percentage of total period-end loans	0.29%	0.34%	0.37%	0
Total non-performing assets as a percentage of total period-end assets	0.13%	0.16%	0.16%	0
Total non-performing assets and loans past due 90 days or more as a percentage of total period-end assets	0.13%	0.16%	0.17%	0
Allowance for loan losses as a percentage of total non-performing loans	530%	428%	398%	
Allowance for loan losses as a percentage of total period-end loans	1.52%	1.47%	1.46%	1
Total non-performing assets and loans past due 90 days or more as a percentage of stockholders' equity and allowance for loan losses	2%	3%	3%	

COMMERCE BANCORP, INC. AND SUBSIDIARIES

The following table presents, for the periods indicated, an analysis of the allowance for loan losses and other related data: (dollar amounts in thousands)

	Three Months Ended		Six Months Ended	
	06/30/02	06/30/01	06/30/02	06/30/01
Balance at beginning of period	$72,253	$52,157	$66,981	$48,6
Provisions charged to operating expenses	10,250	7,982	17,150	12,5
	82,503	60,139	84,131	61,2
Recoveries on loans charged-off:				
Commercial	215	150	405	1
Consumer	105	95	220	1
Real estate	0	2	1	
Total recoveries	320	247	626	3
Loans charged-off:				
Commercial	(1,874)	(1,976)	(3,061)	(2,3

Consumer	(841)	(636)	(1,565)	(1,2
Real estate	(10)	(226)	(33)	(4
Total charge-offs	(2,725)	(2,838)	(4,659)	(4,0
Net charge-offs	(2,405)	(2,591)	(4,033)	(3,7
Balance at end of period	$80,098	$57,548	$80,098	$57,5
Net charge-offs as a percentage of average loans outstanding	0.19%	0.26%	0.16%	0.
Net reserve additions	$7,845	$5,391	$13,117	$8,8

Item 3: Quantitative and Qualitative Disclosures About Market Risk

See Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operation, Interest Rate Sensitivity and Liquidity.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

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

The Annual Meeting of the Registrant's Shareholders was held on May 21, 2002. The only item of business acted upon at the Annual Meeting was the election of 13 directors for one year terms. All 13 directors were elected.

Item 6. Exhibits and Reports on Form 8-K

Exhibits

Exhibit 99.1 - 906 Certification

Reports on Form 8-K

No reports on Form 8-K were filed during the second quarter ended June 30, 2002.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMERCE BANCORP, INC.

(Registrant)

August 14, 2002 — /s/ DOUGLAS J. PAULS

(Date) — DOUGLAS J. PAULS
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)