COMMERCE BANCORP INC /NJ/
Form 10-Q
November 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 September 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, INC. [LOGO]
(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	67,487,871
(Title of Class)	(No. of Shares Outstanding as of 11/11/02)

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PART I. FINANCIAL INFORMATION

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

	(dollars in thousands)	September 30, 2002
Assets	Cash and due from banks	$ 740,604
	Federal funds sold	87,900
	Cash and cash equivalents	828,504
	Loans held for sale	66,612
	Trading securities	197,386
	Securities available for sale	7,093,561
	Securities held to maturity	
	(market value 09/02-$927,930; 12/01-$1,146,345)	898,532
	Loans	5,542,626
	Less allowance for loan losses	85,479
		5,457,147
	Bank premises and equipment, net	449,677
	Other assets	382,850
		$15,374,269

Liabilities	Deposits:	
	Demand:	
	Interest-bearing	$ 5,162,886
	Noninterest-bearing	3,060,273
	Savings	2,705,202
	Time	2,951,275
	Total deposits	13,879,636
	Other borrowed money	142,468
	Other liabilities	281,099
	Trust Capital Securities - Commerce Capital Trust I	0
	Convertible Trust Capital Securities - Commerce Capital Trust II	200,000
	Long-term debt	0
		14,503,203
Stockholders' Equity	Common stock, 67,487,755 shares issued (65,832,559 shares in 2001)	67,488
	Capital in excess of par or stated value	512,081
	Retained earnings	169,125
	Accumulated other comprehensive income	123,993
		872,687
	Less treasury stock, at cost, 200,018 shares (200,118 shares in 2001)	1,621
	Total stockholders' equity	871,066
		$15,374,269

See accompanying notes.

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

		Three Months Ended September 30,		N
	(dollars in thousands, except per share amounts)	2002	2001	20
Interest Income	Interest and fees on loans	$ 91,843	$ 83,679	$2
	Interest on investments	104,528	67,037	2
	Other interest	404	2,265	
	Total interest income	196,775	152,981	5

Interest Expense	Interest on deposits:			
	Demand	14,504	16,371	
	Savings	7,912	8,465	
	Time	20,374	23,469	
	Total interest on deposits	42,790	48,305	1
	Interest on other borrowed money	403	737	
	Interest on long-term debt	3,028	1,226	
	Total interest expense	46,221	50,268	1
	Net interest income	150,554	102,713	4
	Provision for loan losses	8,000	6,335	
	Net interest income after provision for loan losses	142,554	96,378	3
Noninterest Income	Deposit charges and service fees	33,802	25,871	
	Other operating income	35,830	25,903	
	Net investment securities gains	0	0	
	Total noninterest income	69,632	51,774	1
Noninterest Expense	Salaries and benefits	74,164	52,155	1
	Occupancy	15,215	9,639	
	Furniture and equipment	17,012	12,657	
	Office	8,173	6,726	
	Audit and regulatory fees and assessments	1,438	1,011	
	Marketing	7,850	6,443	
	Other	30,976	20,962	
	Total noninterest expenses	154,828	109,593	4
	Income before income taxes	57,358	38,559	1
	Provision for federal and state income taxes	19,669	12,278	
	Net income	$ 37,689	$ 26,281	$1
	Net income per common and common equivalent share:			
	Basic	$ 0.56	$ 0.40	$
	Diluted	$ 0.53	$ 0.38	$
	Average common and common equivalent shares outstanding:			
	Basic	67,065	64,958	
	Diluted	71,084	68,506	
	Cash dividends, common stock	$ 0.15	$ 0.14	$

See accompanying notes.

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

		Nin S
	(dollars in thousands)	2002
Operating Activities	Net income	$ 104,
	Adjustments to reconcile net income to net cash provided by operating activities:	
	Provision for loan losses	25,
	Provision for depreciation, amortization and accretion	42,
	Gains on sales of securities available for sale	
	Proceeds from sales of loans held for sale	998,
	Originations of loans held for sale	(992,
	Net loan chargeoffs	(6,
	Net increase (decrease) in trading securities	85,
	Increase in other assets	(158,
	Increase in other liabilities	84,
	Net cash provided (used) by operating activities	183,
Investing activities	Proceeds from the sales of securities available for sale	1,020,
	Proceeds from the maturity of securities available for sale	1,280,
	Proceeds from the maturity of securities held to maturity	338,
	Purchase of securities available for sale	(5,076,
	Purchase of securities held to maturity	(106,
	Net increase in loans	(971,
	Proceeds from sales of loans	11,
	Purchases of premises and equipment	(124,
	Net cash used by investing activities	(3,626,
Financing activities	Net increase in demand and savings deposits	2,990,
	Net increase in time deposits	703,
	Net decrease in other borrowed money	(122,
	Issuance of Convertible Trust Capital Securities	200,
	Redemption of Trust Capital Securities	(57,
	Decrease in long-term debt	(23,
	Dividends paid	(29,
	Proceeds from issuance of common stock under dividend reinvestment and other stock plans	47,
	Other	4,
	Net cash provided by financing activities	3,713,
	Increase in cash and cash equivalents	270,
	Cash and cash equivalents at beginning of year	557,
	Cash and cash equivalents at end of period	$ 828,

Supplemental disclosures of cash flow information: Cash paid

during the period for:	
Interest	$ 142,
Income taxes	39,

See accompanying notes.

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

Nine months ended September 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			104,241	
Other Comprehensive Income, net of tax				
Unrealized gain on securities (pre-tax $168,572)				
Total comprehensive income				
Cash dividends paid			(29,814)	
Shares issued under dividend reinvestment and compensation and benefit plans (1,543 shares)	1,543	45,551		
Acquisition of insurance brokerage agency (113 shares)	113	4,633		
Other	(1)			
Balances at September 30, 2002	$67,488	$512,081	$169,125	$(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 nine months ended September 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 $89.7 million and $73.3 million, respectively, for the three months ended September 30, 2002 and 2001. For the nine months ended September 30, 2002 and 2001, total comprehensive income was $212.5 and $130.7 million, respectively.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

D. Segment Information

Selected segment information is as follows:

	Three Months Ended September 30, 2002			Three M Septemb	
	Community Banks	Parent/ Other	Total	Community Banks	P

Net interest income	$ 152,148	$ (1,594)	$ 150,554	$ 103,136
Provision for loan losses	8,000	-	8,000	6,335
Net interest income after provision	144,148	(1,594)	142,554	96,801
Noninterest income	43,031	26,601	69,632	33,278
Noninterest expense	133,219	21,609	154,828	93,896
Income before income taxes	53,960	3,398	57,358	36,183
Income tax expense	18,507	1,162	19,669	11,711
Net income	$ 35,453	$ 2,236	$ 37,689	$ 24,472
Average assets (in billions)	$ 12,763	$ 1,597	$ 14,360	$ 8,774

	Nine Months Ended September 30, 2002			Nine M Septemb
	Community Banks	Parent/ Other	Total	Community Banks
Net interest income	$ 419,909	$ (6,650)	$ 413,259	$ 284,528
Provision for loan losses	25,150	-	25,150	18,926
Net interest income after provision	394,759	(6,650)	388,109	265,602
Noninterest income	118,972	68,279	187,251	89,557
Noninterest expense	359,366	58,923	418,289	253,297
Income before income taxes	154,365	2,706	157,071	101,862
Income tax expense	52,797	33	52,830	33,276
Net income	$ 101,568	$ 2,673	$ 104,241	$ 68,586
Average assets (in billions)	$ 11,596	$ 1,486	$ 13,082	$ 8,143

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.

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. 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. All $200 million of the Convertible Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes. The Convertible Trust Capital Securities are not currently convertible. The net proceeds of this offering were 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 September 30		Nine Se
	2002	2001	2002
Basic:			
Net income	$37,689	$26,281	$104,2
Average common shares outstanding	67,065	64,958	66,5
Net income per share of common stock	$ 0.56	$ 0.40	$ 1.
Diluted:			
Net income	$37,689	$26,281	$104,2
Average common shares outstanding	67,065	64,958	66,5
Additional shares considered in diluted computation assuming:			
Exercise of stock options	4,019	3,548	4,1

Average common shares outstanding on a diluted basis	71,084	68,506	70,7
Net income per common share - diluted	$ 0.53	$ 0.38	$ 1.

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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 September 30, 2002, stockholders' equity totaled $871.1 million or 5.67% 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 September 30, 2002 and 2001:

			Per Regulatory Guide		
	Actual		Minimum		"
	Amount	Ratio	Amount	Ratio	A
September 30, 2002					
Company					
Risk based capital ratios:					
Tier 1	$ 938,603	11.54%	$325,260	4.00%	$4
Total capital	1,024,082	12.59	650,519	8.00	8
Leverage ratio	938,603	6.59	569,878	4.00	7
Commerce NJ					
Risk based capital ratios:					
Tier 1	$ 492,564	10.05%	$196,119	4.00%	$2
Total capital	554,007	11.30	392,238	8.00	4
Leverage ratio	492,564	6.25	315,059	4.00	3
September 30, 2001					
Company					
Risk based capital ratios:					
Tier 1	$ 640,068	10.37%	$246,880	4.00%	$3
Total capital	706,054	11.44	493,759	8.00	6
Leverage ratio	640,068	6.56	390,325	4.00	4
Commerce NJ					
Risk based capital ratios:					
Tier 1	$ 360,781	9.52%	$151,642	4.00%	$2
Total capital	402,049	10.61	303,284	8.00	3
Leverage ratio	360,781	6.31	228,676	4.00	2

At September 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 September 30, 2002, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Deposits

Total deposits at September 30, 2002 were $13.9 billion, up $4.5 billion, or 47% over total deposits of $9.4 billion at September 30, 2001, and up by $3.7 billion, or 36% from year-end 2001. Deposit growth during the first nine 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 31% at September 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 September 30, 2002, the Company's income simulation model indicates net income would decrease by 8.34% and by 17.56% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 1.99% and decrease of 4.28%, respectively, at September 30, 2001. At September 30, 2002, the model projects that net income would increase by 4.61%

and increase 11.81% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease by 4.59% and 2.27%, respectively, at September 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 September 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 September 30, 2002 the Company had in excess of $6.7 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 nine months of 2002, deposit growth was used to fund growth in the loan portfolio and purchase additional investment securities.

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 nine months of 2002, the Company significantly reduced its short-term borrowings, primarily through increased deposits. At September 30, 2002, short-term borrowings aggregated $142.5 million and had an average rate of 1.20%, as compared to $264.6 million at an average rate of 1.78% at December 31, 2001.

Interest Earning Assets

For the nine month period ended September 30, 2002, interest earning assets increased $3.7 billion from $10.2 billion to $13.9 billion. This increase was primarily in investment securities and the loan portfolio as described below.

Loans

During the first nine months of 2002, loans increased $959.2 million from $4.6 billion to $5.5 billion. At September 30, 2002, loans represented 40% of total deposits and 36% of total assets. All segments of the loan portfolio experienced growth in the first nine 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.

	September 30, 2002	September 30, 2001
Commercial real estate:		
Owner-occupied	$1,182,886	$ 756,563
Investor developer	731,784	618,063
Construction	409,929	410,136
	2,324,599	1,784,762
Commercial loans:		
Term	745,069	547,269
Line of credit	606,814	508,233
Demand	348	7,337
	1,352,231	1,062,839
Consumer:		
Mortgages (1-4 family residential)	568,931	457,501
Installment	147,126	163,201
Home equity	1,098,098	818,566
Credit lines	51,641	35,457
	1,865,796	1,474,725
	$5,542,626	$4,322,326

Investments

For the first nine months of 2002, total securities increased $2.6 billion from $5.6 billion to $8.2 billion. The available for sale portfolio increased $2.9 billion to $7.1 billion at September 30, 2002 from $4.2 billion at December 31, 2001, and the securities held to maturity portfolio decreased $233.6 million to $898.5 million at September 30, 2002 from $1.1 billion at year-end 2001. The portfolio of trading securities decreased $85.4 million from year-end 2001 to $197.4 million at September 30, 2002. At September 30, 2002, the average life of the investment portfolio was approximately 2.9 years, and the duration was approximately 2.4 years. At September 30, 2002, total securities represented 53% 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.

	September 30, 2002	December 31, 2001
	(dollars in thousands)	
U.S. Government agency and mortgage backed obligations	$6,836,144	$3,994,523
Obligations of state and political subdivisions	24,946	82,922
Equity securities	17,008	16,325
Other	215,463	58,934
Securities available for sale	$7,093,561	$4,152,704
U.S. Government agency and mortgage backed obligations	$ 758,799	$1,044,266
Obligations of state and political subdivisions	93,728	50,602
Other	46,005	37,304
Securities held to maturity	$ 898,532	$1,132,172

Net Income

Net income for the third quarter of 2002 was $37.7 million, an increase of $11.4 million or 43% over the $26.3 million recorded for the third quarter of 2001. Net income for the first nine months of 2002 totaled $104.2 million, an increase of $29.4 million or 39% from $74.8 million in the first nine months of 2001. On a per share basis, diluted net income for the third quarter and first nine months of 2002 was $0.53 and $1.47 per common share compared to $0.38 and $1.10 per common share for the 2001 periods.

Return on average assets (ROA) and return on average equity (ROE) for the third quarter of 2002 were 1.05% and 17.95%, respectively, compared to 1.07% and 17.46%, respectively, for the same 2001 period. ROA and ROE for the first nine months of 2002 were 1.06% and 18.59%, respectively, compared to 1.10% and 17.82% a year ago.

Net Interest Income

Net interest income totaled $150.6 million for the third quarter of 2002, an increase of $47.8 million or 47% from $102.7 million in the third quarter of 2001. Net interest income for the first nine months of 2002 was $413.3 million, up $129.4 million or 46% from 2001. The improvement in net interest income was due primarily to volume increases in the loan and investment portfolios.

The net interest margin for the third quarter of 2002 was 4.65% down 10 basis points from the 4.75% margin from the second quarter. Approximately five (5) basis points was related to management's conscious decision to shorten the duration of the portfolio and approximately five (5) basis points of the decline in the margin was attributed to lower reinvestment rates caused by a flattening yield curve. Shortening the duration of the portfolio provides for less market price volatility and positions the Company advantageously for an anticipated rise in interest rates in 2003. While the net interest margin rate has contracted as a result, the Company's volume increase in its net interest income has more than offset the effect of the net interest margin rate decline.

The following table sets forth balance sheet items on a daily average basis for the three months ended September 30, 2002, June 30, 2002 and September 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)	September 2002			June 2002		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Averag Rate
Earning Assets						
Investment securities						
Taxable	$ 7,281,082	$102,306	5.57%	$ 6,484,728	$ 97,970	6.
Tax-exempt	88,711	1,325	5.92	128,237	2,043	6.
Trading	168,668	2,095	4.93	225,231	3,069	5.
Total investment securities	7,538,461	105,726	5.56	6,838,196	103,082	6.
Federal funds sold	95,341	403	1.68	27,592	116	1.
Loans						
Commercial mortgages	2,131,809	36,868	6.86	1,928,153	33,683	7.
Commercial	1,253,565	19,230	6.09	1,194,310	17,952	6.
Consumer	1,865,040	33,252	7.07	1,787,395	32,026	7.
Tax-exempt	178,956	3,835	8.50	241,226	5,073	8.
Total loans	5,429,370	93,185	6.81	5,151,084	88,734	6.
Total earning assets	$13,063,172	$199,314	6.05%	$12,016,872	$191,932	6.
Sources of Funds						
Interest-bearing liabilities						
Regular savings	$ 2,498,700	$ 7,912	1.26%	$ 2,304,839	$ 8,133	1.
N.O.W. accounts	352,234	1,031	1.16	331,878	1,152	1.
Money market plus	4,389,903	13,472	1.22	3,858,362	13,555	1.
Time deposits	1,958,165	15,021	3.04	1,840,499	15,992	3.
Public funds	1,001,570	5,353	2.12	984,503	5,546	2.
Total deposits	10,200,572	42,789	1.66	9,320,081	44,378	1.
Other borrowed money	99,819	403	1.60	70,078	282	1.
Long-term debt	200,000	3,029	6.01	269,885	5,082	7.
Total deposits and interest-bearing liabilities	10,500,391	46,221	1.75	9,660,044	49,742	2.
Noninterest-bearing funds (net)	2,562,781			2,356,828		
Total sources to fund earning assets	$13,063,172	46,221	1.40	$12,016,872	49,742	1.
Net interest income and						

margin tax-equivalent basis		$153,093	4.65%		$142,190	4.
		========	====		========	==

Other Balances

Cash and due from banks	$ 671,394	$ 547,088
Other assets	708,005	677,551
Total assets	14,359,739	13,166,040
Total deposits	12,970,854	11,885,164
Demand deposits (noninterest-bearing)	2,770,282	2,565,083
Other liabilities	248,999	207,939
Stockholders' equity	840,067	732,974
Allowance for loan losses	82,832	75,471

COMMERCE BANCORP, INC. AND SUBSIDIARIES

Noninterest Income

Noninterest income totaled $69.6 million for the third quarter of 2002, an increase of $17.8 million or 34% from $51.8 million in the third quarter of 2001. Noninterest income for the first nine months of 2002 increased to $187.3 million from $143.3 million in the first nine months of 2001, a 31% increase The growth in non-interest income for the third quarter and the first nine months of 2002 is more fully depicted below:

	Three Months Ended			Nine Mon	
	9/30/02	9/30/01	% Increase	9/30/02	9/30
	(Dollars in thousands)			(Dollars in	
Deposit charges & service fees	$33,802	$25,871	31%	$94,394	$
Other operating income:					
Insurance	14,447	12,769	13	42,076	
Capital markets	12,077	6,127	97	26,605	
Loan brokerage fees	4,328	3,472	25	12,471	
Other	4,978	3,535	41	11,705	
Total other	35,830	25,903	38	92,857	
Total non-interest income	$69,632	$51,774	34%	$187,251	$1

Noninterest Expense

For the third quarter of 2002, noninterest expense totaled $154.8 million, an increase of $45.2 million or 41% 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 167 at September 30, 2001 to 203 at September

30, 2002. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. Other noninterest expenses rose $10.0 million over the third 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 nine months of 2002, noninterest expense totaled $418.3 million, an increase of $120.4 million or 40% over $297.9 million for the first nine months of 2001. Contributing to this increase was the growth in branches as noted above. Other noninterest expense rose $29.6 million over the first nine 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 69.50% for the first nine months of 2002 as compared to 69.61% 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 September 30, 2002 were $17.6 million, or 0.11% of total assets compared to $18.4 million or 0.16% of total assets at December 31, 2001 and $20.8 million or 0.20% of total assets at September 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 September 30, 2002 were $15.3 million or 0.28% of total loans compared to $16.8 million or 0.37% of total loans at December 31, 2001 and $19.1 million or 0.44% of total loans at September 30, 2001. At September 30, 2002, loans past due 90 days or more and still accruing interest amounted to $900 thousand compared to $519 thousand at December 31, 2001 and $964 thousand at September 30, 2001. Additional loans considered as potential problem loans by the Company's internal loan review department ($29.1 million at September 30, 2002) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) at September 30, 2002 totaled $2.4 million compared to $1.5 million at December 31, 2001 and $1.7 million at September 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 September 30, 2002 and the preceding four quarters.

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.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

	September 30, 2002	June 30, 2002	March 31, 2002	December 2001
Non-accrual loans:				
Commercial	$ 7,213	$ 7,581	$ 9,473	$ 6
Consumer	2,147	1,557	1,537	1
Real estate:				
Construction	131	181	181	1
Mortgage	5,754	5,778	5,695	6
Total non-accrual loans	15,245	15,097	16,886	16
Restructured loans:				

Commercial	6	6	7	
Consumer				
Real estate:				
Construction				
Mortgage				
Total restructured loans	6	6	7	
Total non-performing loans	15,251	15,103	16,893	16
Other real estate	2,367	2,471	2,602	1
Total non-performing assets	17,618	17,574	19,495	18
Loans past due 90 days or more and still accruing	900	834	484	
Total non-performing assets and loans past due 90 days or more	$18,518	$18,408	$19,979	$18
Total non-performing loans as a percentage of total period-end loans	0.28%	0.29%	0.34%	0
Total non-performing assets as a percentage of total period-end assets	0.11%	0.13%	0.16%	0
Total non-performing assets and loans past due 90 days or more as a percentage of total period-end assets	0.12%	0.13%	0.16%	0
Allowance for loan losses as a percentage of total non-performing loans	560%	530%	428%	
Allowance for loan losses as a percentage of total period-end loans	1.54%	1.52%	1.47%	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%	2%	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		Nine Months Ended	
	09/30/02	09/30/01	09/30/02	09/30/0

Balance at beginning of period	$80,098	$57,548	$66,981	$48,6
Provisions charged to operating expenses	8,000	6,335	25,150	18,9
	88,098	63,883	92,131	67,6
Recoveries on loans charged-off:				
Commercial	52	20	457	1
Consumer	61	85	281	2
Commercial real estate	22	102	23	1
Total recoveries	135	207	761	5
Loans charged-off:				
Commercial	(1,926)	(2,016)	(4,987)	(4,3
Consumer	(828)	(680)	(2,393)	(1,9
Commercial real estate	-	(8)	(33)	(4
Total charge-offs	(2,754)	(2,704)	(7,413)	(6,7
Net charge-offs	(2,619)	(2,497)	(6,652)	(6,2
Balance at end of period	$85,479	$61,386	$85,479	$61,3
Net charge-offs as a percentage of average loans outstanding	0.19%	0.23%	0.17%	0.
Net reserve additions	$ 5,381	$ 3,838	$18,498	$12,7

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.

Item 4. Controls and Procedures

Quarterly Evaluation of the Company's Disclosure Controls and Internal Controls. Within the 90 days prior to the date of this Quarterly Report on Form 10-Q, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" ("Disclosure Controls"). This evaluation (the "Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Limitations on the Effectiveness of Controls. The Company's management, including the CEO and CFO, does not expect that our Disclosure Controls and its "internal controls and procedures for financial reporting" ("Internal Controls") will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Conclusions. Based upon the Controls Evaluation, the CEO and CFO have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to timely alert management to material information relating to the Company during the period when its periodic reports are being prepared.

In accord with SEC requirements, the CEO and CFO note that, since the date of the Controls Evaluation to the date of this Quarterly Report, there have been no significant changes in Internal Controls or in other factors that could significantly affect Internal Controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

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 third quarter ended September 30, 2002.

COMMERCE BANCORP, INC. AND SUBSIDIARIES

CERTIFICATION

I, Vernon W. Hill, II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commerce Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue

statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

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

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

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

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

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

Date: November 14, 2002

/s/ Vernon W. Hill, II

Vernon W. Hill, II
Chairman, President and Chief Executive Officer
(principal executive officer)

COMMERCE BANCORP, INC. AND SUBSIDIARIES

CERTIFICATION

I, Douglas J. Pauls, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commerce Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

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

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

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

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

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

Date: November 14, 2002

/s/ Douglas J. Pauls

Douglas J. Pauls
Senior Vice President and Chief Financial
Officer (principal financial officer)

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)

November 14, 2002
(Date)

/s/ DOUGLAS J. PAULS
DOUGLAS J. PAULS
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)