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COMMERCE BANCORP INC /NJ/
Form 10-Q
November 13, 2003

UNITED STATES
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 quarterly period ended September 30, 2003

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 #0-12069

Commerce Bancorp

(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 ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

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

75,834,723

(Title of Class)

(No. of Shares Outstanding
as of November 3, 2003)

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

		September 30,
		2003

(in thousands)		

Assets	Cash and due from banks	\$ 775,696
	Federal funds sold	-
	Cash and cash equivalents	775,696
	Loans held for sale	94,596
	Trading securities	220,433

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	Securities available for sale	10,416,934
	Securities held to maturity (market value 09/03-\$2,090,082; 12/02-\$791,889)	2,102,235
	Loans	6,824,068
	Less allowance for loan losses	103,592

		6,720,476
	Bank premises and equipment, net	754,253
	Other assets	274,546

	Total assets	\$21,359,169
		=====
Liabilities	Deposits:	
	Demand:	
	Interest-bearing	\$ 7,622,949
	Noninterest-bearing	4,323,354
	Savings	4,175,377
	Time	3,433,417

	Total deposits	19,555,097
	Other borrowed money	155,849
	Other liabilities	213,661
	Convertible Trust Capital Securities - Commerce Capital Trust II	200,000

	Total liabilities	20,124,607
Stockholders' Equity	Common stock, 75,805,917 shares issued (68,043,171 shares at December 31, 2002)	75,806
	Capital in excess of par or stated value	824,255
	Retained earnings	303,221
	Accumulated other comprehensive income	36,523

		1,239,805
	Less treasury stock, at cost, 286,218 shares (209,794 shares at December 31, 2002)	5,243

	Total stockholders' equity	1,234,562

	Total liabilities and stockholders' equity	\$21,359,169
		=====

See accompanying notes.

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(unaudited)

		Three Months Ended September 30,		N
(in thousands, except per share amounts)		2003	2002	20
Interest income	Interest and fees on loans	\$98,889	\$91,843	\$2
	Interest on investments	134,984	104,528	3
	Other interest	28	404	
	Total interest income	233,901	196,775	6
Interest expense	Interest on deposits:			
	Demand	12,090	14,504	
	Savings	6,890	7,912	
	Time	16,682	20,374	
	Total interest on deposits	35,662	42,790	1
	Interest on other borrowed money	1,110	403	
	Interest on long-term debt	3,020	3,028	
Total interest expense	39,792	46,221	1	
	Net interest income	194,109	150,554	5
	Provision for loan losses	7,250	8,000	
	Net interest income after provision for loan losses	186,859	142,554	5
Noninterest income	Deposit charges and service fees	41,500	33,802	1
	Other operating income	41,976	35,830	1
	Net investment securities gains	1,682	-	
	Total noninterest income	85,158	69,632	2
Noninterest expense	Salaries and benefits	92,732	74,164	2
	Occupancy	24,760	15,215	
	Furniture and equipment	21,770	17,012	
	Office	9,906	8,173	
	Marketing	9,412	7,850	
	Other	38,732	32,414	1
	Total noninterest expenses	197,312	154,828	5
	Income before income taxes	74,705	57,358	2
	Provision for federal and state income taxes	25,231	19,669	
	Net income	\$ 49,474	\$ 37,689	\$1
Net income per common and common equivalent share:				
	Basic	\$ 0.70	\$ 0.56	\$
	Diluted	\$ 0.67	\$ 0.53	\$
Average common and common equivalent shares outstanding:				
	Basic	70,787	67,065	
	Diluted	73,926	71,084	

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Cash dividends, common stock \$ 0.17 \$ 0.15 \$

See accompanying notes.

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

		Nine Se
(in thousands)		2003
Operating activities	Net income	\$ 137,6
	Adjustments to reconcile net income to net cash provided by operating activities:	
	Provision for loan losses	21,0
	Provision for depreciation, amortization and accretion	97,6
	Gain on sales of securities available for sale	(2,7
	Proceeds from sales of loans held for sale	1,184,1
	Originations of loans held for sale	(1,156,3
	Net decrease in trading securities	106,0
	Increase in other assets	(18,7
	(Decrease) increase in other liabilities	(56,6
	Net cash provided by operating activities	312,2
Investing activities	Proceeds from the sales of securities available for sale	3,407,8
	Proceeds from the repayment or maturity of securities available for sale	4,102,5
	Proceeds from the repayment or maturity of securities held to maturity	489,6
	Purchase of securities available for sale	(10,279,2
	Purchase of securities held to maturity	(1,837,4
	Net increase in loans	(1,127,6
	Proceeds from sales of loans	92,4
	Capital expenditures	(222,5
	Net cash used by investing activities	(5,374,3
Financing activities	Net increase in demand and savings deposits	4,381,5
	Net increase in time deposits	624,6
	Net decrease in other borrowed money	(235,7
	Issuance of common stock	208,8
	Issuance of Convertible Trust Capital Securities	
	Redemption of Trust Capital Securities	
	Decrease in long-term debt	
	Dividends paid	(34,0
	Proceeds from issuance of common stock under	

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dividend reinvestment and other stock plans	82,5
Other	(1,3)

Net cash provided by financing activities	5,026,4
(Decrease) increase in cash and cash equivalents	(35,7
Cash and cash equivalents at beginning of year	811,4

Cash and cash equivalents at end of period	\$ 775,6
=====	
Supplemental disclosures of cash flow information: Cash paid	
during the period for:	
Interest	\$119,8
Income taxes	45,6

See accompanying notes.

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

Nine months ended September 30, 2003
(in thousands)

	Common Stock	Capital in Excess of Par or Stated Value	Retained Earnings	Treas Stock
Balances at December 31, 2002	\$68,043	\$538,795	\$199,604	\$(2,
Net income			137,681	
Other Comprehensive Income (Loss), net of tax				
Unrealized loss on securities available for sale				
Reclassification adjustment				
Other comprehensive income (loss)				
Total comprehensive income				
Cash dividends paid			(34,063)	
Shares issued under common stock offering (5,000 shares)	5,000	203,825		
Shares issued under dividend reinvestment and compensation and benefit plans (2,719 shares)	2,719	79,787		
Acquisition of insurance brokerage agencies (44 shares)	44	1,848		
Other				(1) (3,

Balances at September 30, 2003	\$75,806	\$824,255	\$303,221	\$(5,

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 have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements were compiled in accordance with the accounting policies set forth in note 1 (Significant Accounting Policies) of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. The accompanying consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

These 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 year ended December 31, 2002. The results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. (the Company) 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 Insurance Services, Inc. (CIS), 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 2003 presentation.

B. Capital Resources

In August 2003, the Company filed a Form S-3 shelf registration statement with the Securities and Exchange Commission (SEC). This shelf registration statement allows the Company to periodically offer and sell, individually or in any combination, common stock, preferred stock, debt securities, trust preferred securities, warrants to purchase other securities and units (which include a combination of any of the preceding securities) up to a total of \$500 million, subject to market conditions and the Company's capital needs.

In September 2003, the Company completed an offering of 5,000,000 shares of common stock for aggregate proceeds of approximately \$209 million under its shelf registration. The proceeds from this offering will be used to support the Company's future growth.

C. Bank Premises and Equipment

In accordance with accounting principles generally accepted in the United

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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 pre-opening and post-opening costs related to branches are expensed as incurred. As of September 30, 2003 and December 31, 2002, Bank premises and equipment in progress was \$95.8 million and \$81.6 million, respectively.

D. Commitments

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

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E. Comprehensive Income

Total comprehensive income (loss), which for the Company included net income and unrealized gains and losses on the Company's available for sale securities, amounted to \$(3.5) million and \$89.7 million, respectively, for the three months ended September 30, 2003 and 2002. For the nine months ended September 30, 2003 and 2002, total comprehensive income was \$60.6 million and \$212.5 million, respectively.

F. New Accounting Standards

In October 2003, the Financial Accounting Standards Board (FASB) decided to defer the implementation date for FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), previously issued in January 2003. This deferral applies only to variable interest entities that existed prior to February 1, 2003. Pursuant to this deferral, the recognition and measurement provisions of FIN 46 are delayed to the first interim or annual reporting period ending after December 15, 2003. FIN 46 provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. FIN 46's consolidation criteria are based on an analysis of risks and rewards, not control, and represent a significant and complex modification of previous accounting principles. The Company does not have any variable interest entities that were created after February 1, 2003. The Company intends to adopt the recognition and measurement provisions of FIN 46 for existing VIEs on December 31, 2003. Management is in the process of reviewing the application of FIN 46 and does not expect its adoption to have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (FAS 150), which the Company adopted on July 1, 2003. This statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. Financial instruments that fall within the scope of FAS 150 are to be classified as liabilities, or an asset in some circumstances. This statement became effective upon issuance for financial instruments entered into or modified after May 31, 2003 and for all financial instruments previously entered into at the beginning of the first interim period beginning after September 15, 2003. The adoption of FAS 150 did not have an impact on the Company's results of operations and

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financial position.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149), which the Company adopted on July 1, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003. The adoption of FAS 149 did not have a material impact on the Company's results of operations and financial position.

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In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (FAS 148). This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FAS 123). This statement is effective for fiscal years ending after December 15, 2002 and did not have an impact on the financial condition or operating results of the Company.

The Company will continue to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations to account for its stock-based compensation plans. If the Company had accounted for stock options under the fair value provisions of FAS 123, net income and net income per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended September 30	
	2003	2002
Net income, as reported	\$49,474	\$37,689
Pro forma net income	\$46,790	\$35,582
Pro forma net income per share:		
Basic	\$ 0.66	\$ 0.53
Diluted	\$ 0.63	\$ 0.50

The fair value of options granted in 2003 and 2002 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.00% to 4.41%, dividend yields of 1.50% to 2.50%, volatility factors of the expected market price of the Company's common stock of .304 and weighted average expected lives of the options of 5.22 and 4.75 years.

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The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

G. Segment Information

Selected segment information is as follows (in thousands, except as noted):

	Three Months Ended September 30, 2003			
	Community Banks	Parent/ Other	Total	Communit Banks
Net interest income	\$ 195,715	\$ (1,606)	\$ 194,109	\$ 152,14
Provision for loan losses	7,250		7,250	8,00
Net interest income after provision	188,465	(1,606)	186,859	144,14
Noninterest income	58,384	26,774	85,158	43,03
Noninterest expense	175,547	21,765	197,312	133,21
Income before income taxes	71,302	3,403	74,705	53,96
Income tax expense	24,068	1,163	25,231	18,50
Net income	\$ 47,234	\$ 2,240	\$ 49,474	\$ 35,45
Average assets (in millions)	\$ 18,965	\$ 1,753	\$ 20,718	\$ 12,76

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G. Segment Information (continued)

	Nine Months Ended September 30, 2003			
	Community Banks	Parent/ Other	Total	Communit Banks
Net interest income	\$ 544,673	\$ (3,931)	\$ 540,742	\$ 419,90

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Provision for loan losses	21,050		21,050	25,150
Net interest income after provision	523,623	(3,931)	519,692	394,750
Noninterest income	164,388	80,206	244,594	118,970
Noninterest expense	491,133	65,978	557,111	359,360
Income before income taxes	196,878	10,297	207,175	154,360
Income tax expense	66,360	3,134	69,494	52,790
Net income	\$ 130,518	\$ 7,163	\$ 137,681	\$ 101,560
Average assets (in millions)	\$ 16,905	\$ 1,792	\$ 18,697	\$ 11,590

H. Trust Capital Securities

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 September 30, 2002 is more than 110% of the Convertible Trust Capital Securities conversion price (\$52.75 at September 30, 2003) 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 \$200.0 million of the Convertible Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes. As of September 30, 2003 the Convertible Trust Capital Securities were not 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% Trust Capital 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.

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I. Earnings Per Share

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

	Three Months Ended September 30		Nine Se
	2003	2002	2003

Basic:

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Net income	\$49,474	\$37,689	\$137,6
Average common shares outstanding	70,787	67,065	69,4
Net income per share of common stock	\$ 0.70	\$ 0.56	\$ 1.
Diluted:			
Net income	\$49,474	\$37,689	\$137,6
Average common shares outstanding	70,787	67,065	69,4
Additional shares considered in diluted computation assuming:			
Exercise of stock options	3,139	4,019	3,1
Average common shares outstanding on a diluted basis	73,926	71,084	72,6
Net income per common share - diluted	\$ 0.67	\$ 0.53	\$ 1.

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

Capital Resources

During September 2003, the Company successfully completed a public offering of 5,000,000 shares of common stock, which generated approximately \$209 million in new capital. The proceeds from this offering will be used to support the Company's future growth.

At September 30, 2003, stockholders' equity totaled \$1,234.6 million or 5.78% of total assets, compared to \$918.0 million or 5.60% of total assets at December 31, 2002.

The Company and its subsidiaries are subject to risk-based capital standards issued by bank regulatory authorities. Under these standards, Tier 1 capital includes stockholders' equity, as adjusted for certain items. The Company makes two significant adjustments in calculating regulatory capital. The first adjustment is to exclude from capital the unrealized appreciation or depreciation in its available for sale securities portfolio. The second adjustment is to add to capital the Convertible Trust Capital Securities. Total capital is comprised of all the components of Tier 1 capital plus the reserve for possible loan losses.

The table below presents the Company's and Commerce NJ's risk-based and leverage ratios at September 30, 2003 and 2002 (in thousands):

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	Actual		Per Regulatory G	
	Amount	Ratio	Amount	Ratio
September 30, 2003				
Company				
Risk based capital ratios:				
Tier 1	\$1,388,033	12.68%	\$438,024	4.00%
Total capital	1,491,625	13.62	876,048	8.00
Leverage ratio	1,388,033	6.68	831,046	4.00
Commerce NJ Risk based capital ratios:				
Tier 1	\$747,313	11.18%	\$267,335	4.00%
Total capital	816,121	12.21	534,670	8.00
Leverage ratio	747,313	6.04	495,125	4.00
September 30, 2002				
Company				
Risk based capital ratios:				
Tier 1	\$938,603	11.54%	\$325,260	4.00%
Total capital	1,024,082	12.59	650,519	8.00
Leverage ratio	938,603	6.59	569,878	4.00
Commerce NJ Risk based capital ratios:				
Tier 1	\$492,564	10.05%	\$196,119	4.00%
Total capital	554,007	11.30	392,238	8.00
Leverage ratio	492,564	6.25	315,059	4.00

At September 30, 2003, 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, 2003, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

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Deposits

Total deposits at September 30, 2003 were \$19.6 billion, up \$5.7 billion, or 41% over total deposits of \$13.9 billion at September 30, 2002, and up by \$5.0 billion, or 34% from year-end 2002. Deposit growth during the first nine months of 2003 included core deposit growth in all categories as well as growth from the public sector. The Company regards core deposits as all deposits other than public certificates of deposit. Same-store core deposit growth is measured as the year over year percentage increase in core deposits for branches open two years or more at the balance sheet date. The Company experienced same-store core deposit growth of 30% at September 30, 2003 as compared to the same period in 2002.

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 plus 200 and a minus 100 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, 2003, the Company's income simulation model indicates net income would increase by 0.17% and decrease by 5.30% in the first year and over a two year time frame, respectively, if rates decreased as described above. At September 30, 2002, the Company's income simulation model was run assuming a 200 basis point decrease and indicated net income would decrease by 8.34% and by 17.56% in the first year and over a two year time frame, respectively. At September 30, 2003, the model projects that net income would increase by 8.16% and by 11.50% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to an increase by 4.61% and by 11.81%, respectively, at September 30, 2002. 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 at risk model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities. 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 or 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 45% or more of the excess of market value over book value in the current rate scenario. At September 30, 2003, the market value of equity model indicates an acceptable level of interest rate risk.

The MVE 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. One of the key assumptions is the market value assigned to the Company's core deposits, or the core deposit premium. Utilizing an independent consultant, the Company has completed and updated comprehensive core deposit studies in order to assign its own core deposit premiums as permitted by the Company's regulatory authorities. The studies have consistently confirmed management's assertion that the Company's core deposits have stable balances over long periods of time, are generally insensitive to changes in interest rates and have significantly longer average lives and durations than the Company's loans and investment securities. Thus, these core deposit balances provide an internal hedge to market value fluctuations in the Company's fixed rate assets. The following table depicts the average lives of the Company's loans, investments and deposits at September 30, 2003:

	Average Life (in years)
Loans	3.5
Investments	4.4
Deposits	13.5

The MVE analyzes both sides of the balance sheet and, as indicated below, demonstrates the inherent value of the Company's core deposits in a rising rate environment. As rates rise, the value of the Company's core deposits increases which offsets the decrease in value of the Company's fixed rate assets. The following table summarizes the market value of equity at September 30, 2003 (in millions, except for per share amounts):

	Market Value Of Equity	Per Share
Plus 200 basis point	\$4,003	\$52.82
Current Rate	\$4,117	\$54.31
Minus 100 basis point	\$3,259	\$43.00

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

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available for sale investment portfolio. As of September 30, 2003 the Company had in excess of \$10.5 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.

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. At September 30, 2003, short-term borrowings aggregated \$155.8 million and had an average rate of 0.90%, as compared to \$391.6 million at an average rate of 1.55% at December 31, 2002.

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Interest Earning Assets

The Company's cash flow from deposit growth and repayments from its investment portfolio totaled approximately \$9.6 billion for the first nine months of 2003. This significant cash flow has provided the Company with ongoing reinvestment opportunities as interest rates change. For the nine month period ended September 30, 2003, interest earning assets increased \$4.8 billion from \$14.8 billion to \$19.6 billion. This increase was primarily in investment securities and the loan portfolio as described below.

Loans

During the first nine months of 2003, loans increased \$1.0 billion from \$5.8 billion to \$6.8 billion. At September 30, 2003, loans represented 35% of total deposits and 32% of total assets. All segments of the loan portfolio experienced growth in the first nine months of 2003, 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,	December 31,
	2003	2002
	(in thousands)	
Commercial:		
Term	\$ 887,687	\$ 842,869
Line of credit	840,736	683,640
Demand	1,080	317
	-----	-----
	1,729,503	1,526,826
Owner-occupied	1,535,906	1,345,306
Consumer:		
Mortgages (1-4 family residential)	842,321	626,652

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Installment	140,337	140,493
Home equity	1,306,462	1,139,589
Credit lines	55,931	56,367
	-----	-----
	2,345,051	1,963,101
Commercial real estate:		
Investor developer	1,087,956	885,276
Construction	125,652	102,080
	-----	-----
	1,213,608	987,356
	-----	-----
Total loans	\$ 6,824,068	\$ 5,822,589
	=====	=====

Investments

For the first nine months of 2003, total securities increased \$3.8 billion from \$8.9 billion to \$12.7 billion. The available for sale portfolio increased \$2.6 billion to \$10.4 billion at September 30, 2003 from \$7.8 billion at December 31, 2002, and the securities held to maturity portfolio increased \$1.3 billion to \$2.1 billion at September 30, 2003 from \$763.0 million at year-end 2002. The portfolio of trading securities decreased \$106.0 million from year-end 2002 to \$220.4 million at September 30, 2003.

The portfolio is comprised primarily of high quality US Government agency and mortgage-backed obligations with a current duration of 4.0 years and an average life of 4.4 years. At September 30, 2003, total securities represented 60% of total assets.

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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,	December 31,
	2003	2002

	(in thousands)	
U.S. Government agency and mortgage-backed obligations	\$10,065,733	\$7,659,737
Obligations of state and political subdivisions	31,645	23,185
Equity securities	14,783	24,054
Other	304,773	99,803
	-----	-----
Securities available for sale	\$10,416,934	\$7,806,779
	=====	=====
U.S. Government agency and mortgage-backed obligations	\$1,813,055	\$624,688
Obligations of state and political subdivisions	222,067	91,204
Other	67,113	47,134
	-----	-----
Securities held to maturity	\$2,102,235	\$763,026

Detailed below is information regarding the composition and characteristics of the Company's investment portfolio, excluding trading securities, as of September 30, 2003.

Product Description	Amount	Average Yield	Average Book Price	Average Duration
(in millions)				
Mortgage-backed Securities:				
Federal Agencies Pass Through Certificates (AAA Rated)	\$ 4,666	4.71%	\$101.33	4.30
Collateralized Mortgage Obligations (AAA Rated)	6,069	4.33	100.76	3.76
Obligations of State and Political Subdivisions/Other	1,784	4.37	100.29	4.01
Total	\$12,519	4.48%	\$100.88	4.00

The Company's mortgage-backed securities (MBS) portfolio comprises 86% of the total investment portfolio. The MBS portfolio consists of Federal Agencies Pass-Through Certificates and Collateralized Mortgage Obligations (CMO's) which are issued by federal agencies and other private sponsors. The Company's investment policy does not permit investments in inverse floaters, IO's, PO's and other similar issues.

Net Income

Net income for the third quarter of 2003 was \$49.5 million, an increase of \$11.8 million or 31% over the \$37.7 million recorded for the third quarter of 2002. Net income for the first nine months of 2003 totaled \$137.7 million, an increase of \$33.5 million or 32% from \$104.2 million in the first nine months of 2002. On a per share basis, diluted net income for the third quarter and first nine months of 2003 was \$0.67 and \$1.90 per common share compared to \$0.53 and \$1.47 per common share for the same periods in 2002.

Return on average assets (ROA) and return on average equity (ROE) for the third quarter of 2003 were 0.96% and 21.17%, respectively, compared to 1.05% and

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17.95%, respectively, for the same 2002 period. ROA and ROE for the first nine months of 2003 were 0.98% and 18.97%, respectively, compared to 1.06% and 18.59%, respectively, for the same 2002 period.

Net Interest Income

Net interest income totaled \$194.1 million for the third quarter of 2003, an increase of \$43.5 million or 29% from \$150.6 million in the third quarter of 2002. Net interest income for the first nine months of 2003 was \$540.7 million, up \$127.4 million or 31% from \$413.3 million for the first nine months of 2002. The improvement in net interest income was due primarily to the Company's continued ability to grow deposits and its loan and investment portfolios.

As shown below, the increase in net interest income on a tax equivalent basis was due to volume increases in the Company's earning assets, which were fueled by the Company's rapid growth of low-cost core deposits (in thousands).

2003 vs. 2002	Net Interest Income		
	Volume Increase	Rate Change	Total Increase
Third Quarter	\$ 55,842	(\$10,925)	\$ 44,918
First Nine Months	\$155,418	(\$25,694)	\$ 129,724

The net interest margin for the third quarter of 2003 was 4.21%, down 44 basis points from the margin for the third quarter of 2002. The decline in the margin was attributed primarily to a decrease in the yield on the investment portfolio, which was due in part to lower reinvestment rates.

The third quarter of 2003 was marked by continued volatility in long term interest rates and the lingering process of working through the most recent mortgage refinancing cycle. The significant prepayments in the mortgage-backed securities portfolio were also accompanied by accelerated premium amortization, which lowered the net interest margin for the quarter.

The following table sets forth balance sheet items on a daily average basis for the three months ended September 30, 2003, June 30, 2003 and September 30, 2002 and presents the daily average interest earned on assets and paid on liabilities for such periods.

Average Balances and Net Interest Income

September 2003	June 2003

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(in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning Assets						
Investment securities						
Taxable	\$11,605,502	\$131,158	4.48%	\$10,026,080	\$119,147	4.7%
Tax-exempt	229,566	3,771	6.52	192,892	3,689	7.6%
Trading	155,541	2,115	5.40	158,297	2,389	6.0%
Total investment securities	11,990,609	137,044	4.53	10,377,269	125,225	4.8%
Federal funds sold	10,641	28	1.04	32,095	97	1.2%
Loans						
Commercial mortgages	2,520,594	39,189	6.17	2,319,945	37,156	6.4%
Commercial	1,612,069	21,968	5.41	1,552,400	21,587	5.5%
Consumer	2,262,426	34,309	6.02	2,109,143	33,336	6.3%
Tax-exempt	271,436	5,266	7.70	264,737	5,338	8.0%
Total loans	6,666,525	100,732	5.99	6,246,225	97,417	6.2%
Total earning assets	\$18,667,775	\$237,804	5.06%	\$16,655,589	\$222,739	5.3%
Sources of Funds						
Interest-bearing liabilities						
Regular savings	\$3,938,114	\$6,889	0.69%	\$3,477,229	\$6,755	0.7%
N.O.W. accounts	484,279	874	0.72	437,455	734	0.6%
Money market plus	6,808,745	11,216	0.65	5,989,878	11,226	0.7%
Time deposits	2,470,306	13,849	2.22	2,313,690	14,093	2.4%
Public funds	813,271	2,834	1.38	878,005	3,294	1.5%
Total deposits	14,514,715	35,662	0.97	13,096,257	36,102	1.1%
Other borrowed money	727,128	1,111	0.61	278,780	318	0.4%
Long-term debt	200,000	3,020	5.99	200,000	3,020	6.0%
Total deposits and interest-bearing liabilities	15,441,843	39,793	1.02	13,575,037	39,440	1.1%
Noninterest-bearing funds (net)	3,225,932			3,080,552		
Total sources to fund earning assets	\$18,667,775	39,793	0.85	\$16,655,589	39,440	0.9%
Net interest income and margin tax-equivalent basis		\$198,011	4.21%		\$183,299	4.4%
Other Balances						
Cash and due from banks	\$971,495			\$945,600		
Other assets	1,180,451			994,784		
Total assets	20,717,697			18,498,841		
Total deposits	18,611,894			16,734,886		
Demand deposits (noninterest-bearing)	4,097,179			3,638,629		
Other liabilities	243,799			273,183		
Stockholders' equity	934,876			1,011,992		

Notes

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- 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 mortgage loans held for sale.

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Noninterest Income

Noninterest income totaled \$85.2 million for the third quarter of 2003, an increase of \$15.6 million or 22% from \$69.6 million in the third quarter of 2002. Noninterest income for the first nine months of 2003 increased to \$244.6 million from \$187.3 million in the first nine months of 2002, a 31% increase.

Increased deposit charges and service fees of \$7.7 million and \$20.7 million during the three and nine months ended September 30, 2003, respectively, resulted primarily from higher transaction volumes. In addition, other operating income increased \$6.1 million during the third quarter of 2003 and \$33.9 million during the first nine months of 2003 as compared to the same periods in 2002. Included in these increases are increased revenues from CIS, the Company's insurance brokerage subsidiary, of \$3.2 million and \$8.8 million during the three and nine months ended September 30, 2003, respectively, as compared to the same periods in 2002. CCMI, the Company's municipal public finance subsidiary, had a decrease in revenues of \$2.9 million during the third quarter of 2003 as compared to the same period in 2002. This decrease occurred in the trading and sales segment of CCMI, which was the result of a difficult trading environment during the quarter. For the nine months ended September 30, 2003, CCMI has increased revenues of \$2.2 million over the same period in 2002.

The growth in non-interest income for the third quarter and the first nine months of 2003 is more fully depicted below (in thousands):

	Three Months Ended			Nine	
	9/30/03	9/30/02	% Increase	9/30/03	9/30/02
Deposit charges & service fees	\$41,500	\$33,802	23%	\$115,107	
Other operating income:					
Insurance	17,623	14,447	22	50,868	
Capital Markets	9,138	12,077	(24)	28,836	
Loan Brokerage Fees	7,073	4,328	63	22,541	
Other	8,142	4,978	64	24,479	
Total other	41,976	35,830	17	126,724	
Net investment security gains	1,682	-	-	2,763	
Total non-interest income	\$85,158	\$69,632	22%	\$244,594	

Noninterest Expense

For the third quarter of 2003, noninterest expense totaled \$197.3 million, an increase of \$42.5 million or 27% over the third quarter in 2002. For the first nine months of 2003, noninterest expense totaled \$557.1 million, an increase of \$138.8 million or 33% over \$418.3 million for the first nine months of 2002. Contributing to these increases was new branch activity over the past twelve months, with the number of branches increasing from 203 at September 30, 2002 to 257 at September 30, 2003. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. The increases reflect the rapid growth during each respective period and also reflect substantial infrastructure investments made by the Company to support future growth.

For the third quarter of 2003, other noninterest expenses rose \$6.3 million over the third quarter of 2002. For the first nine months of 2003, other noninterest expense rose \$21.9 million over the first nine months of 2002. These increases 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 71.20% for the first nine months of 2003 as compared to 69.50% for the same 2002 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, 2003 were \$24.8 million, or 0.12% of total assets compared to \$17.8 million or 0.11% of total assets at December 31, 2002 and \$17.6 million or 0.11% of total assets at September 30, 2002.

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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, 2003 were \$23.1 million or 0.34% of total loans compared to \$14.2 million or 0.24% of total loans at December 31, 2002 and \$15.3 million or 0.28% of total loans at September 30, 2002. At September 30, 2003, loans past due 90 days or more and still accruing interest amounted to \$649 thousand compared to \$620 thousand at December 31, 2002 and \$900 thousand at September 30, 2002. Additional loans considered as potential problem loans by the Company's internal loan review department (\$29.1 million at September 30, 2003) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) at September 30, 2003 totaled \$1.7 million compared to \$3.6 million at December 31, 2002 and \$2.4 million at September 30, 2002. These properties have been written down to the lower of cost or fair value less disposition costs.

The following summary presents information regarding non-performing loans and assets as of September 30, 2003 and the preceding four quarters (in thousands):

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	September 30, 2003	June 30, 2003	March 31, 2003	December 2002
Non-accrual loans:				
Commercial	\$7,295	\$7,049	\$4,874	\$5,610
Consumer	8,295	9,517	9,860	6,100
Real estate:				
Construction	-	-	-	-
Mortgage	7,502	5,970	4,249	2,100
Total non-accrual loans	23,092	22,536	18,983	14,810
Restructured loans:				
Commercial	2	3	4	4
Consumer				
Real estate:				
Construction				
Mortgage				
Total restructured loans	2	3	4	4
Total non-performing loans	23,094	22,539	18,987	14,814
Other real estate	1,670	1,540	3,553	3,100
Total non-performing assets	24,764	24,079	22,540	17,914
Loans past due 90 days or more and still accruing	649	434	376	376
Total non-performing assets and loans past due 90 days or more	\$25,413	\$24,513	\$22,916	\$18,290
Total non-performing loans as a percentage of total period-end loans	0.34%	0.35%	0.32%	0.32%
Total non-performing assets as a percentage of total period-end assets	0.12%	0.12%	0.13%	0.13%
Total non-performing assets and loans past due 90 days or more as a percentage of total period-end assets	0.12%	0.12%	0.13%	0.13%

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	September 30, 2003	June 30, 2003	March 31, 2003	Decem 20
Allowance for loan losses as a percentage of total non-performing loans	449%	441%	499%	
Allowance for loan losses as a percentage of total period-end loans	1.52%	1.56%	1.58%	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%	2%	

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

	Three Months Ended		Nine Months Ended	
	09/30/03	09/30/02	09/30/03	09/30/02
Balance at beginning of period	\$99,318	\$80,098	\$90,733	\$66,9
Provisions charged to operating expenses	7,250	8,000	21,050	25,1
	106,568	88,098	111,783	92,1
Recoveries on loans charged-off:				
Commercial	111	52	456	4
Consumer	239	61	516	2
Real estate	-	22	-	
Total recoveries	350	135	972	7
Loans charged-off:				
Commercial	(1,608)	(1,926)	(4,673)	(4,9
Consumer	(1,684)	(828)	(4,439)	(2,3
Real estate	(34)	-	(51)	(
Total charge-offs	(3,326)	(2,754)	(9,163)	(7,4
Net charge-offs	(2,976)	(2,619)	(8,191)	(6,6
Balance at end of period	\$103,592	\$85,479	\$103,592	\$85,4

Net charge-offs as a percentage of

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average loans outstanding	0.18%	0.19%	0.17%	0.
Net reserve additions	\$4,274	\$5,381	\$12,859	\$18,4

The Company considers the allowance for loan losses of \$103.6 million adequate to cover probable losses inherent in the loan portfolio at September 30, 2003. The Company's determination of the level of the allowance for loan losses rests upon various judgments and assumptions surrounding the risk characteristics included in the loan portfolio. These risk characteristics include trends and changes in different factors affecting the loan portfolio.

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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.

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.

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Item 4. Controls and Procedures

Quarterly evaluation of the Company's Disclosure Controls and Internal Controls. As of the end of the period covered by this quarterly report, the Company has evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" ("Disclosure Controls"). This evaluation ("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 its Disclosure Controls or 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, control 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. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

Conclusions. Based upon the Controls Evaluation, the CEO and CFO have concluded that, subject to the limitations noted above, the Disclosure Controls are effective in reaching a reasonable level of assurance that management is timely alerted to material information relating to the Company during the period when its periodic reports are being prepared.

In accordance 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.

PART II. OTHER INFORMATION

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Item 6. Exhibits and Reports on Form 8-K

Exhibits

Exhibit 31 - 302 Certification

Exhibit 32 - 906 Certification

Reports on Form 8-K

On July 15, 2003, we filed a Current Report on Form 8-K which included as exhibits a press release, issued by us on July 15, 2003, announcing our results for the second quarter of 2003 and certain supplemental information.

On September 5, 2003, we filed a Current Report on Form 8-K, which included certain questions and answers regarding corporate information.

On September 18, 2003, we filed a Current Report on Form 8-K announcing the completion of our offering of 5,000,000 shares of common stock at a public offering price of \$43.67 per share.

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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 13, 2003

(Date)

/s/ DOUGLAS J. PAULS

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

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