COMMERCE BANCORP INC /NJ/
Form 10-K
March 14, 2008

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
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 #1-12069
(Exact name of registrant as specified in its charter)

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

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

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

Common Stock	New York Stock Exchange
Title of Class	Name of Each Exchange on Which Registered

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No _.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes _ No X.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer X Accelerated filer __ Non-accelerated filer __ Smaller reporting company ––___.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _ No X.

As of June 30, 2007, the aggregate market value of the registrant’s common stock held by non-affiliates of the Registrant was approximately $5,218,695,495 based on the closing sale price as reported on the New York Stock Exchange.

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock $1.00 Par Value	200,134,260
Title of Class	No. of Shares Outstanding as of 3/10/08

DOCUMENTS INCORPORATED BY REFERENCE

None.

COMMERCE BANCORP, INC.
FORM 10-K CROSS-REFERENCE INDEX

Section 906 Certification

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PART I
Item 1. Business

Forward-Looking Statements

Commerce Bancorp, Inc. (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 (SEC) (including this Annual Report on Form 10-K and the exhibits hereto), 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 t forward-looking statements. The following factors, among others, could cause the Company's financial performance or other forward looking statements 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 (including those regulatory and other approvals necessary to open new stores); changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing. In addition to these factors, the following factors related to the Company's merger with The Toronto-Dominion Bank (TD) could also cause results to differ materially from those expressed in these forward-looking statements: the ability to realize the expected synergies resulting from the transaction in the amounts or timeframe anticipated; the ability to integrate the Company's businesses into those of TD in a timely and cost-efficient manner; and the ability to obtain governmental approval of the merger or to satisfy other conditions to the merger on the proposed terms and timeframe.

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.

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

General

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

As of December 31, 2007, the Company had total assets of $49.3 billion, total loans of $17.8 billion, and total deposits of $46.0 billion. The address of the Company's principal executive office is Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey, 08034-5400 and the telephone number is (856) 751-9000. The Company operates one nationally chartered bank subsidiary (Commerce NA, Philadelphia, Pennsylvania) and one New Jersey state chartered bank subsidiary (Commerce Bank/North, Ramsey, New Jersey), referred to as Commerce North.

These two bank subsidiaries, referred to collectively as the banks, as of December 31, 2007 had 470 full service retail stores located in the states of New Jersey, Pennsylvania, Delaware, New York, Connecticut, Virginia, Maryland and Florida, as well as the District of Columbia. These banks provide a full range of retail and commercial banking services for consumers and small and mid-sized companies. Lending services are focused on commercial real estate and commercial and consumer loans to local borrowers. Deposits gathered through each bank's retail store network principally fund the lending and investment activities of each bank. The Company does not have significant operations outside the United States.

Agreement and Plan of Merger with The Toronto-Dominion Bank

On October 2, 2007, the Company and TD entered into an Agreement and Plan of Merger (Merger Agreement) pursuant to which TD will acquire the Company and the Company will become a wholly-owned subsidiary of TD. The Company's shareholders approved the Merger Agreement at a Special Meeting of Shareholders on February 6, 2008. Under the terms of the Merger Agreement, Company shareholders will receive 0.4142 TD common shares and $10.50 in cash for each common share of the Company outstanding immediately prior to the completion of the merger. On March 13, 2008, it was announced that all regulatory approvals necessary to complete the merger were received. The merger is expected to close in late March/early April 2008. The transaction is taxable for Company shareholders for US federal income tax purposes, including the TD common shares they receive.

TD and its subsidiaries serve more than 14 million customers in four key businesses operating in a number of locations around the world: Canadian Personal and Commercial Banking, including TD Canada Trust as well as TD's global insurance operations; Wealth Management, including TD Waterhouse Canada, TD Waterhouse UK and TD's investment in TD Ameritrade; U.S. Personal and Commercial Banking through TD Banknorth; and Wholesale Banking, including TD Securities. TD is headquartered in Toronto, Canada.

Sale of Commerce Banc Insurance Services, Inc.

On December 31, 2007, the Company completed the sale of its insurance brokerage business, Commerce Banc Insurance Services, Inc. (CBIS). The sale of CBIS was contemplated by the Merger Agreement and approved by TD.

Prior to the sale, CBIS concentrated on commercial property, casualty and surety as well as retail personal-lines of insurance and employee benefits for clients in multiple states, primarily New Jersey, Pennsylvania, New York and Delaware. As part of the sale, the Company retained ownership of the retail personal-lines insurance business and changed the name of the insurance brokerage subsidiary to Commerce Brokerage Insurance Services. Commerce Brokerage Insurance Services is, and prior to the sale CBIS was, a non-bank subsidiary of Commerce North.

Acquisitions

The Company's primary growth strategy has been the opening of new full service stores of which 42 were opened in 2007 and 55 were opened in 2006. The Company has also developed its full service office network through selected acquisitions including the December 5, 2005 acquisition of Palm Beach County Bank, a privately held bank with seven stores based in West Palm Beach, Florida. Palm Beach County Bank was merged with and into Commerce NA.

On February 1, 2006, the Company acquired eMoney Advisor, Inc., a leading provider of web enabled wealth and financial planning solutions based in Conshohocken, Pennsylvania.

Dividends

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

The Banks

As of December 31, 2007, Commerce NA had total assets of $45.1 billion, total deposits of $41.6 billion, and total shareholders' equity of $2.3 billion and Commerce North had total assets of $4.8 billion, total deposits of $4.4 billion, and total shareholders' equity of $335.8 million.

Service Areas

The Company's primary service areas include metropolitan Philadelphia, metropolitan New York, metropolitan Washington, D.C. and southeastern Florida. The Company has attempted to locate its stores in the fastest growing communities within its service areas. Deposits gathered through these focused branching activities are used to support lending throughout the Company.

Commerce NA provides retail and commercial banking services through 421 retail stores in metropolitan New York, metropolitan Philadelphia, metropolitan Washington, D.C. and southeastern Florida. Commerce North provides retail and commercial banking services through 49 retail stores in Bergen, Essex, Hudson and Passaic Counties, New Jersey.

Retail Banking Services and Products

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

Trust Services

Commerce NA offers trust services primarily focusing on corporate trust services, particularly as bond trustee, paying agent, and registrar for municipal bond offerings.

Commercial Banking Services and Products

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

Commerce Capital Markets

Commerce NA operates a non-bank subsidiary, Commerce Capital Markets, Inc., referred to as Commerce Capital Markets.

Commerce Capital Markets engages in various securities, investment management and brokerage activities. Commerce Capital Markets’ principal place of business is Philadelphia, Pennsylvania, with offices in New Jersey, New York, Delaware and Florida.

Other Activities

NA Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce NA that purchases, holds and sells investments. Commerce Mortgage Acceptance Corp., a Delaware corporation, is a wholly-owned subsidiary of Commerce NA that engages in the securitization of residential mortgage loans. North Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce North that purchases, holds, and sells investments. Commerce Commercial Leasing LLC, a New Jersey Limited Liability Company, is a wholly-owned subsidiary of Commerce NA that provides business leasing services. eMoney Advisor, Inc., is a wholly-owned subsidiary of Commerce North that provides web enabled wealth and financial planning solutions.

Additional information pertaining to the Company’s segments is set forth in Note 21 – Segment Reporting of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

The Company has an investment in Pennsylvania Commerce Bancorp, Inc., Camp Hill, Pennsylvania (14.5% beneficial ownership as of December 31, 2007 assuming the exercise of all outstanding warrants held by the Company). The Company and its subsidiaries provide marketing, administrative and technical support services to Pennsylvania Commerce Bancorp, Inc. and its wholly-owned subsidiary, Commerce Bank/Harrisburg.

Competition

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

Company.

In commercial transactions, Commerce NA's and Commerce North's legal lending limit to a single borrower (approximately $418.7 million, and $60.3 million, respectively, as of December 31, 2007) enables the banks to compete effectively for the business of smaller and mid-sized businesses. The combined legal lending limit of the Company is $479.0 million. These legal lending limits may act as a constraint on the banks' effectiveness in competing to provide financing in excess of these limits.

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

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

Supervision and Regulation

THE FOLLOWING DISCUSSION SETS FORTH CERTAIN OF THE MATERIAL ELEMENTS OF THE REGULATORY FRAMEWORK APPLICABLE TO BANK HOLDING COMPANIES AND THEIR SUBSIDIARIES AND PROVIDES CERTAIN SPECIFIC INFORMATION RELEVANT TO THE COMPANY AND ITS SUBSIDIARIES. THE REGULATORY FRAMEWORK IS INTENDED PRIMARILY FOR THE PROTECTION OF DEPOSITORS, OTHER CUSTOMERS AND THE FEDERAL DEPOSIT INSURANCE FUNDS AND NOT FOR THE PROTECTION OF SECURITY HOLDERS. TO THE EXTENT THAT THE FOLLOWING INFORMATION DESCRIBES STATUTORY AND REGULATORY PROVISIONS, IT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PARTICULAR STATUTORY AND REGULATORY PROVISIONS. A CHANGE IN APPLICABLE STATUTES, REGULATIONS OR REGULATORY POLICY MAY HAVE A MATERIAL EFFECT ON THE BUSINESS OF THE COMPANY.

The Company

The Company is registered as a bank holding company under the BHCA, and subject to supervision and regulation by the FRB. The Company is also regulated by the New Jersey Department of Banking and Insurance (the Department) and the Office of the Comptroller of the Currency (the OCC).

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

The Company is generally prohibited under the BHCA from engaging in, or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company engaged in non-banking activities unless approved by the FRB. In making such a determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public which outweigh the possible adverse effects.

Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act, as amended, (CRA) ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions and open stores. Under the CRA, Commerce NA and Commerce North are currently rated “outstanding”.

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

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

There are various legal restrictions on the extent to which the Company and its non-bank subsidiaries can borrow or otherwise obtain credit from its banking subsidiaries. In general, these restrictions require that any such extensions of credit must be secured by designated amounts of specified collateral and are limited, as to any one of the Company or such non-bank subsidiaries, to ten percent of the lending bank’s capital stock and surplus, and as to the Company and all such non-bank subsidiaries in the aggregate, to 20% of such lending bank’s capital stock and surplus. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

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

A discussion of capital guidelines and capital is included in the section entitled “Capital Resources” contained within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere herein.

Commerce NA and Commerce North

Commerce NA is subject to the National Bank Act and, accordingly, subject to the supervision and regular examination by the OCC. Commerce NA is required to furnish quarterly reports to the OCC and OCC approval is required for the establishment of additional stores by any national bank, subject to applicable state law restrictions. In 2005, Commerce NA relocated its headquarters to Philadelphia, Pennsylvania and receives the benefit of Pennsylvania's reciprocal banking arrangements in all the states which it currently or has plans to operate branches.

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

Under the CRA, each bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires that the applicable regulatory agency assess an institution's record of meeting the credit needs of its community. The CRA requires public disclosure of an institution's CRA rating and requires that the applicable regulatory agency provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. An institution's CRA rating is considered in determining whether to grant charters, stores and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. For their most recent examinations, Commerce NA and Commerce North each received an "outstanding" rating, the highest of the available ratings.

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

Commerce NA and Commerce North are subject to certain limitations on the amount of cash dividends that they can pay. See Note 20 – Condensed Financial Statements of the Parent Company and Other Matters of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

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

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

All of the deposits of the banking subsidiaries are insured up to applicable limits by the FDIC and are subject to deposit insurance assessments. The insurance assessments are based upon a matrix that takes into account a bank's capital level and supervisory rating. On November 2, 2006 the FDIC adopted final regulations to implement the Financial Deposit Insurance Reform Act of 2005, which was passed by Congress in February 2006. The final regulations included annual assessment rates that were effective at the beginning of 2007. Assessment rates range, for most banks, between five and seven cents for every $100 of assessable deposits. At December 31, 2007 the Company's consolidated capital levels and each of the Company's banking subsidiaries met the regulatory definition of a "well capitalized" financial institution.

FDIC-insured depository institutions can be held liable for any losses incurred, or reasonably expected to be incurred, by the FDIC due to the default of an FDIC-insured depository institution controlled by the same bank holding company, or for any assistance provided by the FDIC to an FDIC-insured depository institution controlled by the same bank holding company that is in danger of default. "Default" means generally the appointment of a conservator or receiver. "In danger of default" means generally the existence of certain conditions indicating that default is likely to occur in the absence of regulatory assistance.

Commerce Capital Markets

Commerce Capital Markets, a non-bank subsidiary of Commerce NA, engages in certain permitted securities and brokerage activities and is regulated by the SEC. Commerce Capital Markets is also subject to rules and regulations promulgated by the Financial Industry Regulatory Authority, the Securities Investors Protection Corporation and various state securities commissions and, with respect to municipal securities activities, the Municipal Securities Rulemaking Board.

Commerce Capital Markets is also subject to various laws and regulations in the states in which which it does business. These laws and regulations are primarily intended to benefit clients and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws and regulations. If such event occurs, the possible sanctions which may be imposed include the suspension of individual employees, limitations on engaging in business for specific periods, censures and fines.

Gramm-Leach-Bliley Act

On November 12, 1999, the Gramm-Leach-Bliley Act (the Act) became law, repealed the 1933 Glass-Steagall Act’s separation of the commercial and investment banking industries. The Act created, among other things, a category of holding company called a “Financial Holding Company,” a subset of bank holding companies that satisfy the following criteria: (1) all of the depository institution subsidiaries must be well capitalized and well managed and must have a CRA rating of “satisfactory” or better as of its most recent examination; and (2) the holding company must have made an effective election with the FRB that it elects to be a financial holding company. The Company has not elected to be a financial holding company. The Act specifies certain activities that are financial in nature. These activities include acting as principal, agent or broker for insurance; underwriting, dealing in or making a market in securities; and providing financial and investment advice.

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

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

In accordance with the Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

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

Anti-Money Laundering and the USA Patriot Act

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the banks and Commerce Capital Markets. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Certain of those regulations impose specific due diligence requirements on financial institutions that maintain correspondent or private banking relationships with non-U.S. financial institutions or persons. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

THE RULES GOVERNING THE REGULATION OF BANK HOLDING COMPANIES AND THEIR SUBSIDIARIES ARE VERY DETAILED AND TECHNICAL. THE ABOVE DISCUSSION IS GENERAL IN NATURE AND ACCORDINGLY DOES NOT PURPORT TO BE COMPLETE OR TO DESCRIBE ALL OF THE LAWS AND REGULATIONS THAT APPLY TO THE COMPANY AND ITS SUBSIDIARIES.

National Monetary Policy

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

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

Employees

As of December 31, 2007, the Company and its subsidiaries had in excess of 12,700 full-time equivalent employees.

Available Information

The Company's internet address is www.commerceonline.com. The Company makes available free of charge on www.commerceonline.com its annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. In addition, the Company makes available free of charge on www.commerceonline.com its Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and the charters of its Audit, Compensation and Nominating and Governance Committees.

In addition, the Company will provide, at no cost, paper or electronic copies of its reports and other filings (excluding exhibits) made with the SEC and its Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and the charters of its Audit, Compensation and Nominating and Governance Committees. Requests should be directed to:

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

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

Item 1A. Risk Factors

The Company is subject to a number of risk factors including, among others, business and economic conditions, monetary and other governmental policies, accounting policies, competition and continuing consolidation in the financial services industry. These factors, and others, could impact the Company's business, financial condition and results of operations. In the normal course of business, the Company assumes various types of risk, which include, among others, credit risk, interest rate risk, liquidity risk and risk associated with trading activities. In addition to information in this 10-K, readers should carefully consider that the following important factors, among others, could materially impact the Company's business and future financial condition, results of operations and cash flows.

Risks Related to the Company's Business

The Company has rapidly grown and there are risks associated with such growth.

The Company has rapidly grown its operations in order to increase deposits and loans. The Company's growth may place a strain on its administrative, operational, personnel and financial resources and increase demands on its systems and controls. If the Company is not able to maintain effective operating and control systems, attract qualified personnel, control costs or maintain asset quality, its growth could adversely affect its financial condition, results of operations and cash flows.

The Company operates in a highly regulated environment and may be adversely affected by changes in laws and regulations.

The Company is subject to extensive state and federal regulation, supervision, and legislation, which govern almost all aspects of its operations that are primarily intended for the protection of customers, depositors, and the deposit insurance funds. These laws, regulations and supervisory activities may change from time to time. The impact of any changes may negatively impact the Company's financial condition, results of operations and cash flows.

Regulatory authorities have extensive discretion in the exercise of their supervisory and enforcement powers. They may, among other things, impose restrictions on the operation of a banking institution, including the processing of applications and the opening of new branches. Regulatory and law enforcement authorities also have wide discretion and extensive enforcement powers under various consumer protection, civil rights and other laws, including the Gramm-Leach Bliley Act, the Bank Secrecy Act, the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act and the Real Estate Settlement Procedures Act. While the Company cannot predict what the effect of any presently contemplated or future changes in the laws or regulations, or the application or enforcement thereof, would have, any changes could be materially adverse to the Company's financial condition, results of operations and cash flows.

Changes in interest rates could reduce the Company's income and cash flows.

The Company's income and cash flows and the value of its assets and liabilities depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the FRB. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received and paid.

If the Company does not adjust to changes in the financial services industry, its financial performance may suffer.

The Company's ability to maintain its history of financial performance and return on investment to shareholders may depend in part on its ability to expand the scope of available financial services to its customers. The Company's business model focuses on using superior customer service to provide traditional banking services to a growing customer base. However, the Company operates in an increasingly competitive environment, a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. If the Company is unable to expand the scope of its available financial services to its customers, this could adversely impact its financial condition, results of operations and cash flows.

The Company's future success will depend on its ability to compete effectively in a highly competitive market and geographic area.

The Company faces substantial competition in all phases of its operations from a variety of different competitors. There is very strong competition for financial services in the areas in which the Company currently conducts its businesses. The Company encounters competition from commercial banks, savings and loan associations, mutual savings banks and other financial institutions, including credit unions, consumer finance companies factors, insurance companies and money market funds. Its competitors compete with lending and deposit-gathering services offered by the Company. Due to size, many competitors can achieve larger economies of scale and as a result may offer a broader range of products and services than the Company. Some of the financial services organizations with which the Company competes are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured financial institutions. As a result, these nonbank competitors have certain advantages over the Company in accessing funding and in providing various services. The banking business in the Company's primary market area is very competitive, which could impact its financial condition, results of operations and cash flows.

An interruption to the Company's information systems could impact the Company's operations.

The Company relies upon its information systems for operating and monitoring all major aspects of its business, including deposit and loan operations, as well as internal management functions. These systems and the Company's operations could be damaged or interrupted by natural disasters, power loss, network failure, improper operation by the Company's employees, security breaches, computer viruses, intentional attacks by third parties or other unexpected events. Any disruption in the operation of the Company's information systems could adversely impact the Company's operations, which may affect the Company's financial condition, results of operations and cash flows.

Economic conditions either nationally or locally in areas in which the Company's operations are concentrated may be less favorable than expected.

Deterioration in local, regional, national or global economic conditions could result in, among other things, an increase in loan delinquencies, a decrease in property values, a change in housing turnover rate or a reduction in the level of bank deposits. Particularly, a weakening of the real estate or employment market in the Company's primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans. Any material economic deterioration could have an adverse impact on the Company's financial condition, results of operations and cash flows.

The Company's common stock is not insured by any governmental agency and, therefore, investments in the Company's common stock involves risk.

The securities of the Company are not deposit accounts or other obligation of any bank, and are not insured by the FDIC, or any other governmental agency, and are subject to investment risk, including the possible loss of principal.

The Company's Allowance for Credit Losses may be insufficient.

The Company maintains an allowance for losses inherent in the loan and lease portfolio and an allowance for losses on unfunded credit commitments. The allowance is established through provisions charged to expense and maintained at a level believed to be adequate by management for estimated credit losses. The allowance, in the judgment of management, is necessary to reserve for estimated loan and lease losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of large classified loans and non-accrual loans, estimated losses based on risk characteristics of each loan or lease in the portfolio, economic stresses, variability in economic conditions and geopolitical risks, recent loss experience in specific portfolio segments, trends in loan quality and concentrations of credit. The determination of the appropriate level of the allowance for credit losses is inherently subjective as it requires estimates that may be susceptible to significant change and which may require an increase in the allowance for credit losses. In addition, bank regulatory agencies periodically review the Company's allowance for credit losses and may require an increase in the provision for credit losses or the recognition of further loan charge-offs, based on judgments different than those of management. Any increases in the allowance for credit losses will result in a decrease in net income and, possibly, capital, and could have an adverse impact on the Company's financial condition and results of operations.

Disruptions in the secondary residential mortgage loan markets and in the real estate markets as well as interest rate resets could adversely affect the Company.

Recent significant disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of most mortgage loans other than conforming Fannie Mae and Freddie Mac loans. The effects of recent mortgage market challenges, combined with the ongoing correction in residential real estate market prices, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans that the Company holds, as well as mortgage loan originations and gains on sale of mortgage loans. In addition, future rate resets on adjustable rate loans could drive increases in delinquencies and ultimately losses on these loans beyond that which has been provided for in the allowance for credit losses. In the event the allowance for credit losses is insufficient to cover such losses, the Company's earnings and capital could be adversely affected.

The Company maintains a large portion of its assets in investment securities which, in the current economic environment, could be difficult to sell.

Operation of the Company's business model has resulted in the Company maintaining a significant portion of its assets in investment securities. Of its $26.4 billion of investment securities at December 31, 2007, $13.0 billion are classified as available for sale, and could be sold in response to changes in interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, liquidity needs, or other similar factors. The market for certain of the securities held in the Company's available for sale portfolio was extremely volatile in the latter portion of 2007, and the volatility has continued into 2008. This volatility has resulted in the lack of an active market for certain securities. If the Company attempted to sell certain of its investment securities, current economic conditions and the lack of a liquid market could affect the Company's ability to sell those securities, as well as the value the Company would be able to realize.

The Company is subject to claims and litigation.

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company they may result in significant financial liability and/or adversely affect the market perception of the Company and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

The Company has been advised that the SEC is conducting an investigation of the Company.

The Company has been advised that an investigation is being conducted by the Staff of the SEC. The Company has further been advised that the scope of the investigation will include, but not be limited to, transactions with its current and former officers, directors and related parties, including transactions involving bank premises. The Company is fully cooperating with the SEC with respect to the investigation. The Company cannot predict how or when the investigation will be resolved or whether the investigation will have a material adverse effect on its financial condition, results of operations or cash flows.

The Company has entered into a Memorandum of Understanding (MOU) with the Federal Reserve Bank of Philadelphia (FRB) and Commerce NA has entered into a Consent Order with the Office of the Comptroller of the Currency (OCC).

On June 28, 2007, the Company entered into an MOU with the FRB and Commerce NA entered into a Consent Order with the OCC. The MOU and the Consent Order (together, the Regulatory Orders) relate to, among other things, corporate governance, related party transactions and policies and procedures for real estate related transactions. While the Company cannot predict what the impact of not complying with the Regulatory Orders would be, failure to comply could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Risks Related to the Company's Merger with TD

The Company may not be able to complete its merger with TD in a timely manner or at all.

There can be no assurance that the merger with TD will be completed. Government approvals may not be obtained or may not be obtained on the proposed terms or in the expected timeframe. If the merger closes, the businesses of the

Company may not be integrated successfully into the existing businesses of TD or the integration may be more difficult, time-consuming or costly than expected. The combined company may not realize, to the extent or at the time we expect, revenue synergies and cost savings from the merger. Deposit attrition, operating costs, customer losses and business disruptions following the merger, including difficulties in maintaining relationships with employees, could be greater than expected.

For additional risks relating to the Company's merger with TD, please see the section called "Risk Factors" in the Company's definitive proxy statement relating to the merger, filed on January 4, 2008.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The executive and administrative offices of the Company are located at 1701 Route 70 East, Cherry Hill, New Jersey. This six-story structure is owned by the Company. The Company and its subsidiaries own or lease numerous other premises for use in conducting business activities. The facilities owned or occupied under lease by the Company's subsidiaries are considered by management to be adequate.

Additional information pertaining to the Company's properties is set forth in Note 8 – Bank Premises, Equipment, and Leases of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

Item 3. Legal Proceedings

Merger Related Shareholder Suits

On December 31, 2007, the Company reached an agreement-in-principle to resolve pending derivative claims and shareholder federal actions and state court actions arising from the announced merger with TD. The proposed settlement is subject to a number of conditions, including completion of the merger and final approval by the United States District Court for the District of New Jersey, Camden Vicinage.

On January 10, 2008, counsel for two shareholders filed an application with the United States District Court for the District of New Jersey, Camden Vicinage, for leave to file a complaint-in-intervention for appointment as lead plaintiffs and their counsel as lead counsel, for expedited discovery and for an expedited preliminary injunction hearing, seeking to challenge the fairness of the merger of the Company and TD, and the fairness of the agreement-in-principle referenced above. The Court denied the proposed shareholders' application in its entirety at a hearing on January 17, 2008, and through Orders dated January 18, 2008. On January 24, 2008, two proposed shareholders filed an emergency motion with the United States Court of Appeals for the Third Circuit seeking to enjoin the shareholder vote to approve the merger scheduled for February 6, 2008 and ultimately, the merger with TD. On February 1, 2008, the Third Circuit dismissed the appeal.

On February 20, 2008, United States District Judge Robert Kugler granted preliminary approval of the settlement in principle. The Court also conditionally certified the class for settlement purposes and certified class representatives and lead counsel. Class notices have been published and mailed and briefing will be undertaken according to the Court's February 20, 2008 Order. Pursuant to that Order, objections to the final settlement are due on or before April 18, 2008. The final approval hearing is scheduled for May 9, 2008.

Hill v. Commerce, et al.

On January 14, 2008, the Company and certain of its directors and officers were sued by the Company's former chief executive officer, Vernon W. Hill, II, his wife Shirley Hill and InterArch, Inc. (lnterArch), a company owned by Shirley Hill, in the United States District Court for the District of Columbia. The lawsuit seeks more than $57 million in damages and injunctive relief. The lawsuit alleges, among other things, that Commerce and/or its directors have violated the Hills' and InterArch's constitutional rights, breached certain contracts with Mr. Hill and InterArch, are infringing certain copyrights owned by InterArch and have intentionally inflicted emotional distress on the plaintiffs. The Company believes that the lawsuit is without merit and will defend it vigorously.

Commerce v. InterArch

On January 14, 2008, the Company filed an action for declaratory relief and damages against InterArch, Inc., Shirley Hill and Raymond Klumb in the Superior Court of New Jersey, Law Division, Camden County. By way of the action, the Company seeks: (1) a declaration that the Company had no legal duty to indemnify Shirley Hill and InterArch with regard to a previously rendered verdict against them due to their judicially determined bad faith and malicious acts in matters related to an underlying controversy; and (2) recoupment and/or restitution of approximately $1.6 million for indemnification payments the Company made on behalf of Shirley Hill and InterArch in connection with the same. The Company also seeks damages from InterArch for breach of contract.

SEC Investigation

The Company has been advised that an investigation is being conducted by the Staff of the SEC. The Company has further been advised that the scope of the investigation will include, but not be limited to, transactions with its current and former officers, directors and related parties, including transactions involving bank premises. The Company is fully cooperating with the SEC with respect to the investigation.

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

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

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

Dividend Policy

It is the present intention of the Company's Board of Directors to pay quarterly cash dividends on the Company's common stock. However, the declaration and payment of future dividends will be subject to determination and declaration by the Board of Directors, which will consider the Company's earnings, financial condition and capital needs and applicable regulatory requirements. In addition, pursuant to the Merger Agreement, from January 1, 2008 until the completion of the merger with TD, the Company will coordinate the record date and payment of dividends with TD in order to ensure shareholders do not receive two dividends in any single calendar quarter. See Note 20 – Condensed Financial Statements of the Parent Company and Other Matters of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

Item 6. Selected Financial Data

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

	Year Ended December 31,				
(dollars in thousands, except per share data)	2007	2006	2005	2004	2003
Income Statement Data:					
Net interest income	$ 1,393,617	$ 1,274,508	$ 1,153,582	$ 1,017,785	$ 755,866
Provision for credit losses	103,550	33,700	19,150	39,238	31,850
Noninterest income	536,754	591,153	442,794	375,071	332,478
Noninterest expense	1,611,239	1,355,761	1,146,380	938,778	763,392
Income before income taxes	215,582	476,200	430,846	414,840	293,102
Net income	140,288	299,313	282,939	273,418	194,287
Balance Sheet Data:					
Total assets	$49,255,506	$45,271,816	$38,466,037	$30,501,645	$22,712,180
Loans (net)	17,638,325	15,454,996	12,524,988	9,318,991	7,328,519
Securities available for sale	12,979,618	11,098,113	9,518,821	8,044,150	10,650,655
Securities held to maturity	13,219,272	14,884,982	13,005,364	10,463,658	2,490,484
Trading securities	225,786	106,007	143,016	169,103	170,458
Deposits	46,038,751	41,288,211	34,726,713	27,658,885	20,701,400
Long-term debt				200,000	200,000
Stockholders' equity	2,783,958	2,801,098	2,309,173	1,665,705	1,277,288
Per Share Data:					
Net income-basic	$ 0.73	$ 1.62	$ 1.70	$ 1.74	$ 1.36
Net income-diluted	0.71	1.55	1.61	1.63	1.29
Dividends declared	0.52	0.49	0.45	0.40	0.34
Book value	14.22	14.86	12.92	10.42	8.35
Average shares outstanding:					
Basic	192,204	184,919	165,974	156,625	142,169
Diluted	198,506	193,674	179,135	172,603	156,507
Selected Ratios:					
Performance					
Return on average assets	0.29 %	0.71 %	0.83 %	1.03 %	0.99%
Return on average equity	4.80	11.65	14.90	18.78	18.81
Net interest margin	3.24	3.35	3.77	4.28	4.36
Liquidity and Capital					
Average loans to average deposits	37.50 %	37.09 %	35.01 %	34.49 %	36.93%
Dividend payout-basic	71.23	30.25	26.47	22.99	25.00
Stockholders' equity to total assets	5.65	6.19	6.00	5.46	5.62
Risk-based capital:					
Tier 1	11.21	11.73	11.81	12.30	12.66
Total	12.04	12.44	12.58	13.25	13.62
Leverage ratio	6.01	6.18	6.04	6.19	6.61
Asset Quality					
Non-performing assets to total year-end assets	0.22 %	0.12 %	0.09 %	0.11 %	0.10%
Net charge-offs to average loans outstanding	0.31	0.11	0.15	0.19	0.16

Non-performing loans to total year-end loans	0.59	0.32	0.27	0.35	0.29
Allowance for credit losses to total end of year loans	1.20	1.03	1.12	1.43	1.51
Allowance for credit losses to non-performing loans	204.19	316.72	406.85	412.88	515.39

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

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

Executive Summary

The Commerce model is built on the gathering and retention of core deposits as being essential to shareholder value. Management believes core deposit growth has been and will continue to be the primary driver of the Company's success, and that superior customer service and a great retail experience, not rates, drive core deposit growth. The inflow of long lived core deposits allows the Company to avoid taking excessive risks in growing its loan and investment portfolios. In addition, the Company's significant cash flow provides ongoing reinvestment opportunities as interest rates change.

In 2007, the Company continued to expand its model. The 2007 financial highlights are summarized below.

- Opened 42 new stores, including 22 in metro New York, the Company's largest and fastest growing market.
- Total assets grew 9%.
- Total deposits grew 12%.
- Total loans grew 14%, increasing the ratio of loans to deposits to 39% at December 31, 2007.

Below is a summary of the Company's year over year results.

	2007	2006	Change
(amounts in billions)			
Total Assets	$49.3	$ 45.3	9%
Total Loans (net)	17.6	15.5	14%
Total Investments	26.4	26.1	1%
Total Deposits	46.0	41.3	12%
(amounts in millions)			
Total Revenues	$1,930.4	$1,865.7	3%
Net Income	140.3	299.3	(53)%
Net Income per Share Diluted	0.71	1.55	(54)%

The decreases in both net income and diluted net income per share were primarily due to charges, a majority of which were taken in the third and fourth quarters, relating to an investment portfolio restructure, increased provision for credit losses, increased losses from the Company's equity method investments as well as increased FDIC assessments, all of which are discussed in further detail below.

During the third quarter of 2007, the Company transferred approximately $7.4 billion of primarily fixed-rate investment securities from its available for sale portfolio to a trading portfolio as part of an investment portfolio restructure. As a result of the restructure, the Company recorded $174.4 million in net securities losses during 2007.

During the third and fourth quarters of 2007, the Company recorded provisions for credit losses of $26.0 million and $55.0 million, respectively. These amounts compare to $9.5 million and $10.2 million for the same respective periods in the prior year. The increased provisions relate primarily to residential real estate and related real estate development exposures, and exposures in the leveraged loan portion of the Company's commercial loan portfolio.

Also included in the Company's 2007 results are one-time amounts related to the sale of CBIS, the Company's insurance brokerage subsidiary. The sale of CBIS was completed on December 31, 2007. During the fourth quarter, the Company recorded a pre-tax gain of approximately $22.0 million, as well as certain one-time pre-tax expenditures of approximately $8.3 million, related to the sale of CBIS.

During 2007, the Company recorded losses of $18.3 million related to its equity method investments. In addition, the Company recorded increased FDIC assessments of approximately $20.9 million for 2007 as compared to 2006, primarily due to new FDIC assessment rates that took effect at the beginning of 2007.

Despite the challenges faced during 2007, the Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for growth and profitability. The Company's business model continues to produce top-line revenue growth that is driven by deposit growth.

The continued ability to grow deposits has resulted in significant earning asset growth. This growth resulted in $1.4 billion of net interest income on a tax equivalent basis in 2007, an increase of $122.8 million or 9% over 2006. As more fully depicted in the chart below, the increase in net interest income in both 2007 and 2006 was due to volume increases in the Company's earning assets.

Net Interest Income
(dollars in millions)

	Volume Increase	Rate Change	Total Increase	
2007	$169.0	($46.2)	$122.8	9%
2006	$254.3	($128.0)	$126.3	11%

Agreement and Plan of Merger with The Toronto-Dominion Bank (TD)

On October 2, 2007 the Company and TD entered into a Merger Agreement pursuant to which TD will acquire the Company and the Company will become a wholly-owned subsidiary of TD. The Company’s shareholders approved the Merger Agreement at a Special Meeting of Shareholders on February 6, 2008. On March 13, 2008, it was announced that all regulatory approvals necessary to complete the merger were received. The merger is expected to close in late March/early April 2008. The transaction is taxable for Company shareholders for US federal income tax purposes, including the TD common shares they receive.

Critical Accounting Policy

The Company’s accounting policies are fundamental to understanding Management’s Discussion and Analysis of Financial Condition and Results of Operations. See Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements, which appears elsewhere herein. The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industry in which it operates.

Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

The Company has identified the policy related to the allowance for credit losses as being critical. The Company, in consultation with the Audit Committee, has reviewed and approved this critical accounting policy.

Allowance for credit losses. The allowance for credit losses represents management's estimate of probable credit losses inherent in the Company’s loan and lease portfolio, as well as its commitments to lend. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses based on risk characteristics of loans and commitments, and consideration of other qualitative factors, all of which may be susceptible to significant change. Note 1 – Significant Accounting Policies of the Notes to Consolidated Financial Statements describes the methodology used to determine the allowance for credit losses, and a discussion of the factors driving changes in the amount of the allowance for credit losses is included in the Allowance for Credit Losses discussion within this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Segment Reporting

The Company operates one reportable segment of business, Community Banks, as more fully described in Note 21 – Segment Reporting of the Notes to Consolidated Financial Statements, which appears elsewhere herein. The following table summarizes net income by segment for each of the last three years (amounts in thousands):

	Net Income (Loss)		
	2007	2006	2005
Community Banks	$ 143,857	$ 289,228	$ 270,960
Parent/Other	(3,569)	10,085	11,979
Consolidated Total	$ 140,288	$ 299,313	$ 282,939

Average Balances and Net Interest Income

The table on page 19 sets forth balance sheet items on a daily average basis for the years ended December 31, 2007, 2006 and 2005 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2007, average interest earning assets totaled $43.9 billion, an increase of $5.2 billion, or 13% over 2006. This increase resulted primarily from the increase in the average balance of investments, which rose $2.6 billion, and the average balance of loans, which rose $2.4 billion during 2007. The growth in the average balance of interest earning assets was funded primarily by an increase in the average balance of deposits (including noninterest-bearing demand deposits) of $6.0 billion.

Net Interest Margin and Net Interest Income

Net interest margin on a tax equivalent basis was 3.24% for 2007, a decrease of 11 basis points from 2006. The year over year compression in net interest margin was primarily caused by increased costs and the mix of the Company's interest-bearing liabilities, both of which are impacted by the current interest rate environment. The net interest margin is calculated by dividing net interest income by average earning assets.

Net interest income is the difference between the interest income on loans, investments and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. Net interest income is the primary source of earnings for the Company. There are several factors that affect net interest income, including:

- the volume, pricing, mix and maturity of interest-earning assets and interest-bearing liabilities;
- market interest rate fluctuations; and
- asset quality.

Net interest income on a tax-equivalent basis (which adjusts for the tax-exempt status of income earned on certain loans and investments to express such income as if it were taxable) for 2007 was $1.4 billion, an increase of $122.8 million, or 9%, over 2006. Interest income on a tax-equivalent basis increased to $2.7 billion from $2.3 billion, or 16%. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2007 increased $244.7 million to $1.2 billion from $1.0 billion in 2006. This increase was primarily related to increases in the Company's average deposit balances and the interest rates paid on deposits and other interest-bearing liabilities.

The tax-equivalent yield on interest earning assets during 2007 was 6.08%, an increase of 14 basis points from 5.94% in 2006. The cost of interest-bearing liabilities increased 28 basis points in 2007 to 3.52% from 3.24% in 2006. The cost of total funding sources increased 25 basis points to 2.84% in 2007 from 2.59% in 2006.

The following table presents the major factors that contributed to the changes in net interest income on a tax equivalent basis for the years ended December 31, 2007 and 2006 as compared to the respective previous periods.

	2007 vs. 2006 Increase (Decrease) Due to Changes in (1)			2006 vs. 2005 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)					
Interest on Investments:						
Taxable	$ 110,525	$ 40,163	$ 150,688	$ 225,767	$ 87,475	$ 313,242
Tax-exempt	(2,219)	2,803	584	7,261	6,041	13,302
Trading	37,581	1,082	38,663	(1,300)	(824)	(2,124)
Federal funds sold	9,518	(369)	9,149	1,783	1,871	3,654
Interest on loans:						
Commercial mortgages	49,334	(299)	49,035	74,715	20,947	95,662
Commercial	57,808	(2,706)	55,102	68,532	28,847	97,379
Consumer	52,347	2,211	54,558	82,911	10,990	93,901
Tax-exempt	8,887	886	9,773	4,201	69	4,270
Total interest income	323,781	43,771	367,552	463,870	155,416	619,286
Interest expense:						
Savings	3,018	24,227	27,245	66,538	71,471	138,009
Interest bearing demand	158,527	36,385	194,912	79,697	162,777	242,474
Time deposits	38,243	24,956	63,199	21,921	29,997	51,918

Public funds	(3,848)	1,235	(2,613)	23,723	15,522	39,245
Other borrowed money	(41,167)	3,135	(38,032)	17,617	12,070	29,687
Long-term debt	-	-	-	-	(8,379)	(8,379)
Total interest expense	154,773	89,938	244,711	209,496	283,458	492,954
Net change	$ 169,008	(46,167)	$ 122,841	$ 254,374	(128,042)	$ 126,332

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

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

	Year Ended December 31,								
	2007			2006			2005		
(dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning Assets									
Investment securities									
Taxable	$25,844,932	$1,429,614	5.53%	$23,846,823	$1,278,926	5.36 %	$19,637,178	$ 965,684	4.92%
Tax-exempt	519,699	31,100	5.98	556,773	30,516	5.48	424,303	17,214	4.06
Trading	736,761	43,534	5.91	100,746	4,871	4.84	127,634	6,995	5.48
Total investment securities	27,101,392	1,504,248	5.55	24,504,342	1,314,313	5.36	20,189,115	989,893	4.90
Federal funds sold	324,423	16,075	4.95	132,336	6,926	5.23	98,265	3,272	3.33
Loans									
Commercial mortgages	5,571,488	391,735	7.03	4,869,826	342,700	7.04	3,808,107	247,038	6.49
Commercial	4,274,802	328,488	7.68	3,522,513	273,386	7.76	2,639,491	176,007	6.67
Consumer	6,042,186	385,168	6.37	5,221,014	330,610	6.33	3,911,672	236,709	6.05
Tax-exempt	632,280	46,041	7.28	510,248	36,268	7.11	451,151	31,998	7.09
Total loans	16,520,756	1,151,432	6.97	14,123,601	982,964	6.96	10,810,421	691,752	6.40
Total earning assets	$43,946,571	$2,671,755	6.08 %	$38,760,279	$2,304,203	5.94 %	$31,097,801	$1,684,917	5.42%
Sources of Funds									
Interest-bearing liabilities									
Savings	$10,435,825	$ 288,673	2.77%	$10,326,719	$ 261,428	2.53 %	$ 7,698,370	$ 123,419	1.60 %
Interest-bearing demand	19,301,275	690,059	3.58	14,867,213	495,147	3.33	12,474,260	252,673	2.03
Time deposits	4,176,466	187,242	4.48	3,323,462	124,043	3.73	2,736,142	72,125	2.64
Public funds	1,220,847	63,288	5.18	1,295,061	65,901	5.09	828,860	26,656	3.22
Total deposits	35,134,413	1,229,262	3.50	29,812,455	946,519	3.17	23,737,632	474,873	2.00
Other borrowed money	388,654	20,065	5.16	1,186,068	58,097	4.90	826,400	28,410	3.44
Long-term debt							140,274	8,379	5.97
Total deposits and interest-bearing liabilities	35,523,067	1,249,327	3.52	30,998,523	1,004,616	3.24	24,704,306	511,662	2.07
Noninterest-bearing funds (net)	8,423,504			7,761,756			6,393,495		

Total sources to fund earning assets	$43,946,571	1,249,327	2.84	$38,760,279	1,004,616	2.59	$31,097,801	511,662	1.65
Net interest income and margin tax-equivalent basis		$1,422,428	3.24		$1,299,587	3.35		$1,173,255	3.77
Tax-exempt adjustment		28,811			25,079			19,673	
Net interest income and margin		$1,393,617	3.17%		$1,274,508	3.29 %		$1,153,582	3.71%
Other Balances									
Cash and due from banks	$1,217,019			$1,239,398			$1,257,799		
Other assets	2,739,292			2,306,101			1,792,339		
Total assets	47,736,787			42,162,415			34,005,732		
Total deposits	44,049,769			38,081,613			30,881,184		
Demand deposits (noninterest-bearing)	8,915,356			8,269,158			7,143,552		
Other liabilities	375,402			324,749			258,886		
Stockholders' equity	2,922,962			2,569,985			1,898,989		

Notes —Weighted average yields on tax-exempt obligations have been computed on a tax-equivalent basis assuming a federal tax rate of 35%.
—Non-accrual loans have been included in the average loan balance.

Noninterest Income

For 2007, excluding net investment securities gains/losses, non-interest income for the year ended December 31, 2007 increased to $711.1 million from $588.5 million a year ago, a 21% increase. The increase in non interest income is primarily attributable to an increase in deposit charges and service fees of $94.6 million, or 25%. Other operating income, which includes the Company's insurance and capital markets divisions, increased by $28.0 million, or 13%. The increase in other operating income is more fully depicted in the following chart (in thousands).

	2007	2006
Other Operating Income:		
Commerce Banc Insurance	$ 85,645	$ 83,525
Commerce Capital Markets	30,344	29,553
Operating lease revenue	20,869	15,587
Loan brokerage fees	9,858	9,861
eMoney Advisor revenues	13,307	8,667
Gains on SBA loan sales	5,691	7,431
Other	76,562	59,622
Total Other	$ 242,276	$ 214,246

Included in Other for 2007 is the gain of approximately $22.0 million related to the sale of CBIS, as well as losses of approximately $18.3 million related to the Company's equity method investments. In total, Other increased by $16.9 million, or 28%, due to the impact of the above mentioned items, as well as increased revenues generated by the Company's loan, credit card and trust divisions.

As a result of the Company's third quarter investment portfolio restructure, the Company recorded $174.4 million in net securities losses during 2007 compared to $2.7 million in net securities gains in 2006.

Noninterest Expenses

Noninterest expenses totaled $1.6 billion for 2007, an increase of $255.5 million, or 19% over 2006. Contributing to this increase was the addition of 42 new stores during 2007. As a result of adding these new stores and the continued overall growth of the Company, staff, facilities and related expenses rose accordingly. Also contributing to the increase in non interest expenses were increased FDIC assessments of $20.9 million as compared to 2006, primarily due to new FDIC assessment rates that took effect at the beginning of 2007, as well as one time costs of approximately $8.3 million related to the sale of CBIS.

Other noninterest expense increased by $64.7 million, or 23%. The increase in other noninterest expenses is depicted in the following chart (in thousands).

	2007	2006
Other Noninterest Expenses:		
Business Development Costs	$ 46,395	$ 44,637
Bank-Card Related Service Charges	65,020	55,594
Professional Services/Insurance	85,852	51,146
Provisions for Non-Credit-Related Losses	27,077	28,738
Other	118,991	98,475
Total Other	$ 343,335	$ 278,590

Included in other Professional Services/Insurance expenses are increased FDIC assessments, discussed previously, as well as increased legal fees primarily related to regulatory investigations and shareholder lawsuits. Non-credit-related losses, which includes fraud and forgery losses on deposit and other non-credit related items, decreased slightly from prior years as the Company implemented several loss prevention initiatives. Business development costs remained flat as the Company continued its focus on controlling costs while continuing to execute its growth model.

A key industry productivity measure is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses (excluding other real estate expenses) to net interest income plus noninterest income (excluding non-recurring items and net securities gains and losses). This ratio equaled 76.42%, 72.75%, and 71.16%, in 2007, 2006, and 2005, respectively. The increase in the Company's 2007 efficiency ratio was caused primarily by the interest rate environment and the resulting impact on the Company's net interest income. Management believes the Company's growth activities will keep its efficiency ratio above its peer group.

Income Taxes

The provision for federal and state income taxes for 2007 was $75.3 million compared to $176.9 million in 2006 and $147.9 million in 2005. The effective tax rate was 34.9%, 37.1% and 34.3% in 2007, 2006, and 2005, respectively. The increase in the 2006 provision for federal and state income taxes, as well as the increase in the effective tax rate, was primarily due to an additional net tax liability recorded by the Company in the fourth quarter of 2006 related to settlements with various taxing authorities.

Net Income

Net income for 2007 was $140.3 million, a decrease of $159.0 million, or 53% compared to the $299.3 million recorded for 2006.

Diluted net income per common share for 2007 was $0.71 compared to $1.55 per common share for 2006.

The decreases in both net income and diluted net income per share were primarily due to charges, a majority of which were taken in the third and fourth quarters of 2007, relating to the investment portfolio restructure, increased provision for credit losses, increased losses from the Company's equity method investments, as well as increased FDIC assessments.

Return on Average Equity and Average Assets

Two industry measures of performance by a banking institution are its return on average assets and return on average equity. Return on average assets (ROA) measures net income in relation to total average assets and indicates a company's ability to employ its resources profitably. The Company's ROA was 0.29%, 0.71%, and 0.83% for 2007, 2006, and 2005, respectively.

Return on average equity (ROE) is determined by dividing annual net income by average stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its stockholders. The Company's ROE was 4.80%, 11.65%, and 14.90% for 2007, 2006, and 2005, respectively.

Both the 2007 ROA and ROE were impacted by charges taken during the third and fourth quarters related to the investment portfolio restructure, increased provision for credit losses, increased losses from the Company's equity method investments, as well as increased FDIC assessments, in addition to the interest rate environment and its resulting impact on the Company's net interest income.

Loan Portfolio

The following table summarizes the loan portfolio of the Company by type of loan as of December 31, for each of the years 2003 through 2007.

	December 31,				
	2007	2006	2005	2004	2003
(dollars in thousands)					
Commercial:					
Term	$ 3,045,907	$ 2,392,889	$ 1,781,148	$1,283,476	$1,027,526
Line of credit	2,070,636	1,843,545	1,517,347	1,168,542	960,235
	5,116,543	4,236,434	3,298,495	2,452,018	1,987,761
Owner-occupied	3,245,123	2,845,791	2,402,300	1,998,203	1,619,079
Consumer:					
Mortgages (1-4 family residential)	2,314,532	2,235,247	2,000,309	1,340,009	918,686
Installment	285,543	287,151	211,332	132,646	138,437
Home equity	3,585,904	2,958,893	2,353,581	1,799,841	1,405,795
Credit lines	194,030	137,429	100,431	69,079	60,579
	6,380,009	5,618,720	4,665,653	3,341,575	2,523,497
Commercial real estate:					
Investor developer	2,502,872	2,625,628	2,001,674	1,455,891	1,167,672
Construction	596,971	280,476	290,530	206,924	142,567
	3,099,843	2,906,104	2,292,204	1,662,815	1,310,239
Total loans	$17,841,518	$15,607,049	$12,658,652	$9,454,611	$7,440,576

The Company manages risk associated with its loan portfolio through borrower, industry and geographic diversification, underwriting policies and procedures, and ongoing loan monitoring efforts. The commercial real estate portfolio includes investor/ developer permanent and construction loans and residential construction loans. The owner-occupied portfolio is comprised primarily of commercial real estate loans in which the borrower occupies a majority of the commercial space. Owner-occupied and investor/developer loans generally have five year call provisions and bear the personal guarantees of the principals involved. Financing for investor/developer construction is generally for pre-leased or pre-sold property, while residential construction is provided against firm agreements of sale with speculative construction generally limited to three samples per project. The commercial loan portfolio is comprised of loans to businesses in the markets which the Company serves. These loans are generally secured by business assets, personal guarantees, and/or personal assets of the borrower. The consumer loan portfolio is comprised primarily of loans secured by first and second mortgage liens on residential real estate. Exclusive of CRA activities, the Company's underwriting policies do not typically permit subprime lending. As such, subprime loans are immaterial to the consumer loan portfolio.

The contractual maturity ranges of the loan portfolio and the amount of loans with predetermined interest rates and floating rates in each maturity range, as of December 31, 2007, are summarized in the following table.

	December 31, 2007			
	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years	Total
(dollars in thousands)				
Commercial:				
Term	$834,150	$1,632,756	$579,001	$3,045,907
Line of credit	1,453,911	591,381	25,344	2,070,636
	2,288,061	2,224,137	604,345	5,116,543
Owner-occupied	461,815	1,498,601	1,284,707	3,245,123
Consumer:				
Mortgages (1-4 family residential)	59,313	230,005	2,025,214	2,314,532
Installment	58,340	115,570	111,633	285,543
Home equity	189,453	788,657	2,607,794	3,585,904
Credit lines	64,546	129,484		194,030
	371,652	1,263,716	4,744,641	6,380,009
Commercial real estate:				
Investor developer	746,774	1,300,044	456,054	2,502,872
Construction	493,777	103,194		596,971
	1,240,551	1,403,238	456,054	3,099,843
Total loans	$4,362,079	$6,389,692	$7,089,747	$17,841,518
Interest rates:				
Predetermined	$1,505,987	$4,326,566	$5,071,723	$10,904,276
Floating	2,856,092	2,063,126	2,018,024	6,937,242
Total loans	$4,362,079	$6,389,692	$7,089,747	$17,841,518

During 2007, loans increased $2.2 billion, or 14% from $15.6 billion to $17.8 billion. At December 31, 2007, loans represented 39% of total deposits and 36% of total assets. All segments of the loan portfolio experienced growth in 2007. Geographically, the metro New York market contributed 54% of the total growth in the loan portfolio while the metro Philadelphia market contributed 31%. The remaining growth came from the southeastern Florida and metro Washington, D.C. markets. During 2007, the metro New York and metro Philadelphia loan portfolios grew by 15% and 10%, respectively.

The Company has traditionally been an active provider of real estate loans to creditworthy local borrowers, with such loans secured by properties within the Company's primary service areas. During 2007, commercial real estate lending increased $193.7 million, or 7%. Loans to finance owner-occupied properties grew $399.3 million, or 14%. Commercial loans grew $880.1 million, or 21%, and the growth was spread evenly over the Company's commercial loan products and geographic markets. Growth in consumer loans of $761.3 million, or 14%, was primarily in home equity lending. The Company's home equity portfolio grew $627.0 million, or 21%, as a result of the Company's continued focus on marketing to its customer base and generating originations through its store network.

Non-Performing Loans and Assets

Non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at December 31, 2007 were $108.7 million or .22% of total assets, as compared to $53.2 million or .12% of total assets at December 31, 2006.

Total non-performing loans (non-accrual loans and restructured loans, excluding loans past due 90 days or more and still accruing interest) at December 31, 2007 were $104.5 million as compared to $50.6 million a year ago. Contributing to the overall increase in non-performing loans were increases in non-accrual loans of $11.7 million, $27.3 million and $13.0 million in the Company's consumer, real estate construction and real estate mortgage loan portfolios, respectively. The increase in non-performing loans was primarily attributable to loans secured by real estate, which were impacted by the current economic conditions surrounding the real estate market. Generally loans past due 90 days are placed on non-accrual status, unless the loan is both well secured and in the process of collection. At December 31, 2007, loans past due 90 days or more and still accruing interest amounted to $1.5 million, compared to $620 thousand at December 31, 2006. Additional loans considered by the Company's internal credit risk review department as potential problem loans, $251.4 million at December 31, 2007 compared to $105.8 million at December 31, 2006, have been evaluated as to risk exposure in determining the adequacy of the allowance for loan and lease losses. Potential problem loans increased by $145.6 million, which was primarily the result of the current economic conditions surrounding the real estate market as well as potential weakness in regional banking credits. Potential problem loans as a percentage of loans outstanding increased from .68% at December 31, 2006 to 1.41% at December 31, 2007.

Other real estate (ORE)/foreclosed assets totaled $4.3 million at December 31, 2007 as compared to $2.6 million at December 31, 2006. These properties/assets have been written down to the lower of cost or fair value less disposition costs.

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

The following summary presents information regarding non-performing loans and assets as of December 31, 2003 through 2007.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
(dollars in thousands)					
Non-accrual loans (1):					
Commercial	$ 35,575	$ 33,686	$ 16,712	$ 17,874	$ 10,972
Consumer	23,493	11,820	8,834	10,138	9,242
Real estate					
Construction	30,813	3,531	1,763		138

Mortgage	14,570	1,565	4,329	1,317	1,389
Total non-accrual loans	104,451	50,602	31,638	29,329	21,741
Restructured loans (1):					
Commercial	-	-	3,133	3,518	1
Total non-performing loans	104,451	50,602	34,771	32,847	21,742
Other real estate/ foreclosed assets	4,287	2,610	279	626	1,831
Total non-performing assets(1):	$ 108,738	$ 53,212	$ 35,050	$ 33,473	$ 23,573
Non-performing assets as a percent of total assets	0.22%	0.12%	0.09%	0.11%	0.10%
Loans past due 90 days or more and still accruing interest	$ 1,534	$ 620	$ 248	$ 602	$ 538

(1) Interest income of approximately $6,612,000, $2,816,000, $2,760,000, $2,906,000, and $1,908,000 would have been recorded in 2007, 2006, 2005, 2004, and 2003, respectively, on non-performing loans in accordance with their original terms. Actual interest recorded on these loans amounted to $3,970,000 in 2007, $1,530,000 in 2006, $809,000 in 2005, $1,070,000 in 2004, and $418,000 in 2003.

Allowance for Credit Losses

The Company maintains an allowance for losses inherent in the loan and lease portfolio and an allowance for losses on unfunded credit commitments. During 2005, the Company reclassified the allowance related to unfunded credit commitments out of the allowance for loan and lease losses to other liabilities. Prior to 2005, the Company included the portion of the allowance related to unfunded credit commitments in its allowance for loan and lease losses. Previously reported periods were not reclassified. The Company refers to its allowance for loan and lease losses and its liability for unfunded credit commitments as the allowance for credit losses.

The allowance for credit losses is maintained at a level believed adequate by management to absorb losses inherent in extending credit. In conjunction with an internal credit review function that operates independently of the lending function, management monitors the loan portfolio, including commitments to lend, to identify risks on a timely basis so that an appropriate allowance can be maintained. Based on an evaluation of the loan and lease portfolio, including commitments to lend, management presents a quarterly review of the allowance for credit losses to the Audit and Risk Management Committee of the Board of Directors, indicating any changes since the last review and any recommendations as to adjustments. In making its evaluation, in addition to the factors discussed below, management considers the results of regulatory examinations, which typically include a review of the allowance for credit losses as an integral part of the examination process.

In establishing the allowance for loan and lease losses, management evaluates individual large classified loans and non-accrual loans, and determines an aggregate reserve for those loans based on that review. At December 31, 2007, approximately 9% of the allowance for loan and lease losses was attributed to individually evaluated loans. A component of the allowance for loan and lease losses is also developed from estimated losses based on risk characteristics of each loan or lease in the portfolio. At December 31, 2007, approximately 84% of the allowance was attributed to risk characteristics of loans and leases in the portfolio. In addition, a portion of the allowance is established for losses inherent in the loan portfolio which have not been identified by the more quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in the portfolio's existing risk characteristics. Those factors include specific economic stresses, variability in economic conditions and geopolitical risks, recent loss experience in specific portfolio segments, trends in loan quality and concentrations of credit. At December 31, 2007, approximately 7% of the allowance for loan and lease losses was attributed to these qualitative factors.

The allowance for losses on unfunded credit commitments is based on a risk characteristic methodology similar to that used in determining the allowance for loan and lease losses, taking into consideration the probability of funding these commitments.

While the allowance for credit losses is maintained at a level believed to be adequate by management for estimated credit losses, determination of the allowance for credit losses is inherently subjective, as it requires estimates which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

The allowance for credit losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Charge-offs occur when loans are deemed to be uncollectible. During 2007, net charge-offs amounted to $50.5 million, or .31% of average loans outstanding for the year, compared to $14.9 million, or .11% of average loans outstanding for 2006. Total charge-offs increased $33.8 million or 148% during 2007. The increase included a $12.5 million charge against an individual commercial real estate loan, the Company's largest non-accrual loan at the time it was charged-off. Additional charge-offs were concentrated in real estate development lending and community/middle market commercial loans, with the majority of charge-offs being less than $1.0 million. The consumer portfolio, including residential mortgages, had no measurable change in historic charge-off levels.

During 2007, the Company recorded provisions of $103.6 million to the allowance for credit losses compared to $33.7 million for 2006. The increased provisions relate primarily to residential real estate and related real estate development exposures, and exposures in the leveraged loan portion of the Company's commercial loan portfolio.

Based upon the application of the Company's reserve methodology, allowance levels increased by $53.0 million to $213.3 million at December 31, 2007, increasing the allowance for credit losses as a percentage of total loans (1.20% at December 31, 2007 versus 1.03% at December 31, 2006).

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
(dollars in thousands)					

Balance at beginning of period	$ 160,269	$ 141,464	$ 135,620	$ 112,057	$ 90,733
Provisions charged to operating expenses	103,550	33,700	19,150	39,238	31,850
	263,819	175,164	154,770	151,295	122,583
Recoveries of loans previously charged-off:					
Commercial	4,550	5,987	2,546	1,000	669
Consumer	1,246	1,604	2,566	1,123	584
Commercial real estate	297	385	80	52	11
Total recoveries	6,093	7,976	5,192	2,175	1,264
Loans charged-off:					
Commercial	(25,498)	(14,107)	(13,944)	(9,416)	(5,601)
Consumer	(12,455)	(8,179)	(5,912)	(6,733)	(5,950)
Commercial real estate	(18,678)	(585)	(1,136)	(1,701)	(239)
Total charged-off	(56,631)	(22,871)	(20,992)	(17,850)	(11,790)
Net charge-offs	(50,538)	(14,895)	(15,800)	(15,675)	(10,526)
Allowance for credit losses acquired bank			2,494		
Balance at end of period	$ 213,281	$ 160,269	$ 141,464	$ 135,620	$ 112,057
Net charge-offs as a percentage of average loans outstanding	0.31%	0.11%	0.15%	0.19%	0.16%
Allowance for credit losses as a percentage of year-end loans	1.20%	1.03%	1.12%	1.43%	1.51%
Components:					
Allowance for loan and lease losses	$ 203,193	$ 152,053	$ 133,664	$ 135,620	$ 112,057
Allowance for unfunded credit commitments (1)	10,088	8,216	7,800		
Total allowance for credit losses	$ 213,281	$ 160,269	$ 141,464	$ 135,620	$ 112,057

(1) During 2005, the allowance for unfunded credit commitments was reclassified from the allowance for loan and lease losses to other liabilities.

Allocation of the Allowance for Loan and Lease Losses

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

	Allowance for Loan and Lease Losses at December 31,									
	2007		2006		2005		2004		2003	
	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans
(dollars in thousands)										
Commercial	$ 79,843	29%	$ 61,325	27%	$ 55,372	26%	$ 47,230	26%	$ 50,400	27%
Owner-occupied	32,441	18	30,755	18	18,255	19	29,488	21	26,862	22
Consumer	42,434	36	37,030	36	36,868	37	38,100	35	13,082	34
Commercial real estate	48,475	17	22,943	19	23,169	18	20,802	18	21,713	17
	$203,193	100%	$152,053	100%	$133,664	100%	$135,620	100%	$112,057	100%

Investment Securities

The following table summarizes the Company's securities available for sale and securities held to maturity as of the dates shown.

	December 31,		
	2007	2006	2005
(dollars in thousands)			
U.S. Government agency	$ 132,883	$ 707,613	$ 572,390
U.S. Government-Sponsored agencies	1,009,475	2,980,102	3,007,725
Mortgage-backed obligations	5,132,046	7,296,532	5,842,363
Obligations of state and political subdivisions	53,276	54,745	59,127
Asset backed securities	6,589,086	-	-
Equity securities	20,209	19,071	22,772
Other	42,643	40,050	14,444
Securities available for sale	$ 12,979,618	$ 11,098,113	$ 9,518,821
U.S. Government agency	$ 620,753	$ 1,531,668	$ 1,210,638
U.S. Government-Sponsored agencies	6,686,170	7,025,439	5,704,085
Mortgage-backed obligations	5,333,834	5,648,427	5,500,864
Obligations of state and political subdivisions	433,395	554,189	490,257
Other	145,120	125,259	99,520
Securities held to maturity	$ 13,219,272	$ 14,884,982	$ 13,005,364

The Company has segregated a portion of its investment portfolio as securities available for sale. The balance of the investment portfolio (excluding trading securities) is categorized as securities held to maturity. Investment securities are classified as available for sale if they could be sold in response to changes in interest rates, prepayment risk, the

Company's income tax position, the need to increase regulatory capital, liquidity needs or other similar factors. These securities are carried at fair market value with unrealized gains and losses, net of income tax effects, recognized in stockholders' equity. Investment securities are classified as held to maturity when the Company has the intent and ability to hold those securities to maturity. Securities held to maturity are carried at cost and adjusted for accretion of discounts and amortization of premiums. Trading securities, primarily municipal securities, are carried at market value, with gains and losses, both realized and unrealized, included in other operating income.

In total, investment securities, including trading securities, increased $335.6 million from $26.1 billion to $26.4 billion at December 31, 2007. The available for sale portfolio increased $1.9 billion to $13.0 billion, while the securities held to maturity portfolio decreased $1.7 billion to $13.2 billion at year-end 2007. The portfolio of trading securities increased to $225.8 million at year-end 2007 from $106.0 million at year-end 2006.

At December 31, 2007, the average life and duration of the investment portfolio were approximately 4.8 years and 2.8 years, respectively, as compared to 5.3 years and 3.2 years, respectively, at December 31, 2006.

During the third quarter of 2007, the Company transferred approximately $7.4 billion of primarily fixed-rate U.S. government agency and mortgage-backed investment securities from its available for sale portfolio to a trading portfolio as part of an investment portfolio restructure. To reduce its exposure to changes in interest rates, the Company sold the securities in the trading portfolio during the fourth quarter of 2007 and reinvested those proceeds in short-term, floating rate, AAA-rated asset backed securities. As a result of the restructure, the Company recorded $174.4 million in net securities losses during 2007.

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations as well as asset backed securities. These securities are either backed by the full faith and credit of the U.S. Government, are issued by Government Sponsored Enterprises, or are AAA rated. The portfolio does not have any securities backed by subprime mortgages. Except for its asset backed securities, the Company's investment securities primarily carry fixed coupons whose rate does not change over the life of the securities. Certain securities are purchased at premiums or discounts. Their yield will change depending on any change in the estimated rate of prepayments. The Company amortizes premiums and accretes discounts over the estimated life of the securities in the investment portfolio. Changes in the estimated life of the securities in the investment portfolio will lengthen or shorten the period in which the premium or discount must be amortized or accreted, thus affecting the Company's investment yields. For the year ended December 31, 2007, the yield on the investment portfolio was 5.55%, an increase of 19 basis points from 5.36% in fiscal year 2006.

At December 31, 2007, the net unrealized depreciation in securities available for sale included in stockholders' equity totaled $297.1 million, net of tax, compared to $65.2 million, net of tax, at December 31, 2006.

The contractual maturity distribution and weighted average yield of the Company's investment portfolio (excluding equity and trading securities) at December 31, 2007, are summarized in the following table. Weighted average yield is calculated by dividing income within each maturity range by the outstanding amortized cost amount of the related investment and has been tax effected, assuming a federal tax rate of 35%, on tax-exempt obligations.

	December 31, 2007								
	Due Under 1 Year		Due 1-5 Years		Due 5-10 Years		Due Over 10 Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
(dollars in thousands)									
Securities available for sale:									
U.S. Government agency	$ 132,883	1.08%							$ 132,883
U.S. Government-Sponsored agency							$ 1,009,475	5.43	1,009,475
Mortgage-backed obligations							5,132,046	5.67	5,132,046
Obligations of state and political subdivisions	740	5.50					52,536	6.86	53,276
Asset back securities			$ 825,087	5.26%	$ 4,577,226	5.21%	1,186,773	5.38	6,589,086
Other securities	14,463	3.00	1,095	4.87			27,085	6.11	42,643
	$ 148,086	1.29%	$ 826,182	5.26%	$ 4,577,226	5.21%	$ 7,407,915	5.60%	$ 12,959,409
Securities held to maturity:									
U.S. Government agency			$ 565,753	4.22%	$ 25,000	6.13%	$ 30,000	5.25%	$ 620,753
U.S. Government-Sponsored agency			6,237	7.05	27,826	5.51	6,652,107	5.29	6,686.170
Mortgage-backed obligations							5,333,834	5.45	5,333,834
Obligations of state and political subdivisions	$ 312,569	5.58%	4,695	5.63	93,305	6.13	22,826	6.37	433,395
Other securities	145,120	5.26							145,120
	$ 457,689	5.48%	$ 576,685	4.26%	$ 146,131	6.01%	$ 12,038,767	5.36%	$ 13,219,272

Deposits

Total deposits at December 31, 2007 were $46.0 billion, an increase of $4.8 billion or 12% above total deposits of $41.3 billion at December 31, 2006. The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for growth and profitability. The Company regards core deposits as all deposits other than public certificates of deposit. Core deposits increased $4.5 billion from year-end 2006 to year-end 2007. Core deposits by type of customer is as follows (in millions):

	December 31,	
	2007	2006
Consumer	$ 19,061	$ 16,624
Commercial	17,606	15,768
Government	7,930	7,685
Total	$ 44,597	$ 40,077

Total deposits averaged $44.0 billion for 2007, an increase of $6.0 billion or 16% above the 2006 average. The average balance of noninterest-bearing demand deposits in 2007 was $8.9 billion, an increase of $646 thousand, or 8%, over the average balance for 2006. The average total balance of savings accounts increased to $10.4 billion, a slight increase over the prior year. The average balance of interest-bearing demand accounts for 2007 was $19.3 billion, a $4.4 billion, or 30%, increase over the average balance for the prior year. The average balance of time deposits and public funds for 2007 was $5.4 billion, an increase of $778.8 million, or 17%, over the average balance for 2006. For 2007, the cost of total deposits was 2.79% as compared to 2.49% in 2006.

The Company believes that its record of sustaining core deposit growth is reflective of the Company's approach to banking which emphasizes a combination of superior customer service, convenient store locations, extended hours of operation, free checking accounts (subject to small minimum balance requirements) and active marketing. This approach is especially reflected in the Company's comparable store deposit growth. The Company's comparable store deposit growth is measured as the year over year percentage increase in core deposits at the balance sheet date for stores open one year or more. At December 31, 2007, the comparable store deposit growth for the Company's 428 stores open one year or more was 11%.

The average balances and weighted average rates of deposits for each of the years 2007, 2006, and 2005 are presented below.

	2007		2006		2005	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)						
Demand deposits:						
Noninterest-bearing	$ 8,915,356		$ 8,269,158		$ 7,143,552	
Interest-bearing (money market and N.O.W. accounts)	19,301,275	3.58%	14,867,213	3.33%	12,474,260	2.03%
Savings deposits	10,435,825	2.77	10,326,719	2.53	7,698,370	1.60
Time deposits/public funds	5,397,313	4.64	4,618,523	4.11	3,565,002	2.77
Total deposits	$ 44,049,769		$ 38,081,613		$ 30,881,184	

The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 2007, 2006 and 2005 is presented below:

Maturity	2007	2006	2005
(dollars in thousands)			
3 months or less	$ 1,943,266	$ 1,453,925	$ 1,088,353
3 to 6 months	506,785	694,344	198,166
6 to 12 months	288,762	350,651	272,156
Over 12 months	63,439	110,457	538,952
Total	$ 2,802,252	$ 2,609,377	$ 2,097,627

The following is a summary of the remaining maturity of time deposits, including certificates of deposits $100,000 and over, as of December 31, 2007:

Maturity	
(dollars in thousands)	
2008	$ 5,323,076
2009	129,987
2010	40,728
2011	11,309
2012	11,986
Thereafter	8
Total	$ 5,517,094

Interest Rate Sensitivity and Liquidity

The principal component of the Company's risk of loss arising from adverse changes in the fair value of financial instruments, or market risk, is 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 and approved by the Company's Board of Directors.

An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market interest rates. Historically, the most common method of estimating interest rate risk was to measure the maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time (GAP), typically one year. Under this method, a company is considered liability sensitive when the amount of its interest-bearing liabilities exceeds the amount of its interest-earning assets within the one year horizon.

However, assets and liabilities with similar repricing characteristics may not reprice at the same time or to the same degree. As a result, a company's GAP does not necessarily predict the impact of changes in general levels of interest rates on net interest income.

The following table illustrates the GAP position of the Company as of December 31, 2007.

Interest Rate Sensitivity Gaps
December 31, 2007

(dollars in millions)	1-90 Days	91-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
Rate sensitive:						
Interest-earning assets						
Loans	$ 6,449.7	$ 409.2	$ 870.8	$ 4,776.6	$ 5,265.2	$ 17,771.5
Investment securities	10,016.1	567.9	1,080.4	7,602.2	7,158.1	26,424.7
Federal funds sold	925.5					925.5
Total interest-earning assets	17,391.3	977.1	1,951.2	12,378.8	12,423.3	45,121.7
Interest-bearing liabilities						
Transaction accounts	9,925.0				20,938.8	30,863.8
Time deposits	2,983.4	1,391.9	947.8	194.0		5,517.1
Other borrowed money	101.0					101.0
Total interest-bearing liabilities	13,009.4	1,391.9	947.8	194.0	20,938.8	36,481.9
Period gap	4,381.9	(414.8)	1,003.4	12,184.8	(8,515.5)	$ 8,639.8
Cumulative gap	$ 4,381.9	$ 3,967.1	$ 4,970.5	$ 17,155.3	$ 8,639.8	
Cumulative gap as a percentage of total interest-earning assets	9.7%	8.8%	11.0%	38.0%	19.1%	

Management believes that the simulation of net interest income in different interest rate environments provides the most meaningful measure of the Company's interest rate risk. Income simulation analysis is designed to capture 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.

In March 2007, revised guidelines for the Company's income simulation model were approved. The revised income simulation guidelines measure interest rate sensitivity by projecting net interest income, as opposed to net income, in alternative interest rate environments. The revisions were made based on ALCO's view that the measurement of changes in net interest income in alternative interest rate environments is a more appropriate indicator of the Company's interest rate risk.

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

The Company's ALCO policy has established that interest income sensitivity will be considered acceptable if net interest income in the above interest rate scenarios are within 10% of forecasted net interest income in the flat rate scenario over the next twelve months. The following table illustrates the impact on projected net interest income at December 31, 2007 and 2006 of a plus 200 and minus 100 basis point change in interest rates.

	Basis Point Change:	
	Plus 200	Minus 100
December 31, 2007:		
Twelve Months	0.8%	(2.8)%
December 31, 2006:		
Twelve Months	(2.0)%	0.9%

These forecasts are within an acceptable level of interest rate risk per the policies established by ALCO. In the event the model indicates an unacceptable level of risk, the Company could undertake a number of actions that would reduce this risk, including the sale of a portion of its available for sale investment portfolio, the use of risk management strategies such as interest rate swaps and caps, or fixing the cost of its short-term borrowings.

Many assumptions were used by the Company to calculate the impact of changes in interest rates, including the proportionate shift in rates. Actual results may not be similar to the Company's projections due to several factors including the timing and frequency of rate changes, market conditions and the shape of the yield curve. Actual results may also differ due to the Company's actions, if any, in response to the changing rates.

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off balance sheet items. The model calculates the market value of the Company's assets and liabilities in excess of book value in the current rate scenario, and then compares the excess of market value over book value given an immediate plus 200 and minus 100 basis point change in rates. The Company's revised ALCO guidelines indicate 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 25% or more of the excess of market value over book value in the current rate scenario. At December 31, 2007, the market value of equity model indicates an acceptable level of interest rate risk.

The market value of equity model reflects certain estimates and assumptions regarding the impact on the market value of the Company's assets and liabilities given an immediate plus 200 or minus 100 basis point change in interest rates. 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. 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 duration than the Company's loans and investment securities. Thus, these core deposit balances provide a natural hedge to market value fluctuations in the Company's fixed rate assets. At December 31, 2007, the average life of the Company's core deposit transaction accounts was 17.5 years. The market value of equity model 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 helps offset the decrease in value of the Company's fixed rate assets. The following table summarizes the market value of equity at December 31, 2007 (in millions, except for per share amounts):

	Market Value of Equity	Per Share
Plus 200 basis point	$ 8,679.6	$ 43.90
Current Rate	$ 8,466.3	$ 42.82
Minus 100 basis point	$ 7,244.8	$ 36.64

Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash position, and cash flow from its amortizing investment and loan portfolios. If necessary, the Company has the ability to generate liquidity through collateralized borrowings, FHLB advances, or the sale of its available for sale investment portfolio. As of December 31, 2007 the Company had in excess of $18.2 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 2007, deposit growth, as well as sales and maturities of investment securities, were used to fund growth in the loan portfolio and purchase additional investment securities.

Other Borrowed Money

Other borrowed money, or short-term borrowings, which consist primarily of securities sold under agreement to repurchase, federal funds purchased, and lines of credit, were used in 2007 to meet short-term liquidity needs. For 2007, short-term borrowings averaged $388.7 million as compared to $1.2 billion in 2006. The average rate on the Company's short-term borrowings was 5.16% and 4.90% during 2007 and 2006, respectively. At December 31, 2007, short-term borrowings included $101.0 million of securities sold under agreements to repurchase at an average rate of 3.46%, compared to $662.4 million at an average rate of 5.29% as of December 31, 2006.

Long-Term Debt

Effective September 14, 2005, the Company redeemed all $200.0 million of its 5.95% Convertible Trust Capital Securities issued through Commerce Capital Trust II, a Delaware business trust, on March 11, 2002. Each outstanding security was converted into 1.8956 shares of the Company's common stock, resulting in the issuance of approximately 7.6 million shares.

Stockholders' Equity and Dividends

Stockholders' equity, $2.8 billion at December 31, 2007, was unchanged from the prior year primarily due to an increase in the Company's other comprehensive loss for the year ended December 31, 2007. The increase in other comprehensive loss was offset by the Company's net income and shares issued under the Company's dividend reinvestment and employee compensation and benefit plans during 2007. Stockholders' equity as a percent of total assets was 5.7% at December 31, 2007 and 6.2% at December 31, 2006.

Capital Resources

Risk-based capital standards issued by bank regulatory authorities in the United States attempt to relate a banking company's capital to the risk profile of its assets and provide the basis for which all banking companies and banks are evaluated in terms of capital adequacy. The risk-based capital standards require all banks to have Tier 1 capital (as defined in the regulations) of at least 4% and total capital (as defined in the regulations) of at least 8% of risk-adjusted assets (as defined in the regulations).

Banking regulators have also issued leverage ratio requirements. The leverage ratio requirement is measured as the ratio of Tier 1 capital to adjusted average assets (as defined in the regulations). The following table provides a comparison of the Company's risk-based capital ratios and leverage ratio to the minimum regulatory requirements for the periods indicated.

	December 31,		Minimum Regulatory Requirements	
	2007	2006	2007	2006
Risk based capital ratios:				
Tier 1	11.21%	11.73%	4.00%	4.00%
Total capital	12.04	12.44	8.00	8.00
Leverage ratio	6.01	6.18	4.00	4.00

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), which became law in December of 1991, requires each federal banking agency including the Board of Governors of the FRB, to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities, as well as reflect the actual performance and expected risk of loss on multi-family mortgages. This law also requires each federal banking agency, including the FRB, to specify, by regulation, the levels at which an insured institution would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized."

At December 31, 2007, the Company's consolidated capital levels and each of the Company's banking 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%.

The Company's common stock is listed for trading on the New York Stock Exchange (NYSE) under the symbol CBH. The quarterly market price ranges and dividends declared per common share for each of the last two years are shown in the table below. As of February 29, 2007, there were approximately 52,000 holders of record of the Company's common stock.

Common Share Data

	Market Prices		Dividends Declared
	High	Low	Per Share
2007 Quarter Ended			
December 31	$ 40.75	$ 34.96	$ 0.1300
September 30	$ 39.51	$ 33.15	$ 0.1300
June 30	$ 36.99	$ 31.71	$ 0.1300
March 31	$ 35.52	$ 31.04	$ 0.1300
2006 Quarter Ended			
December 31	$ 37.05	$ 34.51	$ 0.1300
September 30	$ 36.73	$ 31.64	$ 0.1200
June 30	$ 40.96	$ 34.25	$ 0.1200
March 31	$ 36.77	$ 32.06	$ 0.1200

The Company offers a Dividend Reinvestment and Stock Purchase Plan by which dividends on the Company's common stock and optional monthly cash payments may be invested in the Company's common stock at a 3% discount (subject to change) to the market price and without payment of brokerage commissions.

As contemplated by the Merger Agreement with TD, upon the completion of the merger, the Company's Dividend Reinvestment and Stock Purchase Plan will be terminated.

Off-Balance Sheet Arrangements

In the normal course of business, the Company has various outstanding commitments to extend credit, such as letters of credit, which are not reflected in the accompanying financial statements. These arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies. See Note 12 – Commitments, Letters of Credit and Guarantees of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

Contractual Obligations and Commitments

As disclosed in the Notes to Consolidated Financial Statements, which appears elsewhere herein, the Company has certain obligations and commitments to make future payments under contracts. At December 31, 2007, the aggregate contractual obligations and commitments are shown in the following table.

Contractual Obligations(1)	Payments Due By Period				
	One Year or Less	One to Three Years	Three to Five Years	Beyond Five Years	Total
(dollars in millions)					
Deposits without a stated maturity	$ 12,822.4			$ 27,699.3	$ 40,521.7
Time deposits	5,323.1	$ 170.7	$ 23.3		5,517.1
Other borrowed money	101.0				101.0
Operating leases	82.0	163.0	168.2	854.3	1,267.5
Total	$ 18,328.5	$ 333.7	$ 191.5	$ 28,553.6	$ 47,407.3

Commitments	Expiration by Period				
	One Year or Less	One to Three Years	Three to Five Years	Beyond Five Years	Total
(dollars in millions)					
Standby letters of credit	$ 702.8	$ 266.6	$ 193.9	$ 48.5	$ 1,211.8
Lines of credit	2,867.4	632.4	645.6	102.7	4,248.1
Commitments to extend credit:					
Construction	419.0	232.2	1.9	22.4	675.5
Home equity	80.0	159.9	159.9	799.6	1,199.4
Other	366.0	632.2	27.4	48.2	1,073.8
Total	$ 4,435.2	$ 1,923.3	$ 1,028.7	$ 1,021.4	$ 8,408.6

(1) Unrecognized tax benefits of $17.2 million have been excluded from the table due to a degree of uncertainty regarding timing. Refer to Note 11 – Income Taxes of the Notes to Consolidated Financial Statements, which appears elsewhere herein, for further discussion of the unrecognized tax benefits.

Related Parties

The Company engaged in certain activities during 2007 with entities that would be considered related parties. Management believes transactions with related parties were substantially equivalent to those that would have been made with unaffiliated companies for similar goods and services (further discussed in Note 14 – Related Party Transactions of the Notes to Consolidated Financial Statements, which appears elsewhere herein).

Recent Accounting Statements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, "Fair Value Measurements" (FAS 157). FAS 157 provides a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The Company will adopt FAS 157 on January 1, 2008 and does not believe such adoption will have a material impact on its results of operations.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). Under FAS 159, entities are provided with an option to report selected financial assets and liabilities at fair value, on an instrument-by-instrument basis. The objective is to improve financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities under different methods. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement methods for similar types of assets and liabilities. The Company will adopt FAS 159 on January 1, 2008 and does not believe such adoption will have a material impact on its results of operations.

Certification Requirements

Because the Company's common stock is listed on the NYSE, the Company is required to comply with NYSE corporate governance listing standards. During 2007, the Company submitted to the NYSE the certification by its Chief Executive Officer required under Section 303A of the NYSE corporate governance listing standards. In addition, the certifications by the Chief Executive Officer and Chief Financial Officer that are required under Section 302 of the Sarbanes-Oxley Act of 2002 are filed as Exhibits 31.1 and 31.2, respectively. The certification by the Chief Executive Officer and Chief Financial Officer that is required under Section 906 of the Sarbanes-Oxley Act of 2002 is filed as Exhibit 32.

Results of Operations - 2006 versus 2005

Net income for 2006 was $299.3 million compared to $282.9 million in 2005. Diluted net income per common share was $1.55 compared to $1.61 per common share for the prior year. The Company continued to experience a difficult interest rate environment throughout 2006 which reduced the Company's net interest margin and impeded its historical net interest income growth.

Net interest income on a tax-equivalent basis for 2006 amounted to $1.3 billion, an increase of $126.3 million, or 11% over 2005.

Interest income on a tax-equivalent basis increased $619.3 million or 37% to $2.3 billion in 2006. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2006 increased $492.9 million to $1.0 billion from $511.7 million in 2005. This increase was primarily related to increases in the Company's average deposit balances and the interest rates paid on deposits and other interest-bearing liabilities.

During 2006, the Company recorded provisions of $33.7 million to the allowance for credit losses compared to $19.2 million for 2005. At December 31, 2006, the allowance aggregated $160.3 million or 1.03% of total loans.

For 2006, noninterest income totaled $591.2 million, an increase of $148.4 million or 34% from 2005. The growth in noninterest income was primarily reflected in increased deposit and service fees of $91.5 million, or 32%. Other operating income, which included CBIS and Commerce Capital Markets, increased by $40.1 million, or 23%. CBIS recorded increased revenues of $7.3 million, or 10%, and Commerce Capital Markets recorded increased revenues of $4.2 million, or 16%. Other increased by $23.1 million, or 63%, primarily due to increased letter of credit fees and revenues generated by the Company's trust, credit card and loan divisions.

Noninterest expenses totaled $1.4 billion for 2006, an increase of $209.4 million, or 18% over 2005. Contributing to this increase was the addition of 55 new stores during 2006. With the addition of these new stores, staff, facilities, marketing, and related expenses rose accordingly. Salaries and benefits had the largest increase of $88.2 million during 2006. Other noninterest expenses rose $43.8 million to $278.6 million in 2006. This increase included increased bank-card related service charges of $8.3 million and increased professional services/insurance expenses of $9.9 million.

The provision for federal and state income taxes for 2006 was $176.9 million compared to $147.9 million in 2005. The effective tax rate was 37.1% and 34.3% in 2006 and 2005, respectively. The increase in the 2006 provision for federal and state taxes, as well as the increase in the effective tax rate, was primarily due to an additional net tax liability recorded by the Company in the fourth quarter of 2006 related to settlements with various taxing authorities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; Interest Rate Sensitivity and Liquidity included elsewhere herein.

Item 8. Financial Statements and Supplementary Data

Commerce Bancorp, Inc.
Report on Management's Assessment of Internal Control Over Financial Reporting

Commerce Bancorp, Inc.'s management is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

Management of Commerce Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a – 15(f). Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2007, based on the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that, as of December 31, 2007, the Company's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), was effective and met the criteria of the Internal Control – Integrated Framework.

Ernst & Young LLP, independent registered accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, which is included elsewhere herein.

/s/ Dennis M. DiFlorio
Dennis M. DiFlorio
Chairman, Commerce Bank NA

/s/ Douglas J. Pauls
Douglas J. Pauls
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

March 13, 2008

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on Effectiveness of Internal Control Over Financial Reporting

Audit Committee of the Board of Directors and the Stockholders of Commerce Bancorp, Inc.

We have audited Commerce Bancorp, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Commerce Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Commerce Bancorp, Inc. Report on Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Commerce Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Commerce Bancorp, Inc, as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated March 13, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

March 13, 2008

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Report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on Consolidated Financial Statements

Audit Committee of the Board of Directors and the Stockholders of Commerce Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Commerce Bancorp, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Bancorp, Inc. at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Commerce Bancorp, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
March 13, 2008

Consolidated Balance Sheets

		December 31	
	(dollars in thousands)	2007	2006
Assets	Cash and due from banks	$ 1,331,139	$ 1,207,390
	Federal funds sold	925,500	9,300
	Cash and cash equivalents	2,256,639	1,216,690
	Loans held for sale	34,349	52,741
	Trading securities	225,786	106,007
	Securities available for sale	12,979,618	11,098,113
	Securities held to maturity	13,219,272	14,884,982
	(market value 2007 - $12,604,659; 2006 - $14,617,765)		
	Loans	17,841,518	15,607,049
	Less allowance for loan and lease losses	203,193	152,053
		17,638,325	15,454,996
	Bank premises and equipment, net	2,077,748	1,753,670
	Goodwill and other intangible assets	136,713	141,631
	Other assets	687,056	562,986
	Total assets	$ 49,255,506	$ 45,271,816
Liabilities	Deposits:		
	Demand:		
	Noninterest-bearing	$ 9,657,798	$ 8,936,824
	Interest-bearing	20,877,932	16,853,457
	Savings	9,985,927	10,459,306
	Time	5,517,094	5,038,624
	Total deposits	46,038,751	41,288,211
	Other borrowed money	100,954	777,404
	Other liabilities	331,843	405,103
	Total liabilities	46,471,548	42,470,718
Stockholders' Equity	Common stock, 197,710,812 shares issued (189,738,423 shares in 2006)	197,711	189,738
	Capital in excess of par value	1,941,931	1,744,691
	Retained earnings	993,921	958,770
	Accumulated other comprehensive loss	(297,112)	(65,240)
		2,836,451	2,827,959
	Less treasury stock, at cost, 1,976,923 shares (1,231,081 shares in 2006)	52,493	26,861
	Total stockholders' equity	2,783,958	2,801,098
	Total liabilities and stockholders' equity	$ 49,255,506	$ 45,271,816

See accompanying notes.

Consolidated Statements of Income

	(dollars in thousands, except per share amounts)	Year Ended December 31, 2007	2006	2005
Interest Income	Interest and fees on loans	$1,135,317	$ 970,270	$ 680,552
	Interest on investment securities	1,491,552	1,301,928	981,420
	Other interest	16,075	6,926	3,272
	Total interest income	2,642,944	2,279,124	1,665,244
Interest Expense	Interest on deposits:			
	Demand	690,059	495,147	252,674
	Savings	288,673	261,428	123,419
	Time	250,530	189,944	98,780
	Total interest on deposits	1,229,262	946,519	474,873
	Interest on other borrowed money	20,065	58,097	28,410
	Interest on long-term debt			8,379
	Total interest expense	1,249,327	1,004,616	511,662
	Net interest income	1,393,617	1,274,508	1,153,582
	Provision for credit losses	103,550	33,700	19,150
	Net interest income after provision for credit losses	1,290,067	1,240,808	1,134,432
Noninterest Income	Deposit charges and service fees	468,854	374,210	282,692
	Other operating income	242,276	214,246	174,132
	Net investment securities (losses) gains	(174,376)	2,697	(14,030)
	Total noninterest income	536,754	591,153	442,794
Noninterest Expense	Salaries and benefits	716,689	614,627	526,428
	Occupancy	251,352	196,498	165,077
	Furniture and equipment	183,808	161,075	126,986
	Office	67,890	62,234	55,833
	Marketing	48,165	42,737	37,261
	Other	343,335	278,590	234,795
	Total noninterest expense	1,611,239	1,355,761	1,146,380
	Income before income taxes	215,582	476,200	430,846
	Provision for federal and state income taxes	75,294	176,887	147,907
	Net income	$ 140,288	$ 299,313	$ 282,939
	Net income per common and common equivalent share:			
	Basic	$ 0.73	$ 1.62	$ 1.70
	Diluted	$ 0.71	$ 1.55	$ 1.61
	Average common and common equivalent sharesoutstanding:			
	Basic	192,204	184,919	165,974
	Diluted	198,506	193,674	179,135
	Dividends declared, common stock	$ 0.52	$ 0.49	$ 0.45

See accompanying notes.

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Consolidated Statements of Cash Flows

		Year Ended December 31,		
	(dollars in thousands)	2007	2006	2005
Operating Activities	Net income	$ 140,288	$ 299,313	$ 282,939
	Adjustments to reconcile net income to net cash provided by operating activities:			
	Provision for credit losses	103,550	33,700	19,150
	Provision for depreciation, amortization and accretion	188,542	156,560	163,502
	Stock-based compensation expense	17,045	7,376	
	Loss (gain) on sales of securities	174,376	(2,697)	14,030
	Proceeds from sales of loans held for sale	748,148	745,391	1,001,884
	Originations of loans held for sale	(729,756)	(760,691)	(738,402)
	Net activity in trading securities	7,078,489	37,009	26,087
	Increase in other assets, net	(6,318)	(91,612)	(78,898)
	(Decrease) increase in other liabilities	(43,785)	88,134	32,666
	Deferred income tax benefit	(35,035)	(23,414)	(17,612)
	Net cash provided by operating activities	7,635,544	489,069	705,346
Investing Activities	Proceeds from the sales of securities available for sale	457,890	421,455	3,722,875
	Proceeds from the maturity of securities available for sale	2,760,468	2,883,670	2,732,109
	Proceeds from the maturity of securities held to maturity	3,471,436	2,227,077	2,627,750
	Purchase of securities available for sale	(12,829,043)	(4,897,038)	(8,046,583)
	Purchase of securities held to maturity	(1,813,333)	(4,118,321)	(5,191,021)
	Net increase in loans	(2,286,582)	(2,971,024)	(3,160,857)
	Capital expenditures	(486,155)	(512,312)	(424,476)
	Cash acquired in purchase acquisition			5,664
	Net cash used by investing activities	(10,725,319)	(6,966,493)	(7,734,539)
Financing Activities	Net increase in demand and savings deposits	4,272,070	5,456,319	6,138,554
	Net increase in time deposits	478,470	1,105,179	626,949
	Net (decrease) increase in other borrowed money	(676,450)	(329,039)	445,248
	Dividends paid	(99,601)	(88,192)	(72,363)
	Redemption of long term debt			(57,255)
	Proceeds from issuance of common stock under dividend reinvestment and other stock plans	155,235	253,050	194,022
	Other		33	(4)
	Net cash provided by financing activities	4,129,724	6,397,350	7,275,151
	Increase (decrease) in cash and cash equivalents	1,039,949	(80,074)	245,958
		1,216,690	1,296,764	1,050,806

Cash and cash equivalents at beginning of year			
Cash and cash equivalents at end of year	$ 2,256,639	$ 1,216,690	$ 1,296,764
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 1,249,533	$ 980,656	$ 506,574
Income taxes	123,700	153,447	151,757
Other noncash activities:			
Transfer of loans to held for sale		7,350	249,500
Transfer of available for sale securities to trading	7,375,523		
Fair value of non-cash assets and liabilities acquired:			
Assets acquired	75	43,091	380,191
Liabilities assumed	24	14,091	366,160

See accompanying notes.

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2007, 2006 and 2005

(in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income (Loss)	Total
Balances at December 31, 2004	$ 160,636	$ 951,476	$ 543,978	$ (11,338)	$ 20,953	$ 1,665,705
Net income			282,939			282,939
Other comprehensive loss, net of tax						
Unrealized loss on securities (pre-tax $136,027)					(85,768)	(85,768)
Reclassification adjustment (pre-tax $8,686)					5,646	5,646
Other comprehensive loss						(80,122)
Total comprehensive income						202,817
Cash dividends declared			(76,203)			(76,203)
Shares issued under dividend reinvestment and compensation and benefit plans (7,933 shares)	7,933	185,144				193,077
Shares issued upon redemption of Convertible Trust Capital Securities (7,576 shares)	7,576	187,493				195,069
Acquisition of Palm Beach County Bank (3,325 shares)	3,325	109,309				112,634
Acquisition of insurance brokerage agency (29 shares)	29	797				826
Other		16,624	(4)	(1,372)		15,248
Balances at December 31, 2005	$ 179,499	$ 1,450,843	$ 750,710	$ (12,710)	$ (59,169)	$ 2,309,173
Net income			299,313			299,313
Other comprehensive loss, net of tax						
Unrealized loss on securities (pre-tax					(5,010)	(5,010)

$8,454)						
Reclassification adjustment (pre-tax $1,632)					(1,061)	(1,061)
Other comprehensive loss						(6,071)
Total comprehensive income						293,242
Cash dividends declared			(91,252)			(91,252)
Shares issued under dividend reinvestment and compensation and benefit plans (9,379 shares)	9,379	257,799				267,178
Acquisition of eMoney Advisors (860 shares)	860	28,140				29,000
Other		7,909	(1)	(14,151)		(6,243)
Balances at December 31, 2006	$ 189,738	$ 1,744,691	$ 958,770	$ (26,861)	$ (65,240)	$ 2,801,098
Net income			140,288			140,288
Other comprehensive loss, net of tax						
Unrealized loss on securities (pre-tax $459,358)					(300,383)	(300,383)
Reclassification adjustment (pre-tax $105,402)					68,511	68,511
Other comprehensive loss						(231,872)
Total comprehensive loss						(91,584)
Cash dividends declared			(100,550)			(100,550)
Shares issued under dividend reinvestment and compensation and benefit plans (7,747 shares)	7,747	173,107		(25,669)		155,185
Acquisition of insurance brokerage agency (226 shares)	226	7,074				7,300
Other		17,059	(4,587)	37		12,509
Balances at December 31, 2007	$ 197,711	$ 1,941,931	$ 993,921	$ (52,493)	$ (297,112)	$ 2,783,958

See accompanying notes.

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Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. (the Company) and its consolidated subsidiaries. All material intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with the current year presentation. The consolidated financial statements have been prepared based on the Company continuing as a going concern, without consideration for what the merger with The Toronto-Dominion Bank (refer to Note 2 – Agreement and Plan of Merger with The Toronto-Dominion Bank) could have on the estimates, assumptions or assertions made by the Company in the preparation of the consolidated financial statements.

The Company is a multi-bank holding company headquartered in Cherry Hill, New Jersey, operating primarily in the metropolitan New York, metropolitan Philadelphia, metropolitan Washington, D.C. and Southeastern Florida markets. Through its subsidiaries, the Company provides retail and commercial banking services, corporate trust services, certain insurance brokerage services, and certain securities services.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock Split

Per share data and other appropriate share information for all periods presented have been restated for the two-for-one stock split in the form of a 100% stock dividend effective March 7, 2005.

Business Combinations

Business combinations are accounted for under the purchase method of accounting. Under the purchase method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term investments, which have an original maturity of three months or less and are readily convertible into cash.

Investment Securities

Investment securities are classified as held to maturity when the Company has the intent and ability to hold those securities to maturity. Securities held to maturity are stated at cost and adjusted for accretion of discounts and amortization of premiums.

Those securities that could be sold in response to changes in interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, or other similar factors are classified as available for sale. Available for sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a component of stockholders' equity. Refer to Note 18 – Fair Value of Financial Instruments for a discussion of the Company's assumptions and methods used to determine the fair value of its investment securities. The amortized cost of debt securities in this category is adjusted for accretion of discounts and amortization of premiums. Realized gains and losses are determined on the specific identification method and are included in noninterest income.

The Company reviews the fair value of the investment portfolio and evaluates individual securities for declines in fair value that may be other than temporary. If declines are deemed other than temporary, an impairment loss is recognized and the security is written down to its current fair value.

The trading portfolio is primarily securities maintained by Commerce Capital Markets, Inc. (CCMI) for distribution to its customers in order to meet their needs. Trading securities are carried at market. Gains and losses, both realized and unrealized, are included in other operating income.

Loans

Loans are stated at principal amounts outstanding, net of deferred loan origination fees and costs. Interest income on loans is accrued and credited to interest income monthly as earned. Loans held for sale are valued on an aggregate basis at the lower of cost or fair value. Net deferred loan origination fees and costs are amortized over the estimated lives of the related loans as an adjustment to the yield.

Loans are placed on a non-accrual status and cease accruing interest when loan payment performance is deemed unsatisfactory. However, all loans past due 90 days are placed on non-accrual status, unless the loan is both well secured and in the process of collection.

Allowance for Credit Losses

The Company maintains an allowance for losses inherent in the loan and lease portfolio and an allowance for losses on unfunded credit commitments. The allowance for credit losses is increased by provisions charged to expense and reduced by charge-offs net of recoveries. The level of the allowance for loan and lease losses is based on an evaluation of individual large classified loans and nonaccrual loans, estimated losses based on risk characteristics of loans in the portfolio and other qualitative factors. The level of the allowance for losses on unfunded credit commitments is based on a risk characteristic methodology similar to that used in determining the allowance for loan and lease losses, taking into consideration the probability of funding these commitments. While the allowance for credit losses is maintained at a level considered to be adequate by management for estimated credit losses, determination of the allowance is inherently subjective, as it requires estimates that may be susceptible to significant change.

Transfers of Financial Assets

The Company accounts for the transfers of financial assets, including sales of loans, as sales when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase before their maturity.

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets for financial reporting purposes, and accelerated methods for income tax purposes. The estimated useful lives range from 15 to 40 years for buildings, 3 to 5 years for furniture, fixtures and equipment and the shorter of the lease terms or the estimated useful lives of leasehold improvements. When capitalizing costs for store 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 store. Depreciation charges commence the month in which the store opens. All other pre-opening and post-opening costs related to stores are expensed as incurred.

Other Real Estate (ORE)

Real estate acquired in satisfaction of a loan is reported in other assets at the lower of cost or fair value less disposition costs. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to ORE and recorded at the lower of cost or fair value less disposition costs based on their appraised value at the date actually or constructively received. Losses arising from the acquisition of such property are charged against the allowance for loan and lease losses. Subsequent adjustments to the carrying values of ORE properties are charged to operating expense. Included in other noninterest expense is $3.2 million, $615,000, and $851,000 related to ORE expenses for 2007, 2006, and 2005, respectively.

Other Investments

The Company makes investments directly in low-income housing tax credit (LIHTC) operating partnerships, private venture capital funds and Small Business Investment Companies (SBIC). At December 31, 2007 and 2006, the Company's investment in these entities totaled $66.9 million and $68.7 million, respectively. The majority of these investments are accounted for under the equity method of accounting.

Notes to Consolidated Financial Statements

Goodwill and Other Intangible Assets

Goodwill, the excess of cost over fair value of net assets acquired, amounted to $121.6 million and $125.8 million at December 31, 2007 and 2006, respectively. Goodwill is not amortized into net income but rather is tested at least annually for impairment. Other intangible assets, which include core deposit intangibles, totaled $15.1 million and $15.8 million at December 31, 2007 and 2006, respectively. These amounts are amortized over their estimated useful lives, generally 7-10 years, and also continue to be subject to impairment testing.

Amortization expense of other intangible assets amounted to $2.7 million, $2.3 million, and $614,000 for 2007, 2006, and 2005, respectively. The estimated amortization expense for the next five years is $1.8 million per year.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The provision for income taxes is based on current taxable income. Deferred income taxes are provided on temporary differences between amounts reported for financial statement and tax purposes.

Income Tax Contingencies

The Company is subject to the income tax laws of the United States, as well as its states and municipalities. These tax laws are complex and subject to different interpretations by taxpayers and the relevant taxing authorities. In establishing its provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws.

Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48). The Company adopted FIN 48 effective January 1, 2007. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest on tax positions that may be challenged by tax authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing.

Restriction on Cash and Due From Banks

The Company's banking subsidiaries are required to maintain reserve balances with the Federal Reserve Bank. The weighted average amount of the reserve balances for 2007 and 2006 were approximately $106.7 million and $109.8 million, respectively.

Derivative Financial Instruments

As part of CCMI's broker-dealer activities, CCMI maintains a trading securities portfolio for distribution to customers in order to meet those customers' needs. Derivative instruments, primarily interest rate futures and options, are used in order to reduce the exposure to interest rate risk relating to the trading portfolio. These contracts are carried at fair value with changes in fair value included in other operating income and recorded in the same period as changes in fair value of the trading portfolio. As an accommodation to its loan customers, the Company enters into interest rate swap agreements. The Company minimizes its risk by matching these positions with a counterparty. These swaps are carried at fair value with changes in fair value included in noninterest income.

Recent Accounting Statements

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (FAS 157). FAS 157 provides a single definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The Company will adopt FAS 157 on January 1, 2008 and does not believe such adoption will have a material impact on its results of operations.

Notes to Consolidated Financial Statements

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). Under FAS 159, entities are provided with an option to report selected financial assets and liabilities at fair value, on an instrument-by-instrument basis. The objective is to improve financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities under different methods. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement methods for similar types of assets and liabilities. The Company will adopt FAS 159 on January 1, 2008 and does not believe such adoption will have a material impact on its results of operations.

2. Agreement and Plan of Merger with The Toronto-Dominion Bank

On October 2, 2007, the Company and The Toronto-Dominion Bank (TD) entered into an Agreement and Plan of Merger (Merger Agreement) pursuant to which TD will acquire the Company and the Company will become a wholly-owned subsidiary of TD. The Company's shareholders approved the Merger Agreement at a Special Meeting of Shareholders on February 6, 2008. The consideration for the transaction, a combination of stock and cash, was valued at $8.5 billion at the time of the announcement. Under the terms of the Merger Agreement, Company shareholders will receive 0.4142 TD common shares and $10.50 in cash for each common share of the Company outstanding immediately prior to the completion of the merger. On March 13, 2008, it was announced that all regulatory approvals necessary to complete the merger were received. The merger is expected to close in late March/early April 2008. The transaction is taxable for Company shareholders for US federal income tax purposes, including the TD common shares they receive.

As contemplated by the Merger Agreement, the Company completed the sale of its insurance brokerage business, Commerce Banc Insurance Services, Inc. (CBIS) on December 31, 2007. The sale included the commercial property and casualty, employee benefits, and various specialty insurance lines of CBIS and was approved by TD, as provided in the Merger Agreement. As part of the sale, the Company will retain ownership of the retail personal-lines insurance business. The Company recorded a pre-tax gain of approximately $22.0 million related to the sale.

3. Mergers and Acquisitions

On December 5, 2005, the Company completed the acquisition of Palm Beach County Bank (PBCB), based in West Palm Beach, Florida. PBCB was a privately held bank with approximately $370.0 million in assets and seven retail stores. The Company issued approximately 3.3 million shares of common stock in exchange for the outstanding PBCB shares. The purchase price was approximately $110.0 million based on the value of common stock exchanged. In connection with the acquisition, the Company recorded $90.9 million of goodwill and $6.0 million of core deposit intangible. The core deposit intangible is being amortized over ten years, the estimated useful life, on a straight-line basis.

On February 1, 2006, the Company completed the acquisition of eMoney Advisors, Inc. (eMoney), a provider of web-enabled wealth and financial planning solutions. The Company issued approximately 900,000 shares of common stock in exchange for the outstanding eMoney shares. In connection with the acquisition, the Company recorded $25.5 million of goodwill and $8.1 million of other intangible assets, which are being amortized over estimated useful lives of seven years.

Notes to Consolidated Financial Statements

4. Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity (in thousands) at December 31, 2007 and 2006 follows:

	December 31,							
	2007				2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Government agency	$132,883			$132,883	$713,544	$1	$(5,932)	$707,613
U.S. Government-Sponsored agencies	1,007,857	$7,299	$(5,681)	1,009,475	3,021,159	2,334	(43,391)	2,980,102
Mortgage-backed obligations	5,588,979		(456,933)	5,132,046	7,363,428	13,712	(80,608)	7,296,532
Asset-Backed Securities	6,600,997	6,041	(17,952)	6,589,086				
Obligations of state and political subdivisions	53,948	9	(681)	53,276	54,517	229	(1)	54,745
Equity securities	9,783	10,426		20,209	9,679	9,392		19,071
Other	43,563		(920)	42,643	40,221		(171)	40,050
Securities available for sale	$13,438,010	$23,775	$(482,167)	$12,979,618	$11,202,548	$25,668	$(130,103)	$11,098,113
U.S. Government agency	$620,753	$ 488	$(1,046)	$620,195	$1,531,668		$(26,782)	$1,504,886
U.S. Government-Sponsored agencies	6,686,170	5,943	(185,655)	6,506,458	7,025,439	$8,618	(156,792)	6,877,265
Mortgage-backed obligations	5,333,834	-	(436,352)	4,897,482	5,648,427	6,225	(99,945)	5,554,707
Obligations of state and political subdivisions	433,395	2,122	(113)	435,404	554,189	1,881	(422)	555,648
Other	145,120			145,120	125,259			125,259
Securities held to maturity	$13,219,272	$ 8,553	$(623,166)	$12,604,659	$14,884,982	$16,724	$(283,941)	$14,617,765

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations as well as asset-backed securities. These securities have little, if any, credit risk since they are either backed by the full faith and credit of the U.S. Government, are issued by Government Sponsored Enterprises, or are AAA rated.

The amortized cost and estimated market value of investment securities (in thousands) at December 31, 2007, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because obligors have the right to repay obligations without prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Market Value	Amortized Cost	Market Value

Due in one year or less	$148,081	$148,086	$457,689	$457,886
Due after one year through five years	1,100	1,095	570,449	569,761
Due after five years through ten years			118,305	119,913
Due after ten years	81,213	79,621	52,826	53,160
Mortgage-backed securities	6,596,836	6,141,521	12,020,003	11,403,939
Asset-backed securities	6,600,997	6,589,086		
Equity securities	9,783	20,209		
	$13,438,010	$12,979,618	$13,219,272	$12,604,659

During the third quarter of 2007, the Company transferred approximately $7.4 billion of primarily fixed-rate investment securities from its available for sale portfolio to a trading portfolio as part of an investment portfolio restructure. To reduce its exposure to changes in interest rates, the Company sold the securities in the trading portfolio during the fourth quarter of 2007 and reinvested those proceeds in short-term, floating rate, AAA-rated asset-backed securities. As a result of the restructure, the Company recorded $174.4 million in net securities losses during 2007.

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Proceeds from sales of securities available for sale during 2007, 2006 and 2005 were $455.0 million, $418.7 million and $3.7 billion, respectively. Gross gains of $2.9 million, $2.7 million and $12.5 million were realized on the sales in 2007, 2006, and 2005, respectively, and gross losses of $0, $0 and $26.6 million were realized in 2007, 2006 and 2005, respectively.

During the fourth quarter of 2005, the Company, as a protective measure against further net interest margin compression due to the yield curve at that time, repositioned a portion of its investment portfolio by selling fixed-rate securities and purchasing approximately $1.5 billion of floating-rate securities. In order to complete the repositioning, the Company incurred an after-tax charge of approximately $17.0 million during the fourth quarter of 2005.

At December 31, 2007 and 2006, investment securities with a carrying value of $8.8 billion and $9.2 billion, respectively, were pledged to secure deposits of public funds.

The unrealized losses and related fair value of investments with unrealized losses less than 12 months and those with unrealized losses 12 months or longer (in thousands) as of December 31, 2007 are shown below.

	Less than 12 months		12 months or more		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale:						
U.S. Government agency	$4,933	$ -	$ -	$ -	$4,933	$ -
U.S. Government-Sponsored agencies	-	-	443,781	5,514	443,781	5,514
Mortgage-backed obligations	2,846,645	287,153	2,359,640	169,947	5,206,285	457,100
Asset-backed securities	4,162,732	17,952			4,162,732	17,952
Obligations of state and political subdivisions/other	52,352	681	28,355	920	80,707	1,601
Securities available for sale	$7,066,662	$305,786	$2,831,776	$176,381	$ 9,898,438	$482,167
Held to maturity:						
U.S. Government agency	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Government-Sponsored agencies	-	-	4,946,117	122,426	4,946,117	122,426
Mortgage-backed obligations	2,505,969	208,123	3,761,238	292,504	6,267,207	500,627
Obligations of state and political subdivisions/other	8,623	53	8,894	60	17,517	113
Securities held to maturity	$2,514,592	$208,176	$8,716,249	$414,990	$11,230,841	$623,166

As described in Note 1 – Significant Accounting Policies, the Company reviews the investment securities portfolio to determine if other-than-temporary impairment has occurred. Management does not believe any individual unrealized loss as of December 31, 2007 represents an other-than-temporary impairment. The unrealized losses on these securities are caused primarily by the changes in liquidity levels in the market in addition to changes in general market interest rates and not by material changes in the credit characteristics of the investment securities portfolio. Additionally, at December 31, 2007, management had the positive intent and ability to hold these securities to recovery or maturity. The average life and duration of securities with unrealized losses at December 31, 2007 was 5.09 years and 3.16 years, respectively.

During 2007, $84.1 million of securities were sold which had unrealized losses at December 31, 2006. Gross gains and losses on these securities were $476 thousand and $0, respectively.

Notes to Consolidated Financial Statements

5. Loans — The following is a summary of loans outstanding (in thousands) at December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Commercial:		
Term	$ 3,045,907	$ 2,392,889
Line of credit	2,070,636	1,843,545
	5,116,543	4,236,434
Owner-occupied	3,245,123	2,845,791
Consumer:		
Mortgages (1-4 family residential)	2,314,532	2,235,247
Installment	285,543	287,151
Home equity	3,585,904	2,958,893
Credit lines	194,030	137,429
	6,380,009	5,618,720
Commercial real estate:		
Investor developer	2,502,872	2,625,628
Construction	596,971	280,476
	3,099,843	2,906,104
	$ 17,841,518	$ 15,607,049

6. Allowance for Credit Losses — The following is an analysis of changes in the allowance for credit losses (in thousands) for 2007, 2006 and 2005:

	Year Ended December 31, 2007	2006	2005
Balance, January 1	$ 160,269	$ 141,464	$ 135,620
Provision charged to operating expense	103,550	33,700	19,150
Recoveries of loans previously charged off	6,093	7,976	5,192
Loan charge-offs	(56,631)	(22,871)	(20,992)
Allowance for credit losses acquired bank			2,494
Balance, December 31	$ 213,281	$ 160,269	$ 141,464
Amount reclassified as allowance for unfunded credit commitments	10,088	8,216	7,800
Allowance for loan and lease losses	$ 203,193	$ 152,053	$ 133,664

7. Non-Performing Loans and Other Real Estate / Fore-closed — Total non-performing loans (non-accrual and restructured loans) were $104.5 million and $50.6 million at December 31, 2007 and 2006, respectively. Contributing to the overall increase in non-performing loans were increases in non-accrual loans of $11.7 million, $27.3 million and $13.0 million in the Company's consumer, real estate construction and real estate mortgage loan portfolios, respectively. The increase in non-performing loans was primarily

Assets attributable to loans secured by real estate, which were impacted by the current economic conditions surrounding the real estate market. Non-performing loans of $8.3 million and $4.4 million were transferred to other real estate/foreclosed assets during 2007 and 2006, respectively. Other real estate/foreclosed assets ($4.3 million and $2.6 million at December 31, 2007 and 2006, respectively) are included in other assets. Non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at December 31, 2007 were $108.7 million or .22% of total assets, as compared to $53.2 million or .12% of total assets at December 31, 2006.

Notes to Consolidated Financial Statements

At December 31, 2007 and 2006, the recorded investment in loans considered to be impaired under FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" totaled $77.0 million and $34.7 million, respectively, all of which are included in non-performing loans. The reserve for loan and lease losses related to impaired loans totaled approximately $18.9 million and $4.5 million at December 31, 2007 and 2006, respectively. As permitted, all homogenous smaller balance consumer, commercial and residential mortgage loans are excluded from individual review for impairment. The majority of impaired loans were measured using the fair market value of collateral.

Impaired loans averaged approximately $52.3 million and $30.2 million during 2007 and 2006, respectively. Interest income of approximately $6.6 million, $2.8 million, and $2.8 million would have been recorded on non-performing loans (including impaired loans) in accordance with their original terms in 2007, 2006, and 2005, respectively. Actual interest income recorded on these loans amounted to $4.0 million, $1.5 million, and $809 thousand during 2007, 2006, and 2005, respectively.

8. Bank Premises, Equipment, and Leases

A summary of bank premises and equipment (in thousands) is as follows:

	December 31, 2007	December 31, 2006
Land	$ 425,224	$ 370,974
Buildings	946,170	750,551
Leasehold improvements	294,153	260,116
Furniture, fixtures and equipment	807,608	691,551
Leased property under capital leases	2,522	124
	2,475,677	2,073,316
Accumulated depreciation and amortization	(718,469)	(571,062)
	1,757,208	1,502,254
Premises and equipment in progress	320,540	251,416
	$ 2,077,748	$ 1,753,670

Total rent expense charged to operations under operating leases was approximately $97.9 million in 2007, $73.1 million in 2006, and $60.0 million in 2005. Total depreciation expense charged to operations was $162.1 million, $137.4 million and $112.5 million in 2007, 2006 and 2005, respectively.

The future minimum rental commitments, by year, under the non-cancelable leases, including escalation clauses, are as follows (in thousands) at December 31, 2007:

	Operating
2008	$ 81,990
2009	81,221
2010	81,796
2011	83,735
2012	84,478
Later years	854,269
Net minimum lease payments	$ 1,267,490

9. Deposits The aggregate amount of time certificates of deposits in denominations of $100,000 or more was $2.8 billion and $2.6 billion at December 31, 2007 and 2006, respectively.

Notes to Consolidated Financial Statements

10. Other Borrowed Money

Other borrowed money consists primarily of securities sold under agreements to repurchase, federal funds purchased, and lines of credit. The following table represents information for other borrowed money (in thousands) at December 31, 2007 and 2006:

	December 31,			
	2007		2006	
	Amount	Average Rate	Amount	Average Rate
Securities sold under agreements to repurchase	$ 100,954	3.46%	$ 662,404	5.29%
Federal funds purchased	-	-	115,000	5.28%
Total	$ 100,954	3.46%	$ 777,404	5.29%
Average amount outstanding	$ 388,654	5.16%	$ 1,186,068	4.90%
Maximum month-end balance	545,310		2,568,445	

As of December 31, 2007, the Company had a line of credit of $2.0 billion from the Federal Home Loan Bank of Pittsburgh and a line of credit of $130.9 million from the Federal Home Loan Bank of New York, both of which were available.

11. Income Taxes

The provision for income taxes consists of the following (in thousands):

	December 31,		
	2007	2006	2005
Current:			
Federal	$ 96,804	$ 167,106	$ 156,805
State	13,525	33,195	8,714
Deferred:			
Federal	(35,035)	(23,414)	(17,612)
	$ 75,294	$ 176,887	$ 147,907

The above provision includes an income tax benefit of $61.0 million related to net investment security losses recorded in 2007, primarily due to the investment portfolio restructure, an income tax expense of $900,000 related to net investment security gains recorded in 2006 and an income tax benefit of $4.9 million related to net investment security losses recorded in 2005.

The provision for income taxes differs from the expected statutory provision as follows:

	December 31,		
	2007	2006	2005
Expected provision at statutory rate:	35.0%	35.0%	35.0%
Difference resulting from:			
Tax-exempt interest on loans	(3.2)	(1.2)	(1.3)
Tax-exempt interest on securities	(2.6)	(1.1)	(1.0)
State income taxes (net of federal benefit)	4.1	4.5	1.3
Other	1.6	(0.1)	0.3

	34.9%	37.1%	34.3%

As a result of an analysis of the tax structures of certain wholly-owned subsidiaries, the Company recorded an additional estimated state income tax liability of $24.4 million during the fourth quarter of 2006 related to settlements with various taxing authorities. The impact on net income, net of federal tax benefits, was approximately $15.8 million and resulted in an increased effective tax rate for 2006.

The amounts payable for federal income taxes for 2007 and 2006 were reduced by approximately $45.8 million and $26.3 million, respectively, due to the exercise of stock options.

Notes to Consolidated Financial Statements

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The significant components of the Company's deferred tax liabilities and assets as of December 31, 2007 and 2006 are as follows (in thousands):

	December 31,
2007	