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

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

FORM 10-K

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from _____ to _____.

Commission File #0-12874

[GRAPHIC OMITTED][GRAPHIC OMITTED]

(Exact name of registrant as specified in its charter)

| | |
|--|---|
| New Jersey | 22-2433468 |
| State of other jurisdiction of incorporation 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 E |
| ----- | ----- |
| Title of Class | Name of Each Exchange on |

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10- K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No ____.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

Part I

- Item 1. Business.....
- Item 2. Properties.....
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders.....

Part II

- Item 5. Market for Registrant's Common Equity and Related Stockholder Matters
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure..

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Part III

Item 10. Directors and Executive Officers of the Registrant.....

Item 11. Executive Compensation.....

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder.....

Item 13. Certain Relationships and Related Transactions.....

Item 14. Controls and Procedures.....

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Signatures.....

Section 302 Certifications.....

PART I

Item 1. Business

Forward-Looking Statements

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

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

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

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

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

General

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

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

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

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

1

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

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

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

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

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

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

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

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

The Banks

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

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

2

Service Areas

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

Retail Banking Services and Products

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

Trust Services

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

Commercial Banking Services and Products

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

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

Commerce Insurance

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

Commerce Capital Markets

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

Commerce Capital Trust II

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

Other Activities

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

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

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

Risk Factors

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

3

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

Competition

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

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

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

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

Supervision and Regulation

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

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

The Company

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

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

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

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

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

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

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

4

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

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

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

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

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

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

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

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

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

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

5

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

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

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

Commerce Insurance/ Commerce Capital Markets

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

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

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

Gramm-Leach-Bliley Act

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

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

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

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

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

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

6

National Monetary Policy

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

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

Employees

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

Available Information

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

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

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

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

Item 2. Properties

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

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

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

Item 3. Legal Proceedings

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

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

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

7

Part II

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

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

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

Dividend Policy

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

Item 6. Selected Financial Data

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

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8

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

performing loans

640.18

397.73

356.84

9

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

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

Application of Critical Accounting Policies

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

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

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

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

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

2002 Overview

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

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

Segment Reporting

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

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

Average Balances and Net Interest Income

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

10

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

Net Interest Income and Net Interest Margin

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

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

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

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

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

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

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

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

11

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

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

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

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

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

--Investment securities include investments available for sale.

--Consumer loans include loans held for sale.

12

Noninterest Income

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

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

Noninterest Expenses

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

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

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

Net Income

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

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

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

Return on Average Equity and Average Assets

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

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

Loan Portfolio

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

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

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

13

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

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

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

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

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

Non-Performing Loans and Assets

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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

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

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

| | Year Ended December 31, | | | | |
|--|-------------------------|------|------|------|------|
| | 2002 | 2001 | 2000 | 1999 | 1998 |

(dollars in thousands)
Balance at beginning

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

15

Allocation of the Allowance for Loan Losses

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

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Allowance for Loan Losses at December 31,

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

Investment Securities

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

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

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

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

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

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

16

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

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

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

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

Deposits

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

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

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

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

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

17

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

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

Interest Rate Sensitivity and Liquidity

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

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

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

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

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

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

18

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

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

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

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

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

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

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

Other Borrowed Money

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

Long-Term Debt

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

Securities qualify as Tier 1 capital for regulatory capital purposes. As of December 31, 2002, the Convertible Trust Capital Securities were not convertible. The net proceeds of this offering were used for general corporate purposes, including the redemption of the Company's \$57.5 million of 8.75% Trust Capital Securities on July 1, 2002 and the repayment of the Company's \$23.0 million of 8 3/8% subordinated notes on May 20, 2002.

Stockholders' Equity and Dividends

At December 31, 2002, stockholders' equity totaled \$918.0 million, up \$281.4 million or 44% over stockholders' equity of \$636.6 million at December 31, 2001. This increase was due to the Company's net income for the year, shares issued under dividend reinvestment and compensation and benefit plans, and unrealized appreciation on securities available for sale. Stockholders' equity as a percent of total assets was 5.60% at December 31, 2002 and 2001, respectively.

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 of at least 4% and total capital, including Tier 1 capital, of at least 8% of risk-adjusted assets. Tier 1 capital includes stockholders' equity (adjusted for goodwill, other intangibles, and the unrealized appreciation/depreciation in securities available for sale) plus the Convertible Trust Capital Securities. Total capital is comprised of all of the components of Tier 1 capital plus qualifying subordinated debt instruments and the reserve for possible loan losses.

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. 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 | |
|----------------------------|--------------|--------|---------------------------------------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| Risk based capital ratios: | | | | |
| Tier 1 | 11.47% | 10.81% | 4.00% | 4.00% |
| Total capital | 12.51 | 11.96 | 8.00 | 8.00 |
| Leverage ratio | 6.37 | 6.24 | 4.00 | 4.00 |

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which became law in December of 1991, required 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

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undercapitalized." At December 31, 2002, 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 under the symbol CBH. The quarterly market price ranges and dividends paid per common share for each of the last two years are shown in the table below. Prices and dividends per share have been adjusted to reflect the 2 for 1 stock split with a record date of December 3, 2001. As of March 3, 2003, there were approximately 52,000 holders of record of the Company's common stock.

| Common Share Data | | | |
|--------------------|---------------|---------|----------------|
| | Market Prices | | Cash Dividends |
| | High | Low | Per Share |
| 2002 Quarter Ended | | | |
| December 31 | \$47.23 | \$36.42 | \$0.15000 |
| September 30 | 47.85 | 38.88 | 0.15000 |
| June 30 | 50.24 | 43.70 | 0.15000 |
| March 31 | 45.05 | 38.20 | 0.15000 |
| 2001 Quarter Ended | | | |
| December 31 | \$39.34 | \$34.05 | \$0.13750 |
| September 30 | 38.79 | 30.55 | 0.13750 |
| June 30 | 36.35 | 29.40 | 0.13750 |
| March 31 | 33.28 | 26.90 | 0.13750 |

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.

Related Parties

The Company engaged in certain activities with entities that would be considered related parties. Management believes disbursements made to related parties were substantially equivalent to those that would have been paid to unaffiliated companies for similar goods and services. See notes 4 and 7 to the Company's consolidated financial statements included elsewhere herein.

20

Results of Operations - 2001 versus 2000

Net income for 2001 was \$103.0 million compared to \$80.0 million in 2000. Diluted net income per common share was \$1.51 compared to \$1.25 per common share for the prior year.

Net interest income on a tax-equivalent basis for 2001 amounted to \$412.7 million, an increase of \$106.5 million, or 35% over 2000.

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Interest income on a tax-equivalent basis increased \$101.2 million or 20% to \$615.7 million in 2001. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2001 fell \$5.3 million to \$203.0 million from \$208.4 million in 2000. This decrease was primarily related to decreases in the rates paid on the Company's deposits and other borrowed money.

The provision for loan losses was \$26.4 million in 2001 compared to \$13.9 million in the prior year.

For 2001, noninterest income totaled \$196.8 million, an increase of \$46.0 million or 31% from 2000. The growth in noninterest income was primarily reflected in increased deposit and service fees and other operating income, including the Company's insurance and capital markets divisions. Commerce Insurance recorded an increase of \$4.2 million in revenues to \$49.8 million from \$45.6 million in 2000. Commerce Capital Markets generated noninterest revenues of \$22.0 million in 2001, an increase of \$6.7 million from revenues of \$15.3 million in 2000. Fees related to bank cards increased \$6.9 million in 2001. In addition, deposit charges and service fees increased \$26.2 million over 2000 due primarily to higher transaction volumes. These increases were partially offset by a decrease in investment security gains of \$2.2 million from 2000.

Noninterest expenses totaled \$420.0 million for 2001, an increase of \$104.7 million, or 33% over 2000. Contributing to this increase was the addition of 34 new branches. With the addition of these new offices, staff, facilities, marketing, and related expenses rose accordingly. Other noninterest expenses rose \$27.5 million to \$86.9 million in 2001. This increase included increased bank-card related service charges of \$3.3 million, increased business development expenses of \$4.3 million, and increased provisions for non-credit-related losses of \$4.0 million.

Mergers and Acquisitions

During 2002, the Company purchased Sanford and Purvis, Inc., an insurance brokerage agency. The Company issued approximately 113,000 shares of common stock in connection with this immaterial acquisition.

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.

21

Item 8. Financial Statements and Supplementary Financial Data

Consolidated Balance Sheets

Commerce Bancorp, Inc. and Subsidiaries Selected Financial Data
Consolidated Statements of Cash Flows

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| | | 2 | |
|------------------------|--|----------------------|----|
| (dollars in thousands) | | | |
| Assets | Cash and due from banks | \$ | |
| | Federal funds sold | | |
| | Cash and cash equivalents | | |
| | Loans held for sale | | |
| | Trading securities | | |
| | Securities available for sale | 7 | |
| | Securities held to maturity (market value 2002 -\$791,889; 2001- \$1,146,345) | | |
| | Loans | 5 | |
| | Less allowance for loan losses | | |
| | | 5 | |
| | Bank premises and equipment, net | | |
| | Other assets | | |
| | Total assets | \$16 | |
| Liabilities | Deposits: | | |
| | Demand: | | |
| | Interest-bearing | \$5 | |
| | Noninterest-bearing | 3 | |
| | Savings | 2 | |
| | Time | 2 | |
| | | 14 | |
| | | Total deposits | 14 |
| | | Other borrowed money | |
| | | Other liabilities | |
| | Trust Capital Securities - Commerce Capital Trust I | | |
| | Convertible Trust Capital Securities - Commerce Capital Trust II | | |
| | Long-term debt | | |
| | | 15 | |
| Stockholders' Equity | Common stock, 68,043,171 shares issued (65,832,559 shares in 2001) | | |
| | Capital in excess of par or stated value | | |
| | Retained earnings | | |
| | Accumulated other comprehensive income | | |
| | | 15 | |
| | Less treasury stock, at cost, 209,794 shares (200,118 shares in 2001) | | |
| | Total stockholders' equity | 15 | |
| | Total liabilities and stockholders' equity | \$16 | |
| | See accompanying notes. | | |

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Consolidated Statements of Income

| | | Year |
|-------------|---|--|
| | | 2002 |
| | | (dollars in thousands, except per share amounts) |
| Interest | Interest and fees on loans | \$354,315 |
| Income | Interest on investment securities | 400,191 |
| | Other interest | 865 |
| | Total interest income | 755,371 |
| Interest | Interest on deposits: | |
| Expense | Demand | 55,413 |
| | Savings | 30,232 |
| | Time | 81,567 |
| | Total interest on deposits | 167,212 |
| | Interest on other borrowed money | 1,839 |
| | Interest on long-term debt | 13,565 |
| | Total interest expense | 182,616 |
| | Net interest income | 572,755 |
| | Provision for loan losses | 33,150 |
| | Net interest income after provision for loan losses | 539,605 |
| Noninterest | Deposit charges and service fees | 130,993 |
| Income | Other operating income | 126,473 |
| | Net investment securities gains | 0 |
| | Total noninterest income | 257,466 |
| Noninterest | Salaries and benefits | 276,933 |
| Expense | Occupancy | 56,498 |
| | Furniture and equipment | 66,700 |
| | Office | 31,186 |
| | Marketing | 23,733 |
| | Other | 124,118 |
| | Total noninterest expenses | 579,168 |
| | Income before income taxes | 217,903 |
| | Provision for federal and state income taxes | 73,088 |
| | Net income | \$144,815 |

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| | |
|--|---------|
| Net income per common and common equivalent share: | |
| Basic | \$ 2.16 |
| ----- | |
| Diluted | \$ 2.04 |
| ----- | |
| Average common and common equivalent shares outstanding: | |
| Basic | 66,795 |
| ----- | |
| Diluted | 70,903 |
| ----- | |
| Cash dividends, common stock | \$ 0.60 |
| ----- | |
| See accompanying notes. | |

23

Consolidated Statements of Cash Flows

| | | Year E |
|------------|---|------------------------|
| | | 2002 |
| | | (dollars in thousands) |
| | | 2002 |
| Operating | Net income | \$144,815 |
| Activities | Adjustments to reconcile net income to net cash provided by operating activities: | |
| | Provision for loan losses | 33,150 |
| | Provision for depreciation, amortization and accretion | 70,462 |
| | Gains on sales of securities available for sale | |
| | Proceeds from sales of loans held for sale | 1,375,768 |
| | Originations of loans held for sale | (1,399,427) |
| | Net loan (chargeoffs) | (9,398) |
| | Net (increase) decrease in trading securities | (43,668) |
| | Increase in other assets | (132,972) |
| | Increase in other liabilities | 150,194 |
| | Deferred income tax expense (benefit) | 6,359 |
| | Net cash provided by operating activities | 195,283 |
| Investing | Proceeds from the sales of securities available for sale | 1,506,996 |
| Activities | Proceeds from the maturity of securities available for sale | 2,413,025 |
| | Proceeds from the maturity of securities held to maturity | 486,292 |
| | Purchase of securities available for sale | (7,437,004) |
| | Purchase of securities held to maturity | (118,221) |
| | Net increase in loans | (1,289,825) |
| | Proceeds from sales of loans | 50,649 |
| | Purchases of premises and equipment | (194,559) |
| | Net cash used by investing activities | (4,582,647) |
| Financing | Net increase in demand and savings deposits | 3,801,855 |
| Activities | Net increase in time deposits | 561,393 |

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| | |
|---|-----------|
| Net increase (decrease) in other borrowed money | 127,087 |
| Dividends paid | (39,911) |
| Issuance of Convertible Trust Capital Securities | 200,000 |
| Redemption of Trust Capital Securities | (57,500) |
| Decrease in long-term debt | (23,000) |
| Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 66,809 |
| Other | 4,327 |
| ----- | |
| Net cash provided by financing activities | 4,641,060 |
| | |
| Increase in cash and cash equivalents | 253,696 |
| Cash and cash equivalents at beginning of year | 557,738 |
| ----- | |
| Cash and cash equivalents at end of year | \$811,434 |
| ----- | |
| Supplemental disclosures of cash flow information: Cash paid during the year for: | |
| Interest | \$185,143 |
| Income taxes | 59,644 |
| Other noncash activities: | |
| Securitization of loans | |
| ----- | |
| See accompanying notes. | |

24

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2002, 2001 and 2000

| (in thousands, except per share amounts) | Common Stock | Capital in Excess of Par or Stated Value | Retained Earnings | Treasury Stock | Acco Othe Comp Inco |
|--|-----------------|--|----------------------|-------------------|------------------------------|
| ----- | | | | | |
| Balances at December 31, 1999 | \$44,418 | \$321,443 | \$32,263 | \$ (1,624) | \$ (39, |
| Acquisition of insurance brokerage agencies (602 shares) | 470 | (450) | (5,519) | | |
| ----- | | | | | |
| As adjusted balance at January 1, 2000 | 44,888 | 320,993 | 26,744 | (1,624) | (39, |
| Net income | | | 80,047 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gain on securities (pre-tax (\$52,382)) | | | | | 33, |
| Reclassification adjustment (pre-tax (\$1,027)) | | | | | |
| Other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Common stock dividend and cash paid in lieu of fractional shares (2,834 shares) | 2,214 | 47,734 | (50,031) | | |

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| | | | | | |
|---|----------|-----------|-----------|------------|--------|
| Cash dividends paid | | | (29,678) | | |
| Shares issued under dividend reinvestment and compensation and benefit plans (3,230 shares) | 2,523 | 51,147 | | | |
| Other | 2 | 2,501 | 1 | 2 | |
| ----- | | | | | |
| Balances at December 31, 2000 | \$49,627 | \$422,375 | \$27,083 | \$ (1,622) | \$ (5, |
| Acquisition of insurance brokerage agencies (108 shares) | 108 | (885) | | | |
| ----- | | | | | |
| As adjusted balance at January 1, 2001 | 49,735 | 421,490 | 27,083 | (1,622) | (5, |
| Net income | | | 103,022 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gain on securities (pre-tax \$31,924) | | | | | 20, |
| Reclassification adjustment (pre-tax \$735) | | | | | |
| Other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Cash dividends paid | | | (35,400) | | |
| Shares issued under dividend reinvestment and compensation and benefit plans (2,202 shares) | 2,202 | 50,802 | | | |
| Restatement of par value | (17,865) | 17,865 | | | |
| Shares issued pursuant to stock split | 31,761 | (31,761) | | | |
| Other | | 3,501 | (7) | | |
| ----- | | | | | |
| Balances at December 31, 2001 | \$65,833 | \$461,897 | \$94,698 | \$ (1,622) | \$15, |
| Net income | | | 144,815 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gain on securities (pre-tax \$153,397) | | | | | 97, |
| Reclassification adjustment (pre-tax \$0) | | | | | |
| Other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Cash dividends paid | | | (39,911) | | |
| Shares issued under dividend reinvestment and compensation and benefit plans (2,098 shares) | 2,098 | 64,711 | | | |
| Acquisition of insurance brokerage agency (113 shares) | 113 | 4,633 | | | |
| Other | (1) | 7,554 | 2 | (424) | |
| ----- | | | | | |
| Balances at December 31, 2002 | \$68,043 | \$538,795 | \$199,604 | \$ (2,046) | \$113, |

See accompanying notes.

25

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Commerce Bancorp,

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

The Company is a multi-bank holding company headquartered in Cherry Hill, New Jersey, operating primarily in the metropolitan Philadelphia, New Jersey, Delaware and metropolitan New York markets. Through its subsidiaries, the Company provides retail and commercial banking services, corporate trust services, insurance brokerage services, and certain securities services, including trading, underwriting and advisory services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Investment Securities

CCMI maintains a portfolio of trading account securities which are carried at market. Gains and losses, both realized and unrealized, are included in other operating income. Trading gains of \$12.8 million, \$10.6 million, and \$8.4 million were recorded in 2002, 2001, and 2000, respectively, including unrealized gains of \$1.2 million and \$265,000 at December 31, 2002 and 2001, respectively.

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 might be sold in response to changes in market interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, or similar other 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. 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 certificate method and are included in noninterest 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 generally considered as adjustments of interest rate yields and are amortized into interest income on loans over the terms of the related loans.

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 Loan Losses

The allowance for loan losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Based upon management's evaluation of the loan portfolio, the allowance is maintained at a level considered adequate to absorb estimated inherent losses in the loan portfolio. The level of the allowance is based on an evaluation of the risk characteristics included in the loan portfolio, including such factors as changes in levels and trends of charge-offs, delinquencies, and nonaccrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions, and other relevant factors, all of which may be susceptible to significant change.

26

Notes to Consolidated Financial Statements

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation and amortization are determined on the straight-line method for financial reporting purposes, and accelerated methods for income tax purposes. When capitalizing costs for branch construction, the Company includes the costs of purchasing the land, developing the site, constructing the building (or leasehold improvements if the property is leased), and furniture, fixtures and equipment necessary to equip the branch. All other pre-opening and post-opening costs related to branches are expensed as incurred.

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 losses. Subsequent adjustments to the carrying values of ORE properties are charged to operating expense. Included in Other noninterest expense is \$231,000, \$1.7 million and \$1.0 million related to ORE expenses, net for 2002, 2001, and 2000, respectively.

Intangible Assets

On January 1, 2002, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 142, "Goodwill and Other Intangible Assets" (FAS 142), which addresses the accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion 17. Under the provisions of FAS 142, goodwill and certain other intangible assets, which do not possess finite useful lives, are no longer amortized into net income over an estimated life but rather are tested at least annually for impairment based on specific guidance provided in the new standard. Intangible assets determined to have finite lives, \$4.0 million at December 31, 2002, will continue to be amortized over their estimated useful lives, generally 10-15 years, and also continue to be subject to impairment testing. The adoption of FAS 142 did not have a material impact on the results of operations of the Company. The excess of cost

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over fair value of net assets acquired (goodwill) is included in other assets and amounted to \$4.5 million at December 31, 2002.

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.

Restriction on Cash and Due From Banks

The Banks are required to maintain reserve balances with the Federal Reserve Bank. The weighted average amount of the reserve balances for 2002 and 2001 were approximately \$39.6 million and \$12.2 million, respectively.

Derivative Financial Instruments

The Company may enter into derivative transactions principally to protect against the risk of adverse price or interest rate movements on the value of certain assets and liabilities and on future cash flows. The Company applies the provisions of Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), as amended, in accounting for its derivative transactions. Under the guidelines of FAS 133, all derivative instruments are required to be carried at fair value on the balance sheet. FAS 133 provides special hedge accounting provisions, which permit the change in the fair value of the hedged item related to the risk being hedged to be recognized in earnings in the same period and in the same income statement line as the change in fair value of the derivative.

As part of CCMI's broker-dealer activities, the Company 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.

27

Recent Accounting Statements

In October 2002, the FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions," (FAS 147) which amends FAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," FASB Interpretation No. 9, "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method," and FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS No. 147 removes acquisitions of financial institutions from the scope of both FAS No. 72 and FASB Interpretation No. 9 and requires that those transactions be accounted for in accordance with FAS No. 141, "Business Combinations" and FAS No. 142, "Goodwill and Other Intangible Assets." FAS No. 147 addresses the financial accounting and reporting requirements for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises, and provides guidance on accounting for the impairment and disposal of acquired long-term

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customer-relationship intangible assets, including those acquired in transactions between two or more mutual enterprises. FAS No. 147 was effective October 1, 2002 and did not have a material impact on the financial condition or operating results of the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." This interpretation provides guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. The new accounting provisions of this interpretation became effective upon issuance for all new variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies to the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. While the impact is currently being assessed, management does not expect the adoption of FIN 46 to have a material impact on the Company's results of operations and financial position.

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

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

| | 2002 | 2001 | 2000 |
|---------------------------------|-----------|----------|--------|
| Pro forma net income | \$136,386 | \$97,430 | \$73,4 |
| Pro forma net income per share: | | | |
| Basic | \$ 2.04 | \$ 1.51 | \$ 1. |
| Diluted | 1.94 | 1.44 | 1. |

The fair value of options granted in 2002, 2001, and 2000 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 4.41% to 6.54%, dividend yields of 2.50% to 3.00%, volatility factors of the expected market price of the Company's common stock of .304 to .332, and weighted average expected lives of the options of 4.75 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from

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those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

28

2. Mergers and Acquisitions

During 2002, the Company purchased Sanford and Purvis, Inc., an insurance brokerage agency. The Company issued approximately 113,000 shares of common stock in connection with this immaterial acquisition.

In 2001, the Company purchased Fitzsimmons Insurance and Financial Services, Inc., Business Training Systems, Inc. and Brettler Financial Group, Inc., insurance brokerage agencies, which were merged with and into Commerce Insurance. The Company issued approximately 108,000 shares of common stock in exchange for all of the outstanding shares of these agencies in connection with these immaterial acquisitions.

3. 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, 2002 and 2001 follows:

| | December 31, | | | | | |
|--|-------------------|------------------------------|-------------------------------|-----------------|-------------------|-----------|
| | 2002 | | | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value | Amortized Cost | Unre G |
| U.S. Government agency and mortgage-backed obligations | \$7,491,768 | \$172,699 | \$(4,730) | \$7,659,737 | \$3,974,752 | |
| Obligations of state and political subdivisions | 22,041 | 1,144 | | 23,185 | 83,727 | |
| Equity securities | 18,898 | 5,156 | | 24,054 | 11,666 | |
| Other | 96,291 | 3,512 | | 99,803 | 58,175 | |
| Securities available for sale | \$7,628,998 | \$182,511 | \$(4,730) | \$7,806,779 | \$4,128,320 | |
| U.S. Government agency and mortgage-backed obligations | \$624,688 | \$27,847 | | \$652,535 | \$1,044,266 | |
| Obligations of state and political subdivisions | 91,204 | 1,041 | \$ (25) | 92,220 | 50,602 | |
| Other | 47,134 | | | 47,134 | 37,304 | |

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| | | | | | |
|-----------------------------|-----------|----------|---------|-----------|-------------|
| Securities held to maturity | \$763,026 | \$28,888 | \$ (25) | \$791,889 | \$1,132,172 |
|-----------------------------|-----------|----------|---------|-----------|-------------|

The amortized cost and estimated market value of investment securities (in thousands) at December 31, 2002, by contractual maturity are shown below. Expected 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 |
| Due in one year or less | \$ 50,821 | \$ 50,951 | \$ 84,491 |
| Due after one year through five years | 54,399 | 55,464 | 224 |
| Due after five years through ten years | 49,372 | 52,581 | 4,798 |
| Due after ten years | 30,674 | 31,036 | 48,825 |
| Mortgage backed securities | 7,424,834 | 7,592,693 | 624,688 |
| Equity securities | 18,898 | 24,054 | |
| | \$7,628,998 | \$7,806,779 | \$763,026 |

Proceeds from sales of securities available for sale during 2002, 2001 and 2000 were \$1.51 billion, \$381.3 million and \$410.5 million, respectively. Gross gains of \$6.8 million, \$2.2 million and \$3.2 million were realized on the sales in 2002, 2001, and 2000, respectively, and gross losses of \$6.8 million, \$1.2 million and \$0 were realized in 2002, 2001 and 2000, respectively.

At December 31, 2002 and 2001, investment securities with a carrying value of \$2.1 billion and \$1.6 billion, respectively, were pledged to secure deposits of public funds.

29

4. Loans The following is a summary of loans outstanding (in thousands) at December 31, 2002 and 2001:

| | December 31, | |
|--------------------------|--------------|----------|
| | 2002 | 2001 |
| Commercial real estate: | | |
| Owner-occupied | \$1,345,306 | \$1,028, |
| Investor/developer | 885,276 | 799, |
| Residential construction | 102,080 | 47, |
| | 2,332,662 | 1,876, |

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| | | |
|------------------------------------|-------------|----------|
| Commercial loans: | | |
| Term | 842,869 | 600, |
| Line of credit | 683,640 | 556, |
| Demand | 317 | |
| | ----- | ----- |
| | 1,526,826 | 1,157, |
| Consumer: | | |
| Mortgages (1-4 family residential) | 626,652 | 471, |
| Installment | 140,493 | 161, |
| Home equity | 1,139,589 | 872, |
| Credit lines | 56,367 | 43, |
| | ----- | ----- |
| | 1,963,101 | 1,549, |
| | ----- | ----- |
| | \$5,822,589 | \$4,583, |
| | ----- | ----- |

Loans to executive officers and directors of the Company and its subsidiaries, and companies with which they are associated, are made in the ordinary course of business and on substantially the same terms as comparable unrelated transactions. Such loans approximated \$124.8 million and \$70.1 million at December 31, 2002 and 2001, respectively.

The Company purchased goods and services, including legal services, from related parties. Such disbursements aggregated \$5.9 million, \$4.5 million, and \$2.8 million, in 2002, 2001, and 2000, respectively. Management believes disbursements made to related parties were substantially equivalent to those that would have been paid to unaffiliated companies for similar goods and services.

5. Allowance for Loan Losses

The following is an analysis of changes in the allowance for loan losses (in thousands) for 2002, 2001 and 2000:

| | 2002 | 2001 | 2000 |
|--|----------|----------|----------|
| Balance, January 1 | \$66,981 | \$48,680 | \$33,150 |
| Provision charged to operating expense | 33,150 | 26,384 | 1,330 |
| Recoveries of loans previously charged off | 1,330 | 974 | (10,728) |
| Loan charge-offs | (10,728) | (9,057) | |
| Balance, December 31 | \$90,733 | \$66,981 | \$48,680 |

6. Non-accrual and Restructured Loans and Other Real Estate

The total of non-performing loans (non-accrual and restructured loans) was \$14.2 million and \$16.8 million at December 31, 2002 and 2001, respectively. Non-performing loans of \$3.8 million, \$0.9 million and \$1.3 million net of charge offs of \$0, \$17,000 and \$26,000 were transferred to other real estate during 2002, 2001 and 2000, respectively. Other real estate (\$3.6 million and \$1.5 million at December 31, 2002 and 2001, respectively) is included in other assets.

At December 31, 2002 and 2001, the recorded investment in loans considered to be impaired under FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" totaled \$9.0 million and \$12.2 million, respectively, all of which are included in non-performing loans. As permitted, all homogenous smaller balance consumer 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 \$10.6 million and \$10.7 million during 2002 and 2001, respectively. Interest income of approximately \$1.4 million, \$2.1 million, and \$1.7 million would have been recorded on non-performing loans (including impaired loans) in accordance with their original terms in 2002, 2001, and 2000, respectively. Actual interest income recorded on these loans amounted to \$275,000, \$237,000, and \$525,000 during 2002, 2001, and 2000, respectively.

7. Bank Premises, Equipment, and Leases

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

| | December 31, | |
|--|--------------|------------|
| | 2002 | 2001 |
| Land | \$123,880 | \$ 123,880 |
| Buildings | 247,508 | 247,508 |
| Leasehold improvements | 43,130 | 43,130 |
| Furniture, fixtures and equipment | 265,712 | 265,712 |
| Leased property under capital leases | 124 | 124 |
| | 680,354 | 680,354 |
| Less accumulated depreciation and amortization | 181,165 | 181,165 |
| | \$499,189 | \$499,189 |

At December 31, 2002, the Company leased from various related parties under separate operating lease agreements the land on which it has constructed 19 offices. Rents paid under these agreements represent market rates, are supported

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by independent appraisals and approved by the independent members of the Board of Directors. The aggregate annual rental under these leases was approximately \$1.6 million, \$1.8 million, and \$1.6 million in 2002, 2001, and 2000, respectively. These leases expire periodically beginning in 2004 but are renewable through 2040.

31

Total rent expense charged to operations under operating leases was approximately \$21.8 million in 2002, \$11.6 million in 2001, and \$10.4 million in 2000. Total depreciation expense charged to operations was \$52.7 million, \$41.2 million and \$32.1 million in 2002, 2001 and 2000, respectively.

The future minimum rental commitments, by year, under the non-cancelable leases, including escalation clauses, are as follows (in thousands) at December 31, 2002:

| | Operating |
|----------------------------|-----------|
| 2003 | \$ 18,337 |
| 2004 | 18,577 |
| 2005 | 19,120 |
| 2006 | 18,601 |
| 2007 | 22,701 |
| Later years | 196,547 |
| Net minimum lease payments | \$292,883 |

The Company has obtained architectural design and facilities management services for over twenty-five years from a business owned by the spouse of the Chairman of the Board of the Company. The Company spent \$4.6 million, \$2.3 million, and \$2.0 million in 2002, 2001, and 2000, respectively, for such services and related costs. Additionally, the business received additional revenues for project management of approximately \$3.5 million, \$1.9 million, and \$1.6 million in 2002, 2001, and 2000, respectively, on furniture and facility purchases made directly by the Company. Management believes these disbursements were substantially equivalent to those that would have been paid to unaffiliated companies for similar services. The Board of Directors believes this arrangement has been an important factor in the success of the Commerce brand. In 2003, the Board approved the transfer, without cost, into the Company of the project management services. The business will continue to provide architectural and design services to the Company.

8. Deposits

The aggregate amount of time certificates of deposits in denominations of \$100,000 or more was \$1.2 billion and \$1.1 billion at December 31, 2002 and 2001, respectively.

9. Other Borrowed Money

Other borrowed money consists primarily of securities sold under agreements to

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repurchase, federal funds purchased, and lines of credit. The following table represents information for other borrowed money:

| | December 31, | | 2001 | Av |
|--|--------------|--------------|-----------|----|
| | 2002 | Average Rate | | |
| | Amount | | Amount | |
| Securities sold under agreements to repurchase | \$391,641 | 1.56% | \$199,554 | |
| Federal funds purchased | | | 65,000 | |
| | \$391,641 | | \$264,554 | |
| Average amount outstanding | \$118,734 | 1.55% | \$ 94,257 | |
| Maximum month-end balance | 391,641 | | 264,554 | |

As of December 31, 2002, the Company had a line of credit of \$536.2 million from the Federal Home Loan Bank of New York, all of which was available and a line of credit of \$155.9 million from the Federal Home Loan Bank of Pittsburgh, all of which was available. In addition, CCMI had a line of credit of \$10.0 million from another bank, all of which was available.

32

10. Long-Term Debt

On July 15, 1993, the Company issued \$23.0 million of 8 3/8% subordinated notes due 2003. All of these notes were redeemed on May 20, 2002 at the stated liquidation amount (\$101 per note) plus accrued interest to May 20, 2002.

In 1997, the Company issued \$57.5 million of 8.75% Trust Capital Securities through Commerce Capital Trust I, a Delaware business trust subsidiary of the Company. All of these Trust Capital Securities were redeemed on July 1, 2002 at the stated liquidation amount (\$25 per capital security) plus accrued and unpaid distributions thereon to July 1, 2002.

On March 11, 2002 the Company issued \$200.0 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. The Convertible Trust Capital Securities mature in 2032. Holders of the Convertible Trust Capital Securities may convert each security into 0.9478 shares of Company common stock, subject to adjustment, if (1) the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter beginning with the quarter ending June 30, 2002 is more than 110% of the Convertible Trust Capital Securities conversion price (\$52.75 at December 31, 2002) then in effect on the last day of such calendar quarter, (2) the assigned credit rating by Moody's of the Convertible Trust Capital Securities is at or below Bal, (3) the Convertible Trust Capital Securities are called for redemption, or (4) specified corporate transactions

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have occurred. All \$200.0 million of the Convertible Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes. As of December 31, 2002, the Convertible Trust Capital Securities were not convertible. The net proceeds of this offering were used for general corporate purposes, including the redemption of the Company's \$57.5 million of 8.75% Trust Capital Securities on July 1, 2002 and the repayment of the Company's \$23.0 million of 8 3/8% subordinated notes on May 20, 2002.

11. Income Taxes

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

| | 2002 | 2001 | 2000 |
|-----------|----------|----------|----------|
| Current: | | | |
| Federal | \$62,660 | \$52,085 | \$40,563 |
| State | 4,069 | 658 | 604 |
| Deferred: | | | |
| Federal | 6,359 | (4,054) | (2,812) |
| | \$73,088 | \$48,689 | \$38,355 |

The above provision includes income taxes related to securities gains of \$0, \$400 thousand and \$1.1 million for 2002, 2001 and 2000, respectively.

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

| | 2002 | 2001 |
|---|-------|-------|
| Expected provision at statutory rate: | 35.0% | 35.0% |
| Difference resulting from: | | |
| Tax-exempt interest on loans | (1.7) | (2.0) |
| Tax-exempt interest on securities | (1.8) | (1.8) |
| State income taxes (net of federal benefit) | 1.2 | 0.3 |
| Purchase accounting adjustments | 0.0 | 0.1 |
| Other, including acquisition costs | 0.8 | 0.5 |
| | 33.5% | 32.1% |

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.

33

The significant components of the Company's deferred tax liabilities and assets as of December 31, 2002 and 2001 are as follows (in thousands):

| | 2002 | 2001 |
|--|-------------|-----------|
| Deferred tax assets: | | |
| Loan loss reserves | \$30,960 | \$22,837 |
| Intangibles | 2,837 | 3,702 |
| Other reserves | 2,702 | 2,274 |
| Other | 274 | 2,274 |
| Total deferred tax assets | 36,773 | 30,087 |
| Deferred tax liabilities: | | |
| Depreciation | (16,157) | (4,157) |
| Fair value adjustment, available for sale securities | (64,167) | (8,167) |
| Other | (2,875) | (1,875) |
| Total deferred tax liabilities | (83,199) | (15,209) |
| Net deferred (liabilities) assets | \$ (46,426) | \$ 14,878 |

No valuation allowance was recognized for the deferred tax assets at December 31, 2002 and 2001, respectively.

12. Commitments and Letters of Credit

In the normal course of business, there are various outstanding commitments to extend credit, such as letters of credit, which are not reflected in the accompanying consolidated 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. Collateral is obtained based on management's credit assessment of the borrower. At December 31, 2002, the Company had outstanding standby letters of credit in the amount of \$368.5 million.

In addition, the Company is committed as of December 31, 2002 to advance \$307.8 million on construction loans, \$606.3 million on home equity lines of credit and \$1.2 billion on lines of credit. All other commitments total approximately \$450.1 million. The Company anticipates no material losses as a result of these transactions.

13. Common Stock

At December 31, 2002, the Company's common stock had a par value of \$1.00. The Company had 150,000,000 shares authorized as of this date.

On December 17, 2002, the Board of Directors declared a cash dividend of \$0.165 for each share of common stock outstanding payable January 20, 2003 to shareholders of record on January 6, 2003. On November 21, 2001, the Board of Directors declared a 2 for 1 stock split payable on December 18, 2001 to shareholders of record on December 3, 2001. Additionally, the Board adjusted the par value per share to \$1.00 from \$1.5625.

34

14. Earnings Per Share

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

| (dollars in thousands) | Year Ended December 31, | | |
|---|-------------------------|-----------|----------|
| | 2002 | 2001 | 2000 |
| Basic: | | | |
| Net income applicable to common stock | \$144,815 | \$103,022 | \$80,000 |
| Average common shares outstanding | 66,795 | 64,666 | 64,666 |
| Net income per common share | \$2.16 | \$1.59 | \$1.24 |
| Diluted: | | | |
| Net income applicable to common stock on a diluted basis | \$144,815 | \$103,022 | \$80,000 |
| Average common shares outstanding | 66,795 | 64,666 | 64,666 |
| Additional shares considered in diluted computation assuming: | | | |
| Exercise of stock options | 4,108 | 3,436 | 3,436 |
| Average common and common equivalent shares outstanding | 70,903 | 68,102 | 68,102 |
| Net income per common and common equivalent share | \$2.04 | \$1.51 | \$1.18 |

15. Benefit Plans

Employee Stock Option Plan

The Company has the 1997 Employee Stock Option Plan (the Plan) for the officers and employees of the Company and its subsidiaries as well as a plan for its non-employee directors. The Plan authorizes the issuance of up to 17,234,000 shares of common stock (as adjusted for stock dividends) upon the exercise of options. As of December 31, 2002, options to purchase 11,844,480 shares of common stock have been issued under the Plan. The option price for options issued under the Plan must be at least equal to 100% of the fair market value of the Company's common stock as of the date the option is granted. These options

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generally become exercisable to the extent of 25% annually beginning one year from the date of grant, although the amount exercisable beginning one year from the date of grant may be greater depending on the employees' length of service. All options granted after December 31, 2002 will vest over four years, regardless of the years of service. The options expire not later than 10 years from the date of grant. In addition, there are options outstanding from prior stock option plans of the Company, which were granted under similar terms. No additional options may be issued under these prior plans.

35

Information concerning option activity for the periods indicated is as follows:

| | Shares Under Option | Weighted Ave Exercise Pr |
|------------------------------|------------------------|-----------------------------|
| Balance at January 1, 2000 | 10,391,936 | 15.39 |
| Options granted | 98,000 | 18.25 |
| Options exercised | 1,521,224 | 11.94 |
| Options canceled | 314,662 | 20.21 |
| Balance at December 31, 2000 | 8,654,050 | 15.86 |
| Options granted | 2,695,050 | 30.68 |
| Options exercised | 1,092,393 | 14.70 |
| Options canceled | 74,017 | 26.30 |
| Balance at December 31, 2001 | 10,182,690 | 19.83 |
| Options granted | 2,088,744 | 40.40 |
| Options exercised | 974,145 | 18.59 |
| Options canceled | 248,736 | 29.69 |
| Balance at December 31, 2002 | 11,048,553 | 23.71 |

Information concerning options outstanding as of December 31, 2002 is as follows:

| Range of Exercise prices | Options Outstanding | | | Options Exercisa | |
|-----------------------------|-----------------------|---|--|------------------------------------|----------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted- Average Exercise Price | Exercisable as of 12/31/2002 | Wei Ave Exerci |
| \$2.37 to \$10.00 | 1,835,405 | 2.7 | \$ 7.22 | 1,835,405 | \$ |
| \$10.01 to \$20.00 | 2,730,702 | 6.1 | 17.95 | 2,526,510 | |
| \$20.01 to \$49.37 | 6,482,446 | 7.5 | 30.80 | 3,745,532 | |

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Employee Stock Ownership Plan

The Company maintains an Employee Stock Ownership Plan (ESOP) for the benefit of its officers and employees who meet age and service requirements. As of December 31, 2002, the ESOP held 1,630,000 shares of the Company's common stock, all of which were allocated to participant accounts. Employer contributions are determined at the discretion of the Board of Directors. No contribution expense was recorded in 2002. The total expense associated with the ESOP for both 2001 and 2000 was \$100,000. Effective January 1, 2002, the ESOP was merged with and into the Commerce Bancorp, Inc. 401 (k) Retirement Plan to allow for greater administrative efficiencies.

Employee 401(k) Plan

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code. The plan allows all eligible employees to defer a percentage of their income on a pretax basis through contributions to the plan. Under the provisions of the plan, the Company may match a percentage of the employees' contributions subject to a maximum limit. The charge to operations for Company contributions was \$2.8 million and \$2.2 million for 2002 and 2001, respectively. No employer matching contributions were made for 2000.

Post-employment or Post-retirement Benefits

The Company offers no post-employment or post-retirement benefits.

36

16. Fair Value of Financial Instruments

FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments" (FAS 107), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. FAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following table represents the carrying amounts and fair values of the Company's financial instruments at December 31, 2002 and 2001:

| | | December 31, | |
|----------|------|--------------|------|
| | | 2002 | 2001 |
| Carrying | Fair | Carrying | F |

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| | Amount | Value | Amount | Value |
|--------------------------------|------------|------------|------------|------------|
| ----- | | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 811,434 | \$ 811,434 | \$ 557,738 | \$ 557,738 |
| Loans held for sale | 96,920 | 96,920 | 73,261 | 73,261 |
| Trading securities | 326,479 | 326,479 | 282,811 | 282,811 |
| Investment securities | 8,569,805 | 8,598,668 | 5,284,876 | 5,284,876 |
| Loans (net) | 5,731,856 | 5,768,650 | 4,516,431 | 4,516,431 |
| Financial liabilities: | | | | |
| Deposits | 14,548,841 | 14,576,800 | 10,185,594 | 10,185,594 |
| Other borrowed money | 391,641 | 391,641 | 264,554 | 264,554 |
| Long-term debt | 200,000 | 222,000 | 80,500 | 80,500 |
| ----- | | | | |
| Off-balance sheet instruments: | | | | |
| Standby letters of credit | | \$ 3,685 | | \$ 3,685 |
| Commitments to extend credit | | 1,324 | | 1,324 |

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, loans held for sale and trading securities: The carrying amounts reported approximate those assets' fair value.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans receivable were estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loans with significant collectibility concerns were fair valued on a loan-by-loan basis utilizing a discounted cash flow method. The carrying amount of accrued interest approximates its fair value.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest-bearing and noninterest-bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits.

37

Other borrowed money: The carrying amounts reported approximate fair value.

Long-term debt: Current quoted market prices were used to estimate fair value.

Off-balance sheet liabilities: Off-balance sheet liabilities of the Company consist of letters of credit, loan commitments and unfunded lines of credit. Fair values for the Company's off-balance sheet liabilities are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

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17. Quarterly Financial Data (unaudited)

The following represents summarized unaudited quarterly financial data of the Company which, in the opinion of management, reflects adjustments (comprising only normal recurring accruals) necessary for fair presentation (in thousands, except per share amounts):

| | Three Months Ended | | | |
|--|--------------------|--------------|-----------|-----------|
| | December 31 | September 30 | June 30 | March |
| 2002 | | | | |
| Interest income | \$202,024 | \$196,775 | \$188,368 | \$168,368 |
| Interest expense | 42,528 | 46,221 | 49,742 | 44,742 |
| Net interest income | 159,496 | 150,554 | 138,626 | 124,626 |
| Provision for loan losses | 8,000 | 8,000 | 10,250 | 6,000 |
| Provision for federal and state income taxes | 20,258 | 19,669 | 17,763 | 15,763 |
| Net income | 40,574 | 37,689 | 34,802 | 31,802 |
| Net income per common share: | | | | |
| Basic | \$ 0.60 | \$ 0.56 | \$ 0.52 | \$ 0.49 |
| Diluted | 0.57 | 0.53 | 0.49 | 0.46 |
| 2001 | | | | |
| Interest income | \$161,198 | \$152,981 | \$147,109 | \$143,109 |
| Interest expense | 43,728 | 50,268 | 51,706 | 57,706 |
| Net interest income | 117,470 | 102,713 | 95,403 | 85,403 |
| Provision for loan losses | 7,458 | 6,335 | 7,982 | 4,982 |
| Net investment securities gains | | | | |
| Provision for federal and state income taxes | 13,175 | 12,278 | 11,752 | 11,752 |
| Net income | 28,230 | 26,281 | 25,110 | 23,110 |
| Net income per common share: | | | | |
| Basic | \$ 0.43 | \$ 0.40 | \$ 0.39 | \$ 0.37 |
| Diluted | 0.41 | 0.38 | 0.37 | 0.35 |

38

18. Condensed Financial Statements of the Parent Company and Other Matters

Balance Sheets

| | December 31, | |
|------------------------|--------------|------|
| (dollars in thousands) | 2002 | 2001 |

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| | | |
|--|----|-----------|
| Assets | | |
| Cash | \$ | 3,034 |
| Securities available for sale | | 24,059 |
| Investment in subsidiaries | | 1,094,635 |
| Other assets | | 9,452 |
| | \$ | 1,131,180 |
| Liabilities | | |
| Other liabilities | \$ | 13,170 |
| Trust Capital Securities | | |
| Convertible Trust Capital Securities | | 200,000 |
| Long-term debt | | |
| | | 213,170 |
| Stockholders' equity | | |
| Common stock | | 68,043 |
| Capital in excess of par or stated value | | 538,795 |
| Retained earnings | | 199,604 |
| Accumulated other comprehensive income | | 113,614 |
| | | 920,056 |
| Less treasury stock | | 2,046 |
| Total stockholders' equity | | 918,010 |
| | \$ | 1,131,180 |

Statements of Income

| (dollars in thousands) | Year Ended December 31, | |
|--|-------------------------|-----------|
| | 2002 | 2001 |
| Income: | | |
| Dividends from subsidiaries | \$ 9,600 | \$ 22,400 |
| Interest income | 552 | 454 |
| Other | 2,826 | 7,022 |
| | 12,978 | 29,876 |
| Expenses: | | |
| Interest expense | 15,554 | 7,258 |
| Operating expenses | 4,460 | 3,214 |
| | 20,014 | 10,472 |
| (Loss) income before income taxes and equity in undistributed income of subsidiaries | (7,036) | 19,404 |
| Income tax (benefit) expense | (5,757) | 1,004 |
| | (1,279) | 20,408 |
| Equity in undistributed income of subsidiaries | 146,094 | 82,614 |
| Net income | \$144,815 | \$103,022 |

Statements of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|-----------|
| (dollars in thousands) | 2002 | 2001 |
| Operating activities: | | |
| Net income | \$144,815 | \$103,022 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Undistributed income of subsidiaries | (146,094) | (82,614) |
| Gains on sales of securities available for sale | | 470 |
| Decrease (increase) in other assets | 2,082 | 4,484 |
| (Decrease) increase in other liabilities | (11,509) | 17,874 |
| Net cash (used) provided by operating activities | (10,706) | 43,236 |
| Investing activities: | | |
| Investments in subsidiaries | (145,520) | (62,667) |
| Proceeds from sale of securities available for sale | 3,018 | 1,828 |
| Proceeds from the maturity of securities available for sale | 95,972 | 66,422 |
| Purchase of securities available for sale | (91,414) | (66,864) |
| Other | 19 | 352 |
| Net cash used by investing activities | (137,925) | (60,929) |
| Financing activities: | | |
| Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 66,809 | 53,005 |
| Cash dividends | (39,911) | (35,400) |
| Issuance of Convertible Trust Capital Securities | 206,186 | |
| Redemption of Trust Capital Securities | (59,000) | |
| Decrease in long-term debt | (23,000) | |
| Other | (421) | |
| Net cash provided by financing activities | 150,663 | 17,605 |
| Increase (decrease) in cash and cash equivalents | 2,032 | (88) |
| Cash and cash equivalents at beginning of year | 1,002 | 1,090 |
| Cash and cash equivalents at end of year | \$ 3,034 | \$ 1,002 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 13,551 | \$ 7,089 |
| Income taxes | 56,586 | 48,616 |

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Holders of common stock of the Company are entitled to receive dividends when declared by the Board of Directors out of funds legally available. Under the New Jersey Business Corporation Act, the Company may pay dividends only if it is solvent and would not be rendered insolvent by the dividend payment and only to the extent of surplus (the excess of the net assets of the Company over its stated capital).

The approval of the Comptroller of the Currency is required for a national bank to pay dividends if the total of all dividends declared in any calendar year exceeds net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. New Jersey state banks are subject to similar dividend restrictions. Commerce NJ, Commerce PA, Commerce Shore and Commerce North can declare dividends in 2003 without additional approval of approximately \$96.0 million, \$52.6 million, \$42.9 million and \$45.7 million, respectively, plus an additional amount equal to each bank's net profit for 2003 up to the date of any such dividend declaration.

The Federal Reserve Act requires the extension of credit by any of the Company's banking subsidiaries to certain affiliates, including Commerce Bancorp, Inc. (parent), be secured by readily marketable securities, that extension of credit to any one affiliate be limited to 10% of the capital and capital in excess of par or stated value, as defined, and that extensions of credit to all such affiliates be limited to 20% of capital and capital in excess of par or stated value. At December 31, 2002 and 2001, the Company complied with these guidelines.

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. As of December 31, 2002 and 2001, the Company and each of its subsidiary banks were categorized as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2002 that management believes have changed any subsidiary bank's capital category.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-based assets (as defined) and of Tier I capital to average assets (as defined), or leverage. Management believes, as of December 31, 2002, that the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

41

The following table presents the Company's and Commerce NJ's risk-based and

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leverage capital ratios at December 31, 2002 and 2001:

| | Per Regulatory Guidelines | | | | |
|--|---------------------------|--------|-----------|-------|--------------|
| | Actual | | Minimum | | "Well Capita |
| | Amount | Ratio | Amount | Ratio | Amount |
| December 31, 2002 | | | | | |
| Company | | | | | |
| Risk based capital ratios: | | | | | |
| Tier I | \$995,826 | 11.47% | \$347,373 | 4.00% | \$521,059 |
| Total capital | 1,086,559 | 12.51 | 697,746 | 8.00 | 868,432 |
| Leverage ratio | 995,826 | 6.37 | 625,219 | 4.00 | 781,524 |
| Commerce NJ Risk based capital ratios: | | | | | |
| Tier 1 | \$526,612 | 9.77 | \$215,519 | 4.00% | \$323,279 |
| Total capital | 586,328 | 10.88 | 431,039 | 8.00 | 538,799 |
| Leverage ratio | 526,612 | 5.75 | 366,657 | 4.00 | 458,321 |
| December 31, 2001 | | | | | |
| Company | | | | | |
| Risk based capital ratios: | | | | | |
| Tier I | \$675,015 | 10.81% | \$249,780 | 4.00% | \$374,670 |
| Total capital | 746,596 | 11.96 | 499,561 | 8.00 | 624,451 |
| Leverage ratio | 675,015 | 6.24 | 432,502 | 4.00 | 540,628 |
| Commerce NJ Risk based capital ratios: | | | | | |
| Tier 1 | \$375,144 | 9.61% | \$156,111 | 4.00% | \$234,167 |
| Total capital | 419,926 | 10.76 | 312,222 | 8.00 | 390,278 |
| Leverage ratio | 375,144 | 6.01 | 249,852 | 4.00 | 312,315 |

42

19. Segment Reporting

The Company operates one reportable segment of business, Community Banks, which includes Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware. Through its Community Banks, the Company provides a broad range of retail and commercial banking services, and corporate trust services. Parent/Other includes the holding company, Commerce Insurance (whose revenues of \$55.9 million, \$49.8 million, and \$45.6 million in 2002, 2001, and 2000, respectively, were reported in other operating income), CCMI (whose noninterest revenues of \$35.1 million, \$22.8 million, and \$15.3 million in 2002, 2001, and 2000, respectively, were reported in other operating income), Commerce Capital Trust I and Commerce Capital Trust II.

Selected segment information for each of the three years ended December 31 is as follows (in thousands):

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| | 2002 | | | 2001 | | | 2000 | |
|-------------------------------------|-----------------|---------------|-----------|-----------------|---------------|------------|-----------------|---------------|
| | Community Banks | Parent/ Other | Total | Community Banks | Parent/ Other | Total | Community Banks | Parent/ Other |
| Net interest income | \$579,687 | \$(6,932) | \$572,755 | \$ 402,040 | \$(714) | \$ 401,326 | \$298,985 | \$(2,055) |
| Provision for loan losses | 33,150 | - | 33,150 | 26,384 | | 26,384 | 13,931 | |
| Net interest income after provision | 546,537 | (6,932) | 539,605 | 375,656 | (714) | 374,942 | 285,054 | (2,055) |
| Noninterest income | 166,384 | 91,082 | 257,466 | 125,418 | 71,387 | 196,805 | 90,464 | 60,296 |
| Noninterest expense | 500,522 | 78,646 | 579,168 | 358,870 | 61,166 | 420,036 | 263,001 | 52,356 |
| Income before income taxes | 212,399 | 5,504 | 217,903 | 142,204 | 9,507 | 151,711 | 112,517 | 5,885 |
| Income tax expense | 72,839 | 249 | 73,088 | 46,630 | 2,059 | 48,689 | 35,255 | 3,100 |
| Net income | \$139,560 | \$5,255 | \$144,815 | \$ 95,574 | \$ 7,448 | \$ 103,022 | \$77,262 | \$2,785 |
| Average assets (in millions) | \$12,192 | \$1,560 | \$13,752 | \$8,548 | \$ 999 | \$9,547 | \$ 6,626 | \$723 |

The financial information for each segment is reported on the basis used internally by the Company's management to evaluate performance. Measurement of the performance of each segment is based on the management structure of the Company and is not necessarily comparable with financial information from other entities. The information presented is not necessarily indicative of the segment's results of operations if each of the Community Banks were independent entities.

20. Derivative Financial Instruments

As part of CCMI's broker-dealer activities, the Company maintains a trading securities portfolio for distribution to its customers in order to meet those customers' needs. In order to reduce the exposure to market risk relating to the inventory, the Company buys and sells a variety of derivative financial instruments including futures and option contracts. Market risk includes changes in interest rates or value fluctuations in the underlying financial instruments. The Company uses notional (contract) amounts to measure derivative activity. Notional amounts are not included on the balance sheet, as those amounts are not actually paid or received at settlement. The following table reflects the open commitments for futures and options and the associated unrealized gains (losses) for the years ended December 31, 2002 and 2001, respectively:

| Notional Unrealized Amount | Gain (Loss) |
|----------------------------|-------------|
|----------------------------|-------------|

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| | Long (Short) | | Net | |
|----------------------------|--------------|--------------|------------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| Municipal bond futures | \$ 36,500 | \$ (62,600) | \$ 278 | \$ 241 |
| Treasury bond futures | (60,000) | 1,000 | (2,537) | (36) |
| Treasury bond put options | 45,000 | 6,500 | (23) | (43) |
| Treasury bond call options | (105,000) | (76,000) | (1,342) | (46) |
| Total | \$ (83,500) | \$ (131,100) | \$ (3,624) | \$116 |

The average notional amount for futures and options contracts for the years ended December 31, 2002 and 2001 was \$106.7 million and \$151.2 million, respectively. Realized and unrealized gains and losses related to derivative financial instruments are included in other operating income in the statement of income.

43

The Board of Directors and Stockholders
Commerce Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Commerce Bancorp, Inc. and Subsidiaries as of December 31, 2002 and 2001 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, 2002. 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 auditing standards generally accepted in the 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, based on our audits, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Bancorp, Inc. and Subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Philadelphia, Pennsylvania
February 7, 2003

44

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Part III

Item 10. Directors and Executive Officers of Registrant.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2003 Annual Meeting of Shareholders, which will be filed with the SEC.

Item 11. Executive Compensation.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2003 Annual Meeting of Shareholders, which will be filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2003 Annual Meeting of Shareholders, which will be filed with the SEC.

The following table details information regarding the company's existing equity compensation plans as of December 31, 2002:

| | (a) | (b) |
|--|--|--|
| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights |
| | ----- | ----- |
| Equity compensation plans approved by security holders | 11,048,553 | \$23.71 |
| | ----- | ----- |
| Total | 11,048,553 | \$23.71 |
| | ===== | ===== |

Item 13. Certain Relationships and Related Transactions.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2003 Annual Meeting of Shareholders, which will be filed with the SEC.

Item 14. Controls and Procedures

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

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Chief Financial Officer ("CFO").

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

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

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

45

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) The following financial statements of Commerce Bancorp, Inc. and Subsidiaries are filed as part of this Form 10-K in Item 8:

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

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Report of Independent Auditors

(a) (2) Schedules

All schedules have been omitted since the required information is included in the financial statements or the notes thereto, or is not applicable.

(a) (3) - Exhibits:

- 3.1 Restated Certificate of Incorporation of the Company, as amended.
- 3.2 By-laws of the Company, as amended.
- 4.1 Certificate of Trust of Commerce Capital Trust II, a Delaware statutory trust, filed March 4, 2002. (Q)
- 4.2 Declaration of Trust of Commerce Capital Trust II, dated as of March 4, 2002, among Commerce Bancorp, Inc., as Depositor, The Bank of New York, as Property Trustee as Delaware Trustee and the Administrative Trustees named therein. (Q)
- 4.3 Amended and Restated Declaration of Trust of Commerce Capital Trust II Commerce Bancorp, Inc., as Sponsor, The Bank of New York, as Property (Delaware), as Delaware Trustee, the Administrative Trustees, and the undivided beneficial interests in the assets of the Trust, including f Preferred Security. (Q)
- 4.4 Indenture, dated as of March 11, 2002, between Commerce Bancorp, Inc. Debenture Trustee, including form of 5.95% Junior Subordinated Convert (Q)
- 4.5 Registration Rights Agreement, dated March 11, 2002, among Commerce Ba Trust II, as issuers, and Merrill Lynch & Co., Merrill Lynch, Pierce, behalf of itself and as representative of the other initial purchasers
- 4.6 Guarantee Agreement, dated as of March 11, 2002, between Commerce Banc as Guarantee Trustee. (Q)
- 10.1 Ground lease, dated July 1, 1984, between Commerce NJ and Group Four E relating to the branch office in Gloucester Township, New Jersey. (A)
- 10.2 Ground lease, dated April 15, 1986, between Commerce NJ and Mount Holl Equities, relating to Commerce NJ's branch office in Mt. Holly, New Je
- *10.3 The Company's 1984 Incentive Stock Option Plan. (A)
- *10.4 The Company's Employee Stock Ownership Plan. (F)
- 10.5 Lease, dated March 29, 1985, between Commerce PA and Devon Properties and lease dated September 4, 1985, between Commerce PA and Devon Prope (Ltd.), relating to Commerce PA's branch office in Devon, Pennsylvania
- 10.6 Assignment of Lease and Assumption Agreement dated November 30, 1987, the Company and Commerce PA, relating to Commerce PA's branch office i Pennsylvania. (C)
- 10.7 Lease between the Company and Astoria Associates, relating to the Comp Commerce NJ's headquarters facilities. (B)
- 10.8 Ground lease, dated April 15, 1986, between Commerce NJ and U.S. Equit relating to one of Commerce NJ's branch offices in Washington Township Jersey. (D)
- 10.9 Ground lease, dated February 1, 1988, between Commerce NJ and Diversif Properties of New Jersey, relating to one of Commerce NJ's branch offi Washington Township, New Jersey. (D)
- 10.10 Ground lease, dated February 15, 1988, between Commerce NJ and Diversi Properties of New Jersey, relating to one of Commerce NJ's branch offi Hill, New Jersey. (D)
- *10.11 The Company's 1989 Stock Option Plan for Non-Employee Directors. (E)
- *10.12 A copy of employment contracts with Vernon W. Hill, II, C. Edward Jord Peter Musumeci, Jr., dated January 2, 1992. (G)

- *10.13 A copy of the Retirement Plan for Outside Directors of Commerce Bancorp
- *10.14 The Company's 1994 Employee Stock Option Plan. (I)
- *10.15 The Company's 1997 Employee Stock Option Plan. (J)
- *10.16 A copy of employment contracts with Dennis M. DiFlorio and Robert D. F
January 1, 1998. (K)
- 10.17 Ground lease, dated June 1, 1994, between Commerce NJ and Absecon ASSO
L.L.C., relating to Commerce NJ's branch office in Absecon, New Jersey
- 10.18 Ground lease, dated September 11, 1995, between Commerce Shore and Whi
Equities, L.L.C., relating to Commerce Shore's branch office in Manche
Township, New Jersey. (K)
- 10.19 Ground lease, dated November 1, 1995, between Commerce NJ and Evesboro
Associates, L.L.C., relating to Commerce NJ's branch office in Evesham
New Jersey. (K)
- 10.20 Ground lease, dated October 1, 1996, between Commerce NJ and Triad Equ
L.L.C., relating to one of Commerce NJ's branch offices in Gloucester
Jersey. (K)
- 10.21 Ground lease, dated October 11, 1996 and First Lease Amendment dated N
Commerce PA and Plymouth Equities, L.L.C., relating to Commerce PA's b
PA. (K)
- 10.22 Ground lease, dated January 16, 1998, between Commerce NJ and Ewing Equ
L.L.C., relating to Commerce NJ's branch in Ewing, New Jersey. (M)
- *10.23 The Company's 1998 Stock Option Plan for Non-Employee Directors. (L)
- 10.24 Ground lease, dated July 31, 1998, between Commerce NJ and English Cre
Properties, L.L.C., relating to Commerce NJ's branch in Egg Harbor Tow
New Jersey. (M)
- 10.25 Ground lease, dated November 30, 1998, between Commerce Shore and Bric
Tavern Equities, L.L.C., relating to Commerce Shore's branch office in
- 10.26 Ground lease, dated November 30, 1998, between Commerce Shore and Aber
L.L.C., relating to Commerce Shore's branch office in Aberdeen, New Je
- 10.27 Ground lease, dated November 30, 1998, between Commerce NJ and Hamilto
Properties, L.L.C., relating to Commerce NJ's branch
office in Hamilton Township, New Jersey. (N)
- 10.28 Ground lease, dated April 2, 1999, between Commerce PA and Abington Equ
relating to Commerce PA's branch office in Abington
Township, Pennsylvania. (N)
- 10.29 Ground lease, dated October, 1999, between Commerce PA and Bensalem Equ
relating to Commerce PA's branch office in Bensalem, Pennsylvania. (O)
- 10.30 Ground lease, dated June 9, 2000, between Commerce NJ and Galloway Equ
to Commerce NJ's branch office in Galloway, New Jersey. (O)
- 10.31 Ground lease, dated December 11, 2000, between Commerce PA and Chadds
relating to Commerce PA's branch office in Chadds Ford, Pennsylvania.
- 10.32 Ground lease, dated March 10, 2000, between Commerce PA and Chalfont E
to Commerce PA's branch office in New Britain Township, Pennsylvania.
- 10.33 Ground lease, dated January 4, 2001, between Commerce PA and Warminste
to Commerce PA's branch office in Warminster Township, Pennsylvania. (
- 21.1 Subsidiaries of the Company (incorporated by reference from PART I,
Item 1. "BUSINESS" of this Report on Form 10-K.)
- 23.1 Consent of Ernst & Young LLP.
- 99.1 Certification of the Company's Chief Executive Officer pursuant to 18
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of the Company's Chief Financial Officer pursuant to 18
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(A) Incorporated by reference from the Company's
Registration Statement on Form S-1, and Amendments Nos.

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- (B) I and 2 thereto (Registration No. 2-94189).
Incorporated by reference from the Company's
Registration Statement on Form S-2 (Registration No
33-12603).
- (C) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1987.
- (D) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1988.
- (E) Incorporated by reference from the Company's
Registration Statement on Form S-2 and Amendments Nos.
1 and 2 thereto (Registration No. 33-31042).

47

- (F) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1989.
- (G) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1991.
- (H) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1992.
- (I) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1994.
- (J) Incorporated (by reference from the Company's
Definitive Proxy Statement for its 1997 Annual Meeting
of Shareholders, Exhibit A thereto.
- (K) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1997.
- (L) Incorporated by reference from the Company's Definitive
Proxy Statement for its 1998 Annual Meeting of
Shareholders, Exhibit A thereto.
- (M) Incorporated by reference from the Company's Annual
Report on Form 10-K for the fiscal year ended December
31, 1998.
- (N) Incorporated by reference from the Company's Annual
Report on Form 10-K for the year ended December 31,
1999.
- (O) Incorporated by reference from the Company's Annual
Report on Form 10-K for the year ended December 31,
2000.
- (P) Incorporated by reference from the Company's Annual
Report on Form 10-K for the year ended December 31,
2001.
- (Q) Incorporated by reference form the Company's
Registration Statement on Form S-3 (Registration No.
333-87512)
* Management contract or compensation plan or
arrangement.

- (b) There were no reports on Form 8-K filed in the fourth quarter of
2002.
- (c)(d) Exhibits and Financial Statement Schedules - All other exhibits
and schedules for which provision is made in the applicable
accounting regulation of the Securities and Exchange Commission

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are not required under the related instruction or are inapplicable and, therefore, have been omitted.

48

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. Commerce Bancorp, Inc.

| | | |
|----------------------|----|--|
| | By | /s/ VERNON W. ----- Vernon W. Hill Chairman of the Board |
| Date: March 28, 2003 | By | /s/ DOUGLAS J. ----- Douglas J. Senior Vice President and C (Principal Financial and |

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature ----- | Title ----- |
|---|--|
| /s/ VERNON W. HILL, II ----- Vernon W. Hill, II | Chairman of the Board and President (Principal Executive Officer) |
| /s/ C. EDWARD JORDAN JR. ----- C. Edward Jordan Jr. | Executive Vice President and Director |
| /s/ ROBERT C. BECK ----- Robert C. Beck | Secretary and Director |
| /s/ JACK R BERSHAD ----- Jack R Bershad | Director |
| /s/ JOSEPH BUCKELEW ----- Joseph Buckelew | Director |
| /s/ DONALD T. DIFRANCESCO ----- Donald T. DiFrancesco | Director |
| /s/ MORTON N. KERR ----- Morton N. Kerr | Director |

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| | | |
|-------|-------------------------|----------|
| /s/ | STEVEN M. LEWIS | Director |
| ----- | | |
| | Steven M. Lewis | |
| /s/ | GEORGE E. NORCROSS, III | Director |
| ----- | | |
| | George E. Norcross, III | |
| /s/ | DANIEL J. RAGONE | Director |
| ----- | | |
| | Daniel J. Ragone | |
| /s/ | WILLIAM A. SCHWARTZ JR. | Director |
| ----- | | |
| | William A. Schwartz Jr. | |
| /s/ | JOSEPH T. TARQUINI JR. | Director |
| ----- | | |
| | Joseph T. Tarquini Jr. | |
| /s/ | FRANK C. VIDEON SR. | Director |
| ----- | | |
| | Frank C. Videon Sr. | |

49

CERTIFICATION

I, Vernon W. Hill, II, Chief Executive Officer of Commerce Bancorp, Inc. certify that:

1. I have reviewed this annual report on Form 10-K of Commerce Bancorp, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being

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prepared;

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

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

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

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

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

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Vernon W. Hill, II

Date: March 28, 2003

Chief Executive Officer

50

CERTIFICATION

I, Douglas J. Pauls , Chief Financial Officer of Commerce Bancorp, Inc., certify that:

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

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

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the

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registrant as of, and for, the periods presented in this annual report;

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

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

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

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

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

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

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

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Douglas J. Pauls

Date: March 28, 2003

Chief Financial Officer