

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarter ended June 30, 2002  
-----

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File #0-12874  
-----

COMMERCE BANCORP [LOGO OMITTED]

(Exact name of registrant as specified in its charter)

New Jersey

22-2433468  
-----

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification  
Number)

Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey 08034-5400  
-----

(Address of Principal Executive Offices) (Zip Code)

(856) 751-9000  
-----

(Registrant's telephone number, including area code)

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

Yes X

No \_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock

67,261,646  
-----

(Title of Class)

(No. of Shares Outstanding  
as of 8/7/02)

COMMERCE BANCORP, INC. AND SUBSIDIARIES

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets (unaudited)  
June 30, 2002 and December 31, 2001.....

Consolidated Statements of Income (unaudited) Three months ended  
June 30, 2002 and June 30, 2001 and  
six months ended June 30, 2002 and June 30, 2001.....

Consolidated Statements of Cash Flows (unaudited)  
Six months ended June 30, 2002 and June 30, 2001.....

Consolidated Statement of Changes in Stockholders' Equity (unaudited)  
Six months ended June 30, 2002.....

Notes to Consolidated Financial Statements (unaudited).....

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

PART II. OTHER INFORMATION

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

Item 6. Exhibits and Reports on Form 8-K.....

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

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

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

See accompanying notes.

1

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

|  |                            | Three Months Ended<br>June 30, |           |      |
|--|----------------------------|--------------------------------|-----------|------|
|  |                            | 2002                           | 2001      | 2000 |
| (dollars in thousands, except per share amounts) |                            |                                |           |      |
| Interest   | Interest and fees on loans | \$ 86,959                      | \$ 81,616 | \$1  |

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

See accompanying notes.

2

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

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

=====

Supplemental disclosures of cash flow information:

Cash paid during the period for:

|              |        |
|--------------|--------|
| Interest     | \$ 94, |
| Income taxes | 29,    |

See accompanying notes.

3

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

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

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

See accompanying notes.

4

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

A. Consolidated Financial Statements

The consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted pursuant to such rules and regulations. The accompanying condensed consolidated financial

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

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

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

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

B. Commitments

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

C. Comprehensive Income

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

COMMERCE BANCORP, INC. AND SUBSIDIARIES

D. Segment Information

Selected segment information is as follows:

| Three Months Ended<br>June 30, 2002 |                  |       | Three Months Ended<br>June 30, 2001 |                  |
|-------------------------------------|------------------|-------|-------------------------------------|------------------|
| Community<br>Banks                  | Parent/<br>Other | Total | Community<br>Banks                  | Parent/<br>Other |
| -----                               |                  |       |                                     |                  |

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

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

E. Recent Accounting Statements

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



# Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

## COMMERCE BANCORP, INC. AND SUBSIDIARIES

### F. Trust Capital Securities

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

On March 11, 2002 the Company issued \$200 million of 5.95% convertible trust preferred securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. Holders of the convertible trust preferred securities may convert each security into 0.9478 shares of Company common stock, subject to adjustment, if (1) the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter beginning with the quarter ending June 30, 2002 is more than 110% of the convertible trust preferred securities conversion price then in effect on the last day of such calendar quarter, (2) the assigned credit rating by Moody's of the convertible trust preferred securities is at or below Bal, (3) the convertible trust preferred securities are called for redemption, or (4) specified corporate transactions have occurred. The net proceeds of this offering will be used for general corporate purposes, including the redemption of the Company's \$57.5 million of 8.75% Capital Trust I securities on July 1, 2002 and the repayment of the Company's \$23.0 million of 8 3/8% subordinated notes on May 20, 2002.

### G. Earnings Per Share

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

|  | Three Months Ended<br>June 30 |          | Six<br>Months |
|--|-------------------------------|----------|---------------|
|  | 2002                          | 2001     | 2002          |
| <hr style="border-top: 1px dashed black;"/>                      |                               |          |               |
| Basic:   |                               |          |               |
| Net income   | \$34,802                      | \$25,110 | \$66,5        |
|  | =====                         | =====    | =====         |
| Average common shares outstanding                                | 66,552                        | 64,452   | 66,2          |
|  | =====                         | =====    | =====         |
| Net income per share of common stock                             | \$ 0.52                       | \$ 0.39  | \$ 1.         |
|  | =====                         | =====    | =====         |
| Diluted:   |                               |          |               |
| Net income   | \$34,802                      | \$25,110 | \$66,5        |
|  | =====                         | =====    | =====         |
| Average common shares outstanding                                | 66,552                        | 64,452   | 66,2          |
| Additional shares considered in diluted<br>computation assuming: |                               |          |               |
| Exercise of stock options  | 4,455                         | 3,421    | 4,2           |
|  | -----                         | -----    | -----         |
| Average common shares outstanding<br>on a diluted basis          | 71,007                        | 67,873   | 70,5          |

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

7

COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

Capital Resources

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

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

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

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

## Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

and its subsidiaries meet all capital adequacy requirements to which they are subject.

### Deposits

-----

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

### Interest Rate Sensitivity and Liquidity

-----

The Company's risk of loss arising from adverse changes in the fair market value of financial instruments, or market risk, is composed primarily of interest rate risk. The primary objective of the Company's asset/liability management activities is to maximize net interest income, while maintaining acceptable levels of interest rate risk. The Company's Asset/Liability Committee (ALCO) is responsible for establishing policies to limit exposure to interest rate risk, and to

8

## COMMERCE BANCORP, INC. AND SUBSIDIARIES

ensure procedures are established to monitor compliance with these policies. The guidelines established by ALCO are reviewed by the Company's Board of Directors.

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

The Company's income simulation model analyzes interest rate sensitivity by projecting net income over the next 24 months in a flat rate scenario versus net income in alternative interest rate scenarios. Management continually reviews and refines its interest rate risk management process in response to the changing economic climate. Currently, the Company's model projects a proportionate 200 basis point change during the next year, with rates remaining constant in the second year. The Company's ALCO policy has established that interest income sensitivity will be considered acceptable if net income in the above interest rate scenario is within 15% of net income in the flat rate scenario in the first year and within 30% over the two year time frame. At June 30, 2002, the Company's income simulation model indicates net income would decrease by 0.35% and by 9.62% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 2.33% and decrease of 3.32%, respectively, at June 30, 2001. At June 30, 2002, the model projects that net income would decrease by 0.18% and increase 5.71% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease by 5.14% and 3.78%, respectively, at June 30, 2001. All of these net income projections are within an acceptable level of interest rate risk pursuant to the policy established by

ALCO.

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

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off balance sheet items. The model calculates the market value of the Company's assets and liabilities in excess of book value in the current rate scenario, and then compares the excess of market value over book value given an immediate 200 basis point change in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate 200 basis point change would result in the loss of 50% or more of the excess of market value over book value in the current rate scenario. At June 30, 2002, the market value of equity model indicates an acceptable level of interest rate risk.

Liquidity involves the Company's ability to raise funds to support asset growth or decrease assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, cash flow from its amortizing investment and loan portfolios, as well as the use of short-term borrowings, as required. If necessary, the Company has the ability to raise liquidity through collateralized borrowings, FHLB advances, or the sale of its available for sale investment portfolio. As of June 30, 2002 the Company had in excess of \$5.4 billion in immediately available liquidity which includes securities that could be sold or used for collateralized borrowings, cash on hand, and borrowing capacities under existing lines of credit. During the first six months of 2002, deposit growth and long-term borrowings (Commerce Capital Trust II) were used to fund growth in the loan portfolio and purchase additional investment securities.

9

COMMERCE BANCORP, INC. AND SUBSIDIARIES

Short-Term Borrowings

-----

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

Interest Earning Assets

-----

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

Loans

-----

## Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

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

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

10

### COMMERCE BANCORP, INC. AND SUBSIDIARIES

#### Investments

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

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

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

Net Income

-----

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

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

Net Interest Income

-----

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

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

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

| (dollars in thousands)                                     | June 2002           |                  |              | March 2002          |                  |              |
|--|---------------------|------------------|--------------|---------------------|------------------|--------------|
|  | Average Balance     | Interest         | Average Rate | Average Balance     | Interest         | Average Rate |
| <b>Earning Assets</b>                                      |                     |                  |              |                     |                  |              |
| <b>Investment securities</b>                               |                     |                  |              |                     |                  |              |
| Taxable  | \$6,484,728         | \$97,970         | 6.06%        | \$5,511,447         | \$83,211         | 6.00%        |
| Tax-exempt   | 128,237             | 2,043            | 6.39         | 110,293             | 1,665            | 6.00%        |
| Trading  | 225,231             | 3,069            | 5.47         | 189,651             | 2,960            | 6.00%        |
| <b>Total investment securities</b>                         | <b>6,838,196</b>    | <b>103,082</b>   | <b>6.05</b>  | <b>5,811,391</b>    | <b>87,836</b>    | <b>6.00%</b> |
| Federal funds sold   | 27,592              | 116              | 1.69         | 40,672              | 164              | 1.69         |
| <b>Loans</b>   |                     |                  |              |                     |                  |              |
| Commercial mortgages                                       | 1,928,153           | 33,683           | 7.01         | 1,828,586           | 31,304           | 6.91         |
| Commercial   | 1,194,310           | 17,952           | 6.03         | 1,087,048           | 16,338           | 6.03         |
| Consumer   | 1,787,395           | 32,026           | 7.19         | 1,656,000           | 30,936           | 7.19         |
| Tax-exempt   | 241,226             | 5,073            | 8.43         | 233,669             | 4,992            | 8.43         |
| <b>Total loans</b>   | <b>5,151,084</b>    | <b>88,734</b>    | <b>6.91</b>  | <b>4,805,303</b>    | <b>83,570</b>    | <b>6.91</b>  |
| <b>Total earning assets</b>                                | <b>\$12,016,872</b> | <b>\$191,932</b> | <b>6.41%</b> | <b>\$10,657,366</b> | <b>\$171,570</b> | <b>6.41%</b> |
| <b>Sources of Funds</b>                                    |                     |                  |              |                     |                  |              |
| <b>Interest-bearing liabilities</b>                        |                     |                  |              |                     |                  |              |
| Regular savings  | \$2,304,839         | \$8,133          | 1.42%        | \$2,044,873         | \$7,078          | 1.42%        |
| N.O.W. accounts  | 331,878             | 1,152            | 1.39         | 300,742             | 1,053            | 1.39         |
| Money market plus  | 3,858,362           | 13,555           | 1.41         | 3,459,619           | 11,855           | 1.41         |
| Time deposits  | 1,840,499           | 15,992           | 3.49         | 1,673,580           | 16,004           | 3.49         |
| Public funds   | 984,503             | 5,546            | 2.26         | 874,379             | 5,277            | 2.26         |
| <b>Total deposits</b>                                      | <b>9,320,081</b>    | <b>44,378</b>    | <b>1.91</b>  | <b>8,353,193</b>    | <b>41,267</b>    | <b>1.91</b>  |
| Other borrowed money                                       | 70,078              | 282              | 1.61         | 102,611             | 426              | 1.61         |
| Long-term debt   | 269,885             | 5,082            | 7.55         | 127,167             | 2,432            | 7.55         |
| <b>Total deposits and interest-bearing liabilities</b>     | <b>9,660,044</b>    | <b>49,742</b>    | <b>2.07</b>  | <b>8,582,971</b>    | <b>44,125</b>    | <b>2.07</b>  |
| Noninterest-bearing funds (net)                            | 2,356,828           |                  |              | 2,074,395           |                  |              |
| <b>Total sources to fund earning assets</b>                | <b>\$12,016,872</b> | <b>49,742</b>    | <b>1.66</b>  | <b>\$10,657,366</b> | <b>44,125</b>    | <b>1.66</b>  |
| <b>Net interest income and margin tax-equivalent basis</b> |                     | <b>\$142,190</b> | <b>4.75%</b> |                     | <b>\$127,445</b> | <b>4.75%</b> |
| <b>Other Balances</b>                                      |                     |                  |              |                     |                  |              |
| Cash and due from banks                                    | \$547,088           |                  |              | \$510,269           |                  |              |
| Other assets   | 677,551             |                  |              | 592,129             |                  |              |
| <b>Total assets</b>  | <b>13,166,040</b>   |                  |              | <b>11,690,615</b>   |                  |              |
| <b>Total deposits</b>                                      | <b>11,885,164</b>   |                  |              | <b>10,684,272</b>   |                  |              |
| Demand deposits (noninterest-bearing)                      | 2,565,083           |                  |              | 2,331,079           |                  |              |
| Other liabilities  | 207,939             |                  |              | 108,125             |                  |              |
| Stockholders' equity                                       | 732,974             |                  |              | 668,440             |                  |              |
| Allowance for loan losses                                  | 75,471              |                  |              | 69,149              |                  |              |

## COMMERCE BANCORP, INC. AND SUBSIDIARIES

## Noninterest Income

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

|                                | Quarter Ended          |          |            | Six Months             |          |
|--------------------------------|------------------------|----------|------------|------------------------|----------|
|                                | 6/30/02                | 6/30/01  | % Increase | 6/30/02                | 6/30/01  |
|                                | (Dollars in thousands) |          |            | (Dollars in thousands) |          |
| Deposit Charges & Service Fees | \$31,629               | \$25,194 | 26%        | \$60,592               | \$47,381 |
| Other Operating Income:        |                        |          |            |                        |          |
| Insurance                      | 14,241                 | 12,216   | 17%        | 27,629                 | 24,143   |
| Capital Markets                | 8,082                  | 5,256    | 54%        | 14,528                 | 10,000   |
| Loan Brokerage Fees            | 4,118                  | 1,400    | 194%       | 8,143                  | 2,143    |
| Other                          | 3,659                  | 3,315    | 10%        | 6,727                  | 6,143    |
| Total Other                    | 30,100                 | 22,187   | 36%        | 57,027                 | 44,439   |
| Total Non-Interest Income      | \$61,729               | \$47,381 | 30%        | \$117,619              | \$91,520 |

## Noninterest Expense

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

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



## Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

### Loan and Asset Quality

-----

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

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

13

### COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

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

### Forward-Looking Statements

-----

The Company may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Form 10-Q), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties and are subject to change based on various factors (some of which are beyond the Company's control). The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause the Company's financial performance to differ materially from that expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System (the "FRB"); inflation; interest rates, market and monetary fluctuations; the timely development of competitive new products and services by the Company and the acceptance of such products and services by customers; the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; future acquisitions; the expense savings and revenue enhancements from acquisitions being less than expected; the growth and profitability of the Company's noninterest or fee income being less than expected; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

14

COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

|                            | June 30,<br>2002 | March 31,<br>2002 | December 31,<br>2001 | September<br>2001 |
|----------------------------|------------------|-------------------|----------------------|-------------------|
| Non-accrual loans:         |                  |                   |                      |                   |
| Commercial                 | \$7,581          | \$ 9,473          | \$ 6,835             | \$ 9,473          |
| Consumer                   | 1,557            | 1,537             | 1,484                | 1,484             |
| Real estate:               |                  |                   |                      |                   |
| Construction               | 181              | 181               | 1,590                | 1,590             |
| Mortgage                   | 5,778            | 5,695             | 6,924                | 6,924             |
| Total non-accrual loans    | 15,097           | 16,886            | 16,833               | 19,988            |
| Restructured loans:        |                  |                   |                      |                   |
| Commercial                 | 6                | 7                 | 8                    | 8                 |
| Consumer                   |                  |                   |                      |                   |
| Real estate:               |                  |                   |                      |                   |
| Construction               |                  |                   |                      |                   |
| Mortgage                   |                  |                   |                      |                   |
| Total restructured loans   | 6                | 7                 | 8                    | 8                 |
| Total non-performing loans | 15,103           | 16,893            | 16,841               | 19,996            |
| Other real estate          | 2,471            | 2,602             | 1,549                | 1,549             |

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

15

COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

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

Edgar Filing: COMMERCE BANCORP INC /NJ/ - Form 10-Q

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

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

16

COMMERCE BANCORP, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

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

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

Item 6. Exhibits and Reports on Form 8-K

Exhibits

Exhibit 99.1 - 906 Certification

Reports on Form 8-K

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

17

COMMERCE BANCORP, INC. AND SUBSIDIARIES

SIGNATURES

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

COMMERCE BANCORP, INC.

-----  
(Registrant)

August 14, 2002

-----  
(Date)

/s/ DOUGLAS J. PAULS

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