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COMMERCE BANCORP INC /NJ/  
Form 10-Q  
August 10, 2001

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, 2001  
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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)  
(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  
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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

32,464,474  
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(Title of Class)

(No. of Shares Outstanding  
as of 08/03/01)

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

|             |   | June 30,               | De    |
|-------------|---|------------------------|-------|
|             |   | 2001                   |       |
|             |   | -----                  | ----- |
|             |   | (dollars in thousands) |       |
|             |   | -----                  | ----- |
| Assets      | Cash and due from banks                             | \$502,814              | \$    |
|             | Federal funds sold                                  | 54,800                 |       |
|             |   | -----                  | ----- |
|             | Cash and cash equivalents                           | 557,614                |       |
|             | Loans held for sale                                 | 73,643                 |       |
|             | Trading securities                                  | 144,150                |       |
|             | Securities available for sale                       | 2,679,546              | 2     |
|             | Securities held to maturity                         | 1,310,277              | 1     |
|             | (market value 06/01-\$1,306,566; 12/00-\$1,503,202) |                        |       |
|             | Loans   | 4,111,949              | 3     |
|             | Less allowance for loan losses                      | 57,548                 |       |
|             |   | -----                  | ----- |
|             |   | 4,054,401              | 3     |
|             | Bank premises and equipment, net                    | 299,457                |       |
|             | Other assets  | 226,350                |       |
|             |   | -----                  | ----- |
|             |   | \$9,345,438            | \$8   |
|             |   | =====                  | ===== |
| Liabilities | Deposits:   |                        |       |
|             | Demand:   |                        |       |
|             | Interest-bearing                                    | \$2,805,812            | \$2   |

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|              |   |             |       |
|--------------|---|-------------|-------|
|              | Noninterest-bearing                                 | 2,025,801   | 1     |
|              | Savings   | 1,628,410   | 1     |
|              | Time  | 1,906,117   | 1     |
|              |   | -----       | ----- |
|              | Total deposits                                      | 8,366,140   | 7     |
|              | Other borrowed money                                | 126,061     |       |
|              | Other liabilities                                   | 212,233     |       |
|              | Trust Capital Securities - Commerce Capital Trust I | 57,500      |       |
|              | Long-term debt                                      | 23,000      |       |
|              |   | -----       | ----- |
|              |   | 8,784,934   | 7     |
| Stockholders | Common stock, 32,458,527 shares                     |             |       |
| Equity       | issued (31,761,453 shares in 2000)                  | 50,716      |       |
|              | Capital in excess of par or stated value            | 449,740     |       |
|              | Retained earnings                                   | 58,025      |       |
|              | Accumulated other comprehensive income              | 3,645       |       |
|              |   | -----       | ----- |
|              |   | 562,126     |       |
|              | Less treasury stock, at cost                        | 1,622       |       |
|              |   | -----       | ----- |
|              | Total stockholders' equity                          | 560,504     |       |
|              |   | -----       | ----- |
|              |   | \$9,345,438 | \$8   |
|              |   | =====       | ===== |

See accompanying notes.

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

|  |                                  | Three Months Ended<br>June 30, |           |       |
|--|----------------------------------|--------------------------------|-----------|-------|
| (dollars in thousands, except per share amounts) |                                  | 2001                           | 2000      | 20    |
|  |                                  | -----                          | -----     | ----- |
| Interest   | Interest and fees on loans       | \$81,616                       | \$ 70,301 | \$1   |
| income   | Interest on investments          | 64,643                         | 51,224    | 1     |
|  | Other interest                   | 850                            | 1,758     |       |
|  |                                  | -----                          | -----     | ----- |
|  | Total interest income            | 147,109                        | 123,283   | 2     |
|  |                                  | -----                          | -----     | ----- |
| Interest   | Interest on deposits:            |                                |           |       |
| expense  | Demand                           | 15,948                         | 16,945    |       |
|  | Savings                          | 8,345                          | 9,526     |       |
|  | Time                             | 25,103                         | 15,671    |       |
|  |                                  | -----                          | -----     | ----- |
|  | Total interest on deposits       | 49,396                         | 42,142    | 1     |
|  | Interest on other borrowed money | 909                            | 6,121     |       |
|  | Interest on long-term debt       | 1,401                          | 1,598     |       |

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|  |   |          |           |    |
|--|---|----------|-----------|----|
|  | Total interest expense                              | 51,706   | 49,861    | 1  |
|  | Net interest income                                 | 95,403   | 73,422    | 1  |
|  | Provision for loan losses                           | 7,982    | 3,642     |    |
|  | Net interest income after provision for loan losses | 87,421   | 69,780    | 1  |
| Noninterest income                                       | Deposit charges and service fees                    | 19,841   | 13,201    |    |
|  | Other operating income                              | 27,540   | 22,400    |    |
|  | Net investment securities gains                     |          |           |    |
|  | Total noninterest income                            | 47,381   | 35,601    |    |
| Noninterest expense                                      | Salaries  | 37,118   | 29,310    |    |
|  | Benefits  | 8,456    | 6,411     |    |
|  | Occupancy   | 9,129    | 7,606     |    |
|  | Furniture and equipment                             | 12,241   | 10,309    |    |
|  | Office  | 6,589    | 5,756     |    |
|  | Audit and regulatory fees and assessments           | 1,005    | 689       |    |
|  | Marketing   | 4,211    | 2,698     |    |
|  | Other real estate (net)                             | 450      | 481       |    |
|  | Other   | 18,741   | 13,285    |    |
|  | Total noninterest expenses                          | 97,940   | 76,545    | 1  |
|  | Income before income taxes                          | 36,862   | 28,836    |    |
|  | Provision for federal and state income taxes        | 11,752   | 9,459     |    |
|  | Net income  | \$25,110 | \$ 19,377 | \$ |
| Net income per common and common equivalent share:       |   |          |           |    |
|  | Basic   | \$0.78   | \$ 0.63   |    |
|  | Diluted   | \$0.74   | \$ 0.61   |    |
| Average common and common equivalent shares outstanding: |   |          |           |    |
|  | Basic   | 32,226   | 30,650    |    |
|  | Diluted   | 33,936   | 31,755    |    |
|  | Cash dividends declared, common stock               | \$0.27   | \$ 0.25   |    |

See accompanying notes.

|                      | (dollars in thousands)   | 2001       |
|----------------------|--|------------|
| Operating activities | Net income   | \$48,51    |
|                      | Adjustments to reconcile net income to net cash provided by operating activities:        |            |
|                      | Provision for loan losses  | 12,59      |
|                      | Provision for depreciation, amortization and accretion                                   | 20,51      |
|                      | Gains on sales of securities available for sale  | (98)       |
|                      | Proceeds from sales of mortgages held for sale   | 265,60     |
|                      | Originations of mortgages held for sale  | (297,46)   |
|                      | Net loan chargeoffs  | (3,72)     |
|                      | Net (increase) decrease in trading securities  | (34,84)    |
|                      | Increase in other assets   | (31,54)    |
|                      | Increase in other liabilities  | 159,74     |
|                      | Net cash provided by operating activities  | 138,42     |
| Investing activities | Proceeds from the sales of securities available for sale                                 | 275,44     |
|                      | Proceeds from the maturity of securities available for sale                              | 358,55     |
|                      | Proceeds from the maturity of securities held to maturity                                | 175,15     |
|                      | Purchase of securities available for sale  | (1,213,55) |
|                      | Purchase of securities held to maturity  | (36,48)    |
|                      | Net increase in loans  | (432,08)   |
|                      | Proceeds from sales of loans   | 7,39       |
|                      | Purchases of premises and equipment  | (42,93)    |
|                      | Net cash used by investing activities  | (908,50)   |
| Financing activities | Net increase in demand and savings deposits  | 605,49     |
|                      | Net increase in time deposits  | 373,05     |
|                      | Net decrease in other borrowed money   | (157,65)   |
|                      | Dividends paid   | (17,56)    |
|                      | Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 28,78      |
|                      | Other  | (34)       |
|                      | Net cash provided by financing activities  | 831,77     |
|                      | Increase in cash and cash equivalents  | 61,69      |
|                      | Cash and cash equivalents at beginning of year   | 495,91     |
|                      | Cash and cash equivalents at end of period   | \$557,61   |
|                      | Supplemental disclosures of cash flow information: Cash paid during the period for:      |            |
|                      | Interest   | \$106,18   |
|                      | Income taxes   | 21,90      |

See accompanying notes.

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### 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 generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the period ended December 31, 2000. The results for the three months ended June 30, 2001 and the six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

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, and Commerce Capital Markets, Inc. (CCMI). All material intercompany transactions have been eliminated. Effective April 1, 2001, Commerce Bank/Central, N.A. was merged into Commerce NJ.

### 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 \$14.5 million and \$23.5 million, respectively, for the three months ended June 30, 2001 and 2000. For the six months ended June 30, 2001 and 2000, total comprehensive income was \$57.4 million and \$32.3 million, respectively.

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## COMMERCE BANCORP, INC. AND SUBSIDIARIES

### D. Segment Information

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 National Insurance, CCMI, and Commerce Capital Trust I.

Selected segment information is as follows:

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|                                     | Three Months Ended<br>June 30, 2001 |                  |              | Three Months Ended<br>June 30, 2000 |                  |
|-------------------------------------|-------------------------------------|------------------|--------------|-------------------------------------|------------------|
|                                     | Community<br>Banks                  | Parent/<br>Other | Total        | Community<br>Banks                  | Parent/<br>Other |
| Net interest income                 | \$ 95,512                           | \$ (109)         | \$ 95,403    | \$ 73,714                           | \$ 73,714        |
| Provision for loan losses           | 7,982                               |                  | 7,982        | 3,642                               |                  |
| Net interest income after provision | 87,530                              | (109)            | 87,421       | 70,072                              |                  |
| Noninterest income                  | 29,901                              | 17,480           | 47,381       | 20,903                              |                  |
| Noninterest expense                 | 83,293                              | 14,647           | 97,940       | 63,288                              |                  |
| Income before income taxes          | 34,138                              | 2,724            | 36,862       | 27,687                              |                  |
| Income tax expense                  | 11,270                              | 482              | 11,752       | 9,104                               |                  |
| Net income                          | \$ 22,868                           | \$ 2,242         | \$ 25,110    | \$ 18,583                           | \$ 18,583        |
| Average assets (in millions)        | \$8,058,400                         | \$ 961,619       | \$ 9,020,019 | \$6,500,137                         | \$ 6,500,137     |

|                                     | Six Months Ended<br>June 30, 2001 |                  |              | Six Months Ended<br>June 30, 2000 |                  |
|-------------------------------------|-----------------------------------|------------------|--------------|-----------------------------------|------------------|
|                                     | Community<br>Banks                | Parent/<br>Other | Total        | Community<br>Banks                | Parent/<br>Other |
| Net interest income                 | \$ 181,392                        | \$ (249)         | \$ 181,143   | \$ 143,515                        | \$ 143,515       |
| Provision for loan losses           | 12,591                            |                  | 12,591       | 7,135                             |                  |
| Net interest income after provision | 168,801                           | (249)            | 168,552      | 136,380                           |                  |
| Noninterest income                  | 56,279                            | 35,210           | 91,489       | 41,248                            |                  |
| Noninterest expense                 | 159,401                           | 28,893           | 188,294      | 122,970                           |                  |
| Income before income taxes          | 65,679                            | 6,068            | 71,747       | 54,658                            |                  |
| Income tax expense                  | 21,565                            | 1,671            | 23,236       | 18,029                            |                  |
| Net income                          | \$ 44,114                         | \$ 4,397         | \$ 48,511    | \$ 36,629                         | \$ 36,629        |
| Average assets (in millions)        | \$ 7,822,423                      | \$ 931,779       | \$ 8,754,202 | \$6,262,245                       | \$ 6,262,245     |

E. Recent Accounting Statements

In June 1998, the FASB issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset or liability through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company adopted FAS 133 on January 1, 2001. Due to the Company's minimal use of derivatives, adoption did not have a significant effect on the

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results of operations or the financial position of the Company. Future

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### COMMERCE BANCORP, INC. AND SUBSIDIARIES

impact of FAS 133 will depend on the nature and purpose of the derivative instruments in use by the Company at that time.

In June 2001, the FASB issued Statements No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment

tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules beginning in the first quarter of 2002. Due to the immaterial amount of goodwill and intangible assets recorded on the Company's balance sheet, adoption of the Statements is not expected to have a significant impact on the results of operations or the financial position of the Company.

#### 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 newly formed Delaware business trust subsidiary of the Company. The net proceeds of the offering will be used for general corporate purposes, which may include contributions to subsidiary banks to fund their operations, the financing of one or more future acquisitions, repayment of indebtedness of the Company or of its subsidiary banks, investments in or extensions of credit to its subsidiaries, or the repurchase of shares of the Company's outstanding common stock. All \$57.5 million of the Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes.

#### 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 Ended<br>June 30 |
|--|-------------------------------|-----------|--------------------------------|
|  | 2001                          | 2000      | 2001                           |
| <hr style="border-top: 1px dashed black;"/>              |                               |           |                                |
| <b>Basic:</b>  |                               |           |                                |
| Net income applicable to common stock                    | \$25,110                      | \$ 19,377 | \$48,500                       |
|  | =====                         | =====     | =====                          |
| Average common shares outstanding                        | 32,226                        | 30,650    | 32,000                         |
|  | =====                         | =====     | =====                          |
| Net income per common share - basic                      | \$0.78                        | \$ 0.63   | \$1.53                         |
|  | =====                         | =====     | =====                          |
| <b>Diluted:</b>  |                               |           |                                |
| Net income applicable to common stock on a diluted basis | \$25,110                      | \$ 19,377 | \$48,500                       |



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|   |        |         |      |
|---|--------|---------|------|
| Average common shares outstanding                             | 32,226 | 30,650  | 32,0 |
| Additional shares considered in diluted computation assuming: |        |         |      |
| Exercise of stock options                                     | 1,710  | 1,105   | 1,6  |
| Average common shares outstanding on a diluted basis          | 33,936 | 31,755  | 33,6 |
| Net income per common share - diluted                         | \$0.74 | \$ 0.61 | \$1. |

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

Capital Resources

At June 30, 2001, stockholders' equity totaled \$560.5 million or 6.00% of total assets, compared to \$492.2 million or 5.93% of total assets at December 31, 2000.

The table below presents the Company's and Commerce NJ's risk-based and leverage ratios at June 30, 2001 and 2000:

|                            | Actual    |        | Minimum   |       | "We<br>Amo |
|----------------------------|-----------|--------|-----------|-------|------------|
|                            | Amount    | Ratio  | Amount    | Ratio |            |
| Per Regulatory Guide       |           |        |           |       |            |
| -----                      |           |        |           |       |            |
| 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          |
| June 30, 2000              |           |        |           |       |            |
| Company                    |           |        |           |       |            |
| Risk based capital ratios: |           |        |           |       |            |
| Tier 1                     | \$491,924 | 10.98% | \$179,140 | 4.00% | \$2        |
| Total capital              | 549,728   | 12.27  | 358,280   | 8.00  | 4          |
| Leverage ratio             | 491,924   | 6.78   | 290,042   | 4.00  | 3          |
| Commerce NJ                |           |        |           |       |            |

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Risk based capital ratios:

|                |           |       |            |       |     |
|----------------|-----------|-------|------------|-------|-----|
| Tier 1         | \$256,616 | 9.98% | \$ 102,831 | 4.00% | \$1 |
| Total capital  | 281,801   | 10.96 | 205,661    | 8.00  | 2   |
| Leverage ratio | 256,616   | 6.49  | 158,065    | 4.00  | 1   |

At June 30, 2001, 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, 2001, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Deposits

-----

Total deposits at June 30, 2001 were \$8.37 billion, up \$1.83 billion, or 28% over total deposits of \$6.54 billion at June 30, 2000, and up by \$978.5 million, or 13% from year-end 2000. Deposit growth during the first six months of 2001 included core deposit growth in all categories as well as growth from the public sector. The Company experienced "same-store core deposit growth" of 16.5% at June 30, 2001 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

COMMERCE BANCORP, INC. AND SUBSIDIARIES

Asset/Liability Committee (ALCO) is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with these policies. The guidelines established by ALCO are reviewed by the Company's Board of Directors.

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

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

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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, 2001, the Company's income simulation model indicates net income would increase by 2.33% and decrease by 3.32% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 5.12% and 2.69%, respectively, at June 30, 2000. At June 30, 2001, the model projects that net income would decrease by 5.14% and 3.78% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease of 6.30% and 4.87%, respectively, at June 30, 2000. 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 60% or more of the excess of market value over book value in the current rate scenario. At June 30, 2001, 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.

### 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 2001, the Company reduced its short-term borrowings, primarily through increased deposits. At June 30, 2001, short-term borrowings aggregated \$126.1 million and had an average rate of 3.65%, as compared to \$283.7 million at an average rate of 6.70% at December 31, 2000.

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## COMMERCE BANCORP, INC. AND SUBSIDIARIES

### Interest Earning Assets

For the six month period ended June 30, 2001, interest earning assets increased \$949.2 million from \$7.43 billion to \$8.37 billion. This increase was primarily in investment securities and the loan portfolio as described below.

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### Loans

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During the first six months of 2001, net loans increased \$415.8 million from \$3.64 billion to \$4.05 billion. At June 30, 2001, loans represented 48% of total deposits and 43% of total assets. All segments of the loan portfolio experienced growth in the first six months of 2001, including loans secured by commercial real estate properties, commercial loans, and consumer loans.

### Investments

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In total, for the first six months of 2001, securities increased \$489.9 million from \$3.64 billion to \$4.13 billion. The available for sale portfolio increased \$658.2 million to \$2.68 billion at June 30, 2001 from \$2.02 billion at December 31, 2000, and the securities held to maturity portfolio decreased \$203.2 million to \$1.31 billion at June 30, 2001 from \$1.51 billion at year-end 2000. The portfolio of trading securities increased \$34.8 million from year-end 2000 to \$144.2 million at June 30, 2001. At June 30, 2001, the average life of the investment portfolio was approximately 6.6 years, and the duration was approximately 4.6 years. At June 30, 2001, total securities represented 44% of total assets.

### Net Income

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Net income for the second quarter of 2001 was \$25.1 million, an increase of \$5.7 million or 30% over the \$19.4 million recorded for the second quarter of 2000. Net income for the first six months of 2001 was \$48.5 million, an increase of \$10.8 million or 29% over the \$37.7 million recorded for the first six months of 2000. On a per share basis, diluted net income for the second quarter of 2001 and the first six months of 2001 were \$0.74 and \$1.44 per common share compared to \$0.61 and \$1.20 per common share for the respective 2000 periods.

Return on average assets (ROA) and return on average equity (ROE) for the second quarter of 2001 were 1.11% and 18.16%, respectively, compared to 1.08% and 20.59%, respectively, for the same 2000 period. ROA and ROE for the first six months of 2001 were 1.11% and 18.04%, respectively, compared to 1.09% and 20.60% a year ago.

### Net Interest Income

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Net interest income totaled \$95.4 million for the second quarter of 2001, an increase of \$22.0 million or 30% from \$73.4 million in the second quarter of 2000. Net interest income for the first six months of 2001 totaled \$181.1 million, up \$39.5 million or 28% from the first six months of 2000. The improvement in net interest income for both periods was due primarily to volume increases in the loan and investment portfolios.

### Noninterest Income

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Noninterest income totaled \$47.4 million for the second quarter of 2001, an increase of \$11.8 million or 33% from \$35.6 million in the second quarter of 2000. The increase was due primarily to increased deposit charges and service fees, which rose \$6.6 million over the second quarter of 2000 primarily due to higher transaction volumes. In addition, other operating income increased \$5.1 million over the prior year, including increased revenues of \$1.5 million from CCMI, the Company's municipal public finance subsidiary, increased revenues of \$1.3 million from Commerce National Insurance, the Company's insurance brokerage subsidiary, and increased bank card-related revenues of \$1.5 million.

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For the first six months of 2001, noninterest income totaled \$91.5 million, an increase of \$20.2 million or 28% from \$71.3 million in the first six months of 2000. Deposit charges and service fees rose \$11.5 million over the prior year primarily due to higher transaction volumes. Other operating income rose \$8.6 million over the first six months of 2000, including increased revenues of \$3.2 million from CCMI, \$1.3 million from Commerce National Insurance, and

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### COMMERCE BANCORP, INC. AND SUBSIDIARIES

\$2.9 million from bank card-related income. In addition, the Company recorded \$980 thousand in net investment securities gains in the first six months of 2001 versus \$820 thousand a year ago.

#### Noninterest Expense

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For the second quarter of 2001, noninterest expense totaled \$97.9 million, an increase of \$21.4 million or 28% over the same period in 2000. Contributing to this increase was new branch activity over the past twelve months, with the number of branches increasing from 129 at June 30, 2000 to 159 at June 30, 2001. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. Other noninterest expenses rose \$5.5 million over the second quarter of 2000. 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 2001, noninterest expense totaled \$188.3 million, an increase of \$38.9 million or 26% over \$149.4 million in the first six months of 2000. Contributing to this increase was new branch activity and the growth of CCMI and Commerce National Insurance as noted above. Other noninterest expenses rose \$9.5 million over the first six months of 2000. The increase resulted primarily from higher bank card-related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

The Company's operating efficiency ratio (noninterest expenses, less other real estate expense, divided by net interest income plus noninterest income excluding non-recurring gains) was 69.02% for the first six months of 2001 as compared to 70.10% for the same 2000 period. The Company's efficiency ratio remains above its peer group primarily due to its aggressive growth expansion activities.

#### Loan and Asset Quality

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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, 2001 were \$20.7 million, or 0.22% of total assets compared to \$16.6 million or 0.20% of total assets at December 31, 2000 and \$14.5 million or 0.19% of total assets at June 30, 2000.

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, 2001 were \$19.1 million or 0.47% of total loans compared to \$13.6 million or 0.37% of total loans at December 31, 2000 and \$11.0 million or 0.32% of total loans at June 30, 2000. At June 30, 2001, loans past due 90 days or more and still accruing interest amounted to \$1.4 million compared to \$489 thousand at December 31, 2000 and \$473 thousand at June 30, 2000. Additional loans considered as potential problem loans by the Company's internal loan review department (\$40.7 million at June 30, 2001) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

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Other real estate (ORE) at June 30, 2001 totaled \$1.6 million compared to \$3.0 million at December 31, 2000 and \$3.4 million at June 30, 2000. These properties have been written down to the lower of cost or fair value less disposition costs.

On pages 12 and 13 are tabular presentation 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, 2001, December 31, 2000, and June 30, 2000.

### Forward-Looking Statements

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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",

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### COMMERCE BANCORP, INC. AND SUBSIDIARIES

"could", "should", "would", believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause the Company's financial performance to differ materially from that expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System (the "FRB"); inflation; interest rates, market and monetary fluctuations; the timely development of competitive new products and services by the Company and the acceptance of such products and services by customers; the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; future acquisitions; the expense savings and revenue enhancements from acquisitions being less than expected; the growth and profitability of the Company's noninterest or fee income being less than expected; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

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

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

The following summary presents information regarding non-performing loans and assets as of June 30, 2001 and the preceding four quarters: (dollar amounts in thousands)

|   | June 30,<br>2001 | March 31,<br>2001 | December 31,<br>2000 | September<br>2000 |
|---|------------------|-------------------|----------------------|-------------------|
| Non-accrual loans:  |                  |                   |                      |                   |
| Commercial  | \$10,608         | \$10,681          | \$4,955              | \$5,840           |
| Consumer  | 1,338            | 1,378             | 1,295                | 1,378             |
| Real estate:  |                  |                   |                      |                   |
| Construction  | 1,590            | 1,590             | 1,459                | 1,590             |
| Mortgage  | 5,598            | 5,756             | 5,840                | 5,840             |
| Total non-accrual loans   | 19,134           | 19,405            | 13,549               | 13,642            |
| Restructured loans:   |                  |                   |                      |                   |
| Commercial  | 10               | 11                | 11                   | 11                |
| Consumer  |                  |                   |                      |                   |
| Real estate:  |                  |                   |                      |                   |
| Construction  |                  |                   |                      |                   |
| Mortgage  |                  |                   | 82                   |                   |
| Total restructured loans  | 10               | 11                | 93                   | 11                |
| Total non-performing loans  | 19,144           | 19,416            | 13,642               | 13,653            |
| Other real estate   | 1,552            | 1,452             | 2,959                | 2,959             |
| Total non-performing assets   | 20,696           | 20,868            | 16,601               | 16,612            |
| Loans past due 90 days or more<br>And still accruing  | 1,416            | 537               | 489                  | 489               |
| Total non-performing assets and<br>Loans past due 90 days or more   | \$22,112         | \$21,405          | \$17,090             | \$17,101          |
| Total non-performing loans as a<br>Percentage of total period-end loans   | 0.47%            | 0.50%             | 0.37%                | 0.37%             |
| Total non-performing assets as a<br>Percentage of total period-end assets                                       | 0.22%            | 0.23%             | 0.20%                | 0.20%             |
| Total non-performing assets and loans<br>Past due 90 days or more as a<br>Percentage of total period-end assets | 0.24%            | 0.24%             | 0.21%                | 0.21%             |

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|   |       |       |       |    |
|---|-------|-------|-------|----|
| Allowance for loan losses as a percentage<br>Of total non-performing loans  | 301%  | 269%  | 357%  | 3  |
| Allowance for loan losses as a percentage<br>Of total period-end loans  | 1.40% | 1.36% | 1.32% | 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 | 4%    | 4%    | 3%    |    |

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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 |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | 06/30/01           | 06/30/00 | 06/30/01         | 06/30/00 |
| Balance at beginning of period                                  | \$52,157           | \$40,705 | \$48,680         | \$38,3   |
| Provisions charged to operating expenses                        | 7,982              | 3,642    | 12,591           | 7,1      |
|   | 60,139             | 44,347   | 61,271           | 45,5     |
| Recoveries on loans charged-off:                                |                    |          |                  |          |
| Commercial  | 150                | 71       | 159              | 1        |
| Consumer  | 95                 | 112      | 136              | 1        |
| Real estate   | 2                  | 1        | 14               |          |
| Total recoveries  | 247                | 184      | 309              | 3        |
| Loans charged-off:  |                    |          |                  |          |
| Commercial  | (1,976)            | (268)    | (2,334)          | (1,3     |
| Consumer  | (636)              | (259)    | (1,295)          | (5       |
| Real estate   | (226)              |          | (403)            |          |
| Total charge-offs   | (2,838)            | (527)    | (4,032)          | (1,8     |
| Net charge-offs   | (2,591)            | (343)    | (3,723)          | (1,5     |
| Balance at end of period  | \$57,548           | \$44,004 | \$57,548         | \$44,0   |
| Net charge-offs as a percentage of<br>average loans outstanding | 0.26%              | 0.04%    | 0.19%            | 0.       |

Item 3: Quantitative and Qualitative Disclosures About Market Risk



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

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 15, 2001. The only items of business acted upon at the Annual Meeting were (i) the election of 12 directors for one year terms; and (ii) approval of the amendment of Commerce Bancorp, Inc.'s Restated Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue by 100,000,000 shares. The number of votes cast for, against, or withheld, as well as the number of abstentions and broker non-votes was as follows:

(i) Election of directors:

| Name of<br>Nominee<br>----- | For<br>--- | (Withhold Authority)<br>Against<br>----- |
|-----------------------------|------------|--|
| Vernon W. Hill, II          | 26,704,247 | 1,796,781                                |
| David Baird, IV             | 27,991,580 | 509,448                                  |
| Robert C. Beck              | 26,794,487 | 1,706,541                                |
| Jack R Bershad              | 26,981,699 | 1,519,329                                |
| Joseph M. Buckelew          | 26,863,947 | 1,637,081                                |
| C. Edward Jordan, Jr.       | 26,870,647 | 1,630,381                                |
| Morton N. Kerr              | 27,075,342 | 1,425,686                                |
| Steven M. Lewis             | 27,825,374 | 675,654                                  |
| Daniel J. Ragone            | 27,975,737 | 525,291                                  |
| William A. Schwartz, Jr.    | 27,991,584 | 509,444                                  |
| Joseph T. Tarquini, Jr      | 27,984,423 | 516,605                                  |
| Frank C. Videon, Sr.        | 27,973,414 | 527,614                                  |

(ii) Approval of the amendment of Commerce Bancorp, Inc.'s Restated Certificate of Incorporation to increase the number of shares of common stock that the Company is authorized to issue by 100,000,000 shares:

| For<br>--- | Against<br>----- | Abstain<br>----- | Broker<br>Non-Vote<br>----- |
|------------|------------------|------------------|-----------------------------|
| 21,537,001 | 6,842,651        | 121,374          | 0                           |

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed during the second quarter ended June 30, 2001.

SIGNATURES

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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.

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(Registrant)

August 9, 2001

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(Date)

/s/ DOUGLAS J. PAULS

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