COMMERCE BANCORP INC /NJ/
Form 10-K
March 15, 2004

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________.

Commission File #1-12609

COMMERCE BANCORP, INC.
[LOGO OMITTED]
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

the Registrant was approximately $2,497,629,542.(1)

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Title of Class	No. of Shares Outstanding as of 3/1/04
Common Stock $1.00 Par Value	77,394,220

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2004 Annual Meeting of Shareholders.

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(1) The aggregate dollar amount of the voting stock set forth equals the number of shares of the Registrant's Common Stock outstanding reduced by the number of shares of Common Stock held by officers, directors, and shareholders owning 10% or more of the Registrant's Common Stock, multiplied by $37.10 , the last sale price for the Registrant's Common Stock on June 30, 2003 the last business day of the Registrant's most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the Registrant or that such person is the beneficial owner of the shares reported as being held by him, and any such inference is hereby disclaimed. The information provided herein is included solely for the recordkeeping purposes of the Securities and Exchange Commission.

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PART I

Item 1. Business

Forward-Looking Statements

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

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

The following factors, among others, could cause the Company's financial performance to differ materially from that expressed in such forward-looking statements: the strength of the United States and world economies in general and the strength of the local economies in which the Company conducts its operations; the effects of, and changes in, trade, monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation; interest rates, market and monetary fluctuations; the Company's timely development of competitive new products and services and the acceptance of such products and services by customers; the willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa; the impact of changes in financial services laws and regulations, including laws concerning taxes, banking, securities and insurance; technological changes; future acquisitions; the 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; the ability to maintain the growth and further development of the Company's community-based retail branching network;

unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the Company's success at managing the risks involved in the foregoing. The Company cautions that the foregoing list of important factors is not exclusive.

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

General

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

As of December 31, 2003, the Company had total assets of $22.7 billion, total loans of $7.4 billion, and total deposits of $20.7 billion. The address of the Company's principal executive office is Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey, 08034-5400 and the telephone number is (856) 751-9000. The Company operates:

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

These five bank subsidiaries, referred to collectively as the banks, as of December 31, 2003 had 270 full service retail branch offices located in the states of New Jersey, Pennsylvania, Delaware and New York. These banks provide a full range of retail and commercial banking services for consumers and small and mid-sized companies. Lending services are focused on commercial real

estate and commercial and consumer loans to local borrowers. These banks' lending and investment activities are funded principally by retail deposits gathered through each bank's retail branch office network.

Acquisitions

The Company's primary growth strategy is the opening of new full service branch offices of which 46 opened in 2003 and 40 opened in 2002. The Company expects to open an additional 50 full service branch offices in 2004. The Company has also developed its full service branch office network through the following strategic acquisitions:

- on January 2, 1987, the Company acquired all of the outstanding shares of Commerce Bank/Pennsylvania, N.A., referred to as Commerce PA;

- on December 31, 1988 the Company acquired all of the outstanding shares of Citizens State Bank of New Jersey, Forked River, which was subsequently converted to a national charter and renamed Commerce Bank/Shore, N.A., referred to as Commerce Shore;

- on September 30, 1993, the Company acquired all of the outstanding shares of The Coastal Bank, Ocean City, New Jersey, which was merged with and into Commerce NJ;

- on January 21, 1997, the Company acquired Independence Bancorp, Inc., a bank holding company headquartered in Bergen County, New Jersey. Independence Bancorp, Inc.'s wholly-owned state-chartered bank subsidiary, Independence Bank of New Jersey, was subsequently renamed Commerce Bank/North, referred to as Commerce North;

- on January 15, 1999, the Company acquired Community First Banking Company, referred to as CFBC, a one-bank holding company headquartered in Tinton Falls, New Jersey. CFBC's wholly-owned bank subsidiary, Tinton Falls State Bank, was merged with and into Commerce Shore; and

- on January 15, 1999, the Company acquired Prestige Financial Corp., referred to as PFC, a one-bank holding company headquartered in Flemington, New Jersey. PFC's wholly-owned state-chartered bank subsidiary, Prestige State Bank, was subsequently re-chartered as a national bank and renamed Commerce Bank/Central, N.A. Commerce Central was merged with and into Commerce NJ in 2001.

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

Commerce NJ operates a non-bank subsidiary, Commerce Capital Markets, Inc. (CCMI), Philadelphia, Pennsylvania, referred to as Commerce Capital Markets, which engages in various securities, investment banking and brokerage activities

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

- in 2001, Fitzsimmons Insurance and Financial Services, Inc., Business Training Systems, Inc. and Brettler Financial Group, Inc. were acquired.

- in 2002, Sanford and Purvis, Inc., Upper Montclair, NJ, was acquired.

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

Dividends

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

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The Banks

As of December 31, 2003, Commerce NJ had total assets of $12.8 billion, total deposits of $11.5 billion, and total shareholders' equity of $759.0 million; Commerce PA had total assets of $4.6 billion, total deposits of $4.3 billion and total shareholders' equity of $276.8 million; Commerce Shore had total assets of $2.7 billion, total deposits of $2.4 billion and total shareholders' equity of $165.5 million; Commerce North had total assets of $2.5 billion, total deposits of $2.3 billion, and total shareholders' equity of $153.9 million; and Commerce Delaware had total assets of $294.6 million, total deposits of $272.0 million, and total shareholders' equity of $20.6 million.

Service Areas

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

Commerce NJ provides retail and commercial banking services through 144 retail branch offices in Central and Southern New Jersey, and Metropolitan New York.; Commerce PA provides retail and commercial banking services through 61 retail branch offices in Philadelphia, Bucks, Chester, Delaware and Montgomery Counties in Southeastern Pennsylvania; Commerce Shore provides retail and commercial banking services through 31 retail branch offices in Ocean and Monmouth Counties, New Jersey; Commerce North provides retail and commercial banking services through 28 retail branch offices in Bergen and Passaic Counties, New Jersey; and Commerce Delaware provides retail and commercial banking services through 6 retail branch offices in New Castle County, Delaware.

Retail Banking Services and Products

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

Trust Services

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

Commercial Banking Services and Products

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

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

Commerce Insurance

Commerce Insurance operates one of the nation's largest regional insurance brokerage firms concentrating on commercial property, casualty and surety as well as personal lines. In addition, Commerce Insurance offers a line of employee benefit programs including group as well as individual medical, life, disability, pension, and risk management services. Commerce Insurance currently operates out of 11 locations in New Jersey, 2 locations in Pennsylvania, and 2 locations in Delaware. Commerce Insurance places insurance for clients in multiple states, primarily New Jersey, Pennsylvania, New York, and Delaware.

Commerce Capital Markets

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

Commerce Capital Trust II

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

Other Activities

NA Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ that purchases, holds and sells investments of Commerce NJ. Commerce Mortgage Acceptance Corp., a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ that is utilized in the securitization of residential mortgage loans. Shore Asset Management Corporation, a Delaware corporation, is a wholly-owned subsidiary of Commerce Shore that purchases, holds and sells investments of Commerce

Shore. North Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce North that purchases, holds, and sells investments of Commerce North. Delaware Asset Management, a New Jersey corporation, is a wholly-owned subsidiary of Commerce Delaware that purchases, holds, and sells investments of Commerce Delaware. Commerce Commercial Leasing LLC, a New Jersey Limited Liability Company, is a wholly-owned subsidiary of Commerce NJ and Commerce Shore that provides business leasing services.

The Company has an equity investment in Pennsylvania Commerce Bancorp, Inc., Camp Hill, Pennsylvania (12.82% beneficial ownership assuming the exercise of all outstanding warrants held by the Company). The Company and its subsidiaries provide marketing support and technical support services to Pennsylvania Commerce Bancorp, Inc. and its wholly owned subsidiary, Commerce Bank/Harrisburg.

Risk Factors

The Company is subject to a number of risk factors including, among others, business and economic conditions, monetary and other governmental policies, and competition. These factors, and others, could impact the Company's business, financial condition and results of operations. In the normal course of business, the Company assumes various types of risk, which include, among others, credit risk, interest rate risk, liquidity risk and risk associated with trading activities. The Company has risk management processes designed to provide for risk identification, measurement and monitoring.

Competition

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

In commercial transactions, Commerce NJ's, Commerce PA's, Commerce Shore's, Commerce North's, and Commerce Delaware's legal lending limit to a single borrower (approximately $127.6 million, $43.3 million, $25.9 million, $24.7 million, and $3.0 million, respectively, as of December 31, 2003) enables the banks to compete effectively for the business of smaller and mid-sized businesses. The combined legal lending limit of the Company is $224.5 million. These legal lending limits are lower than that of various competing institutions and may act as a constraint on the bank's effectiveness in competing to provide financing in excess of these limits.

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

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

Supervision and Regulation

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

A CHANGE IN APPLICABLE STATUTES, REGULATIONS OR REGULATORY POLICY MAY HAVE A MATERIAL EFFECT ON THE BUSINESS OF THE COMPANY.

The Company

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

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

The Company is generally prohibited under the Holding Company Act from engaging in, or acquiring direct or indirect ownership or control or more than 5% of the voting shares of any company engaged in non-banking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper

incident thereto. In making such a determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public which outweigh the possible adverse effects.

Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act, as amended ("CRA") ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions. Under the CRA, Commerce NJ, Commerce Delaware and Commerce North are currently rated "outstanding", while Commerce Shore and Commerce Pennsylvania are currently rated "satisfactory".

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

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

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

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

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

Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware

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

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

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

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

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

NJ, Commerce Delaware and Commerce North each received an "outstanding" rating while Commerce PA and Commerce Shore each received a "satisfactory" rating.

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

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

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

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

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

Commerce Insurance/ Commerce Capital Markets

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

Both Commerce Insurance and Commerce Capital Markets are also subject to

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

Gramm-Leach-Bliley Act

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

These financial activities authorized by the Act may also be engaged in by a "financial subsidiary" of a national or state bank, except for annuity underwriting, insurance company portfolio investments, real estate investment and development, and merchant banking, which must be conducted in a financial holding company. In order for the new financial activities to be engaged in by a financial subsidiary of a national or state bank, the Act requires each of the parent bank (and its sister-bank affiliates) to be well

capitalized and well managed; the aggregate consolidated assets of all of that bank's financial subsidiaries may not exceed the lesser of 45% of its consolidated total assets or $50.0 billion; the bank must have at least a satisfactory CRA rating; and, if that bank is one of the 100 largest national banks, it must meet certain financial rating or other comparable requirements.

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

The foregoing discussion is qualified in its entirety by reference to the

statutory provisions of the Act and the implementing regulations, which are adopted by various government agencies pursuant to the Act.

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

National Monetary Policy

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

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

Employees

As of December 31, 2003 the Company had in excess of 8,200 full-time equivalent employees.

Available Information

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

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

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

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

Item 2. Properties

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

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

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

Item 3. Legal Proceedings

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

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

There were no matters submitted to a vote of security holders in the fourth quarter of 2003.

Part II

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

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

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

Dividend Policy

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

Item 6. Selected Financial Data

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

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	Year Ended December 31,		
(dollars in thousands, except per share data)	2003	2002	2001
Income Statement Data:			
Net interest income	$ 755,866	$ 572,755	$ 401,326
Provision for loan losses	31,850	33,150	26,384
Noninterest income	332,478	257,466	196,805
Noninterest expense	763,392	579,168	420,036
Income before income taxes	293,102	217,903	151,711
Net income	194,287	144,815	103,022
Balance Sheet Data:			
Total assets	$22,712,180	$16,403,981	$11,363,703
Loans (net)	7,328,519	5,731,856	4,516,431
Securities available for sale	10,650,655	7,806,779	4,152,704
Securities held to maturity	2,490,484	763,026	1,132,172
Trading securities	170,458	326,479	282,811
Federal funds sold			
Deposits	20,701,400	14,548,841	10,185,594
Long-term debt	200,000	200,000	80,500
Stockholders' equity	1,277,288	918,010	636,570
Per Share Data:			
Net income-basic	$ 2.73	$ 2.16	$ 1.59
Net income-diluted	2.61	2.04	1.51
Cash dividends	0.66	0.60	0.55
Book value	16.70	13.53	9.70
Average shares outstanding:			
Basic	71,084	66,795	64,666
Diluted	74,462	70,903	68,102
Selected Ratios:			
Performance			
Return on average assets	0.99 %	1.05 %	1.08
Return on average equity	18.81	18.50	17.64
Net interest margin	4.36	4.69	4.76
Liquidity and Capital			
Average loans to average deposits	36.93 %	42.48 %	48.04
Dividend payout	24.18	27.78	34.59
Stockholders' equity to total assets	5.62	5.60	5.60
Risk-based capital:			
Tier 1	12.66	11.47	10.81
Total	13.62	12.51	11.96
Leverage capital	6.61	6.37	6.24
Asset Quality			
Non-performing assets to total year-end assets	0.10 %	0.11 %	0.16
Net charge-offs to average loans outstanding	0.16	0.18	0.19
Non-performing loans to total year-end loans	0.29	0.24	0.37
Allowance for loan losses to total end of year loans	1.51	1.56	1.46
Allowance for loan losses to non-			

performing loans	515.39	640.18	397.73

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

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

Executive Summary

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

During 2003, the company's total assets grew 38%. The interest rate environment during the year was difficult for the Company's growth model, with long-term interest rates reaching historically low levels. The rate environment contributed to the compression of the Company's net interest margin to 4.36%, the lowest level in over 10 years. Despite this, the Company was able to grow revenue 31%, net income 34%, and diluted net income per share by 28%. The Company also demonstrated its ability to access the capital markets by successfully completing a $209 million common stock offering in September 2003. The Company's financial performance for 2003 and projected performance for 2004 are further discussed below.

The 2003 financial highlights are summarized below.

- Net income increased 34% and earnings per share increased 28%.
- Total deposits grew 42% and total loans grew 28%.
- Total revenues (net interest income plus noninterest income) increased 31%.
- Successful completion of common stock offering that produced net proceeds of approximately $209 million, which will support future growth.

	2003	2002	Increase
(amounts in billions)			
Total Assets	$ 22.7	$ 16.4	38%
Total Loans (net)	7.3	5.7	28%
Total Investments	13.3	8.9	49%
Total Deposits	20.7	14.5	42%
(amounts in millions)			
Total Revenues	$ 1,088.3	$ 830.2	31%
Net Income	194.3	144.8	34%

Net Income per Share	2.61	2.04	28%

The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for sound growth and profitability. The Company's unique business model continues to produce strong top-line revenue growth that is driven by strong deposit growth.

The continued ability to grow deposits has resulted in significant earning asset growth. This growth resulted in $771.5 million of net interest income on a tax equivalent basis in 2003, an increase of $185.6 million or 32% over 2002. As more fully depicted in the chart below, the increase in net interest income in both 2003 and 2002 was almost entirely due to volume increases in the Company's earning assets.

Net Interest Income
(dollars in millions)

	Volume Increase	Rate Change	Total Increase	
2003	$227.1	($41.5)	$185.6	32%
2002	$174.0	($0.8)	$173.2	42%

The Company continues to reiterate its future growth targets, which management expects to meet or exceed.

	Growth Target	Actual 2003 Growth
Total Deposits	25%	42%
Comp Store Deposits	18%	27%
Total Revenue	25%	31%
Net Income	25%	34%
Earnings Per Share	20%	28%

The Company completed it plan to open 46 stores in 2003 and plans to open 50 more during 2004. The Company plans to open approximately 40 stores in 2004 in the metro New York market. This market has seen the highest deposit growth per branch and management expects these stores to continue to lead the deposit growth of the Company. The remaining 10 stores will be opened in the metro Philadelphia market. The Company has previously announced that it expects to enter the Washington D.C./Northern Virginia market in 2005.

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Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this

information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

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

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

Branch Premises and Equipment. In accordance with accounting principles generally accepted in the United States, when capitalizing costs for branch construction, the Company includes the costs of purchasing the land, developing the site, constructing the building (or leasehold improvements if the property is leased), and furniture, fixtures and equipment necessary to equip the branch. All other pre-opening and post-opening costs related to branches are expensed as incurred.

Segment Reporting

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

	Net Income		
	2003	2002	2001
Community Banks	$183,068	$139,560	$ 95,574
Parent/Other	11,219	5,255	7,448
Consolidated total	$194,287	$144,815	$103,022

Average Balances and Net Interest Income

The table on page 15 sets forth balance sheet items on a daily average basis for the years ended December 31, 2003, 2002 and 2001 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2003, average interest earning assets totaled $17.7 billion, an increase of $5.2 billion, or 42% over 2002. This increase resulted primarily from the increase in the average balance of

investments, which rose $4.0 billion, and the average balance of loans, which rose $1.2 billion during 2003. The growth in the average balance of interest earning assets was funded primarily by an increase in the average balance of deposits (including noninterest-bearing demand deposits) of $5.2 billion.

Net Interest Margin and Net Interest Income

Net interest margin on a tax equivalent basis was 4.36% for 2003, a decrease of 33 basis points from 2002. The decrease is due to the low interest rate environment throughout 2003. During the fourth quarter of 2003, the net interest margin increased by 6 basis points and management expects it to continue increasing in the first quarter of 2004. The net interest margin is calculated by dividing net interest income by average earning assets.

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

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

Net interest income on a tax-equivalent basis (which adjusts for the tax-exempt status of income earned on certain loans and investments to express such income as if it were taxable) for 2003 was $771.5 million, an increase of $185.6 million, or 32%, over 2002. Interest income on a tax-equivalent basis increased to $931.3 million from $768.5 million, or 21%. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2003 fell $22.8 million to $159.8 million from $182.6 million in 2002. This decrease was primarily related to decreases in the rates paid on the Company's deposits and debt instruments.

The tax-equivalent yield on interest earning assets during 2003 was 5.26%, a decrease of 89 basis points from 6.15% in 2002. The cost of interest-bearing liabilities decreased 70 basis points in 2003 to 1.11% from 1.81% in 2002. These decreases resulted primarily from decreased general market interest rates during 2003 as compared to 2002. The cost of total funding sources decreased 56 basis points in 2003 to 0.90% from 1.46%.

The following table presents the major factors that contributed to the changes in net interest income for the years ended December 31, 2003 and 2002 as compared to the respective previous periods.

	2003 vs. 2002 Increase (Decrease) Due to Changes in (1)			2002 vs. 200 Increase (Decre Due to Changes i	
	Volume	Rate	Total	Volume	Rate

(dollars in thousands)

Interest on Investments:					
Taxable	$186,070	($65,123)	$120,947	$156,146	($29,8
Tax-exempt	6,277	706	6,983	1,968	(2
Trading	(1,029)	(1,527)	(2,556)	1,558	2
Federal Funds sold	(356)	(254)	(610)	(1,802)	(3,2
Interest on loans:					
Commercial mortgages	24,352	(10,574)	13,778	31,083	(17,2
Commercial	21,154	(6,710)	14,444	16,240	(17,0
Consumer	24,965	(17,970)	6,995	27,817	(13,9
Tax-exempt	4,515	(1,701)	2,814	1,612	(4
Total interest Income	265,948	(103,153)	162,795	234,622	(81,8
Interest expense:					
Savings	9,453	(12,089)	(2,636)	9,678	(12,0
N.O.W. Accounts	884	(1,682)	(798)	1,128	(2,6
Money Market plus	16,781	(20,685)	(3,904)	17,669	(24,3
Time Deposits	10,405	(18,077)	(7,672)	20,708	(20,7
Public funds	(1,069)	(6,711)	(7,780)	2,960	(19,4
Other Borrowed Money	2,349	(924)	1,425	379	(2,0
Long-term Debt	32	(1,517)	(1,485)	8,090	2
Total interest Expense	38,835	(61,685)	(22,850)	60,612	(81,0
Net increase	$227,113	($41,468)	$185,645	$174,010	($8

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

	Year Ended December 31,					
	2003			2002		
(dollars in thousands) Earning Assets	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate

Investment securities						
Taxable	$ 10,777,538	$508,758	4.72%	$ 6,835,820	$387,811	5.67%
Tax-exempt	201,775	13,835	6.86	110,235	6,852	6.22
Trading	193,376	9,637	4.98	214,016	12,193	5.70
Total investment securities	11,172,689	532,230	4.76	7,160,071	406,856	5.68
Federal funds sold	22,530	255	1.13	54,043	865	1.60
Loans						
Commercial mortgages	2,419,855	152,642	6.31	2,037,091	138,864	6.82
Commercial	1,605,845	87,782	5.47	1,219,182	73,338	6.02
Consumer	2,224,197	137,138	6.17	1,815,679	130,143	7.17
Tax-exempt	269,592	21,230	7.87	212,261	18,416	8.68
Total loans	6,519,489	398,792	6.12	5,284,213	360,761	6.83
Total earning assets	$17,714,708	$931,277	5.26%	$12,498,327	$768,482	6.15%
Sources of Funds						
Interest-bearing liabilities						
Savings	$3,676,147	$27,596	0.75%	$ 2,416,884	$ 30,232	1.25%
N.O.W. accounts	468,311	3,358	0.72	344,951	4,156	1.20
Money market plus	6,495,847	47,353	0.73	4,193,963	51,257	1.22
Time deposits	2,335,124	53,721	2.30	1,882,823	61,393	3.26
Public funds	852,319	12,394	1.45	925,827	20,174	2.18
Total deposits	13,827,748	144,422	1.04	9,764,448	167,212	1.71
Other borrowed money	423,538	3,263	0.77	118,734	1,839	1.55
Long-term debt	200,000	12,080	6.04	199,464	13,565	6.80
Total deposits and interest-bearing liabilities	14,451,286	159,765	1.11	10,082,646	182,616	1.81
Noninterest-bearing funds (net)	3,263,422			2,415,681		
Total sources to fund earning assets	$17,714,708	$159,765	0.90	$12,498,327	$182,616	1.46
Net interest income and margin tax-equivalent basis		$771,512	4.36		$585,866	4.69
Tax-exempt adjustment		15,646			13,111	
Net interest income and margin		$755,866	4.27%		$572,755	4.58%
Other Balances						
Cash and due from banks	$ 922,188			$630,134		
Other assets	1,053,283			702,898		
Total assets	19,590,319			13,752,237		
Demand deposits (noninterest-bearing)	3,826,885			2,674,233		
Other liabilities	279,203			212,775		
Stockholders' equity	1,032,945			782,583		

Noninterest Income

For 2003, noninterest income totaled $332.5 million, an increase of $75.0 million or 29% from 2002. Deposit charges and service fees had the largest increase of $29.6 million, or 23%. Other operating income increased by $23.5 million, or 66%, which includes the Company's insurance and capital markets divisions. Commerce Insurance, the Company's insurance brokerage subsidiary, recorded increased revenues of $10.6 million, or 19%, while Commerce Capital Markets generated increased revenues of $7.4 million, or 21%. The increase in other operating income is more fully depicted in the following chart.

	2003	2002
Deposit Charges & Service Fees	$160,678	$131,033
Other Operating Income:		
Insurance	66,482	55,875
Capital Markets	42,518	35,082
Loan Brokerage Fees	27,169	18,655
Other	31,780	16,821
Total other	167,949	126,433
Net Investment Securities Gains	3,851	
Total Noninterest Income	$332,478	$257,466

The increase in loan brokerage fees resulted from the volume of mortgage refinancing activity in 2003 related to historically low long-term interest rates. Management does not anticipate the same level of refinancing activity and fees in 2004. Other included gains on sale of loans, primarily SBA loans, which increased $10.4 million over 2002. Management intends to continue selling the majority of SBA loans originated in 2004.

Noninterest Expenses

Noninterest expenses totaled $763.4 million for 2003, an increase of $184.2 million, or 32% over 2002. Contributing to this increase was the addition of 46 new branches. With the addition of these new offices, staff, facilities, marketing, and related expenses rose accordingly. Occupancy costs increased by 70% during 2003. This increase is due to the growth in the metro New York market, where occupancy costs are higher especially in New York City.

Other noninterest expenses rose $26.0 million, or 21%, to $150.1 million in 2003. The primary increases in other noninterest expenses were increased business development expenses of $3.3 million to $24.9 million, increased bank-card related service charges of $3.5 million to $25.4 million, increased professional services/insurance expenses of $5.5 million to $24.6 million and increased provisions for non-credit-related losses of $2.4 million to $15.5 million.

A key industry productivity measure is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses (excluding other real estate expenses) to net interest income plus noninterest income (excluding non-recurring gains). This ratio equaled 70.38%, 69.73%, and 70.06%, in 2003, 2002, and 2001, respectively. Management believes the Company's aggressive growth activities will keep its efficiency ratio above its peer group.

Income Taxes

The provision for federal and state income taxes for 2003 was $98.8 million compared to $73.1 million in 2002 and $48.7 million in 2001. The effective tax rate was 33.7%, 33.5% and 32.1% in 2003, 2002, and 2001, respectively. The increase in the effective income tax rate for 2002 was primarily due to higher state income taxes under newly enacted tax laws in New Jersey.

Net Income

Net income for 2003 was $194.3 million, an increase of $49.5 million, or 34% over the $144.8 million recorded for 2002.

Historically, the Company's rate of revenue growth has exceeded the rate of growth in noninterest expenses, despite the Company's significant investment in infrastructure and people to support its ongoing branch expansion plans. In 2003, total revenues increased $258.1 million, or 31%, while noninterest expenses increased $184.2 million or 32%. As previously discussed, the interest rate environment in 2003 negatively impacted the Company's net interest margin and revenue growth. Management projects that deposit growth and an improved net interest margin will positively impact revenues in 2004, and that revenue growth will exceed the growth in noninterest expenses.

Diluted net income per share of common stock for 2003 was $2.61 compared to $2.04 per common share for 2002. Diluted net income per share for 2003 reflects the issuance of 5,000,000 shares of common stock in September 2003.

Return on Average Equity and Average Assets

Two industry measures of the performance by a banking institution are its return on average assets and return on average equity. Return on average assets ("ROA") measures net income in relation to total average assets and indicates a company's ability to employ its resources profitably. The Company's ROA was 0.99%, 1.05%, and 1.08% for 2003, 2002, and 2001, respectively. Return on average equity ("ROE") is determined by dividing annual net income by average stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its stockholders. The Company's ROE was 18.81%, 18.50%, and 17.64% for 2003, 2002, and 2001, respectively.

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The Company's ROE excluding the accumulated other comprehensive income component of stockholders equity (the unrealized appreciation/depreciation of its available for sale securities) was 19.33%, 20.28%, and 18.33% for 2003, 2002 and 2001 respectively.

Loan Portfolio

The following table summarizes the loan portfolio of the Company by type of loan as of December 31, for each of the years 1999 through 2003.

	December 31,			
	2003	2002	2001	2000
			(dollars in thousands)	

Commercial:				
Term	$1,027,526	842,869	600,374	469,564
Line of credit	959,158	683,640	556,977	430,811
Demand	1,077	317	440	1,400
	1,987,761	1,526,826	1,157,791	901,775
Owner-occupied	1,619,079	1,345,306	1,028,408	945,599
Consumer:				
Mortgages (1-4 family residential)	918,686	626,652	471,680	351,644
Installment	138,437	140,493	161,647	154,415
Home equity	1,405,795	1,139,589	872,974	710,848
Credit lines	60,579	56,367	43,196	30,254
	2,523,497	1,963,101	1,549,497	1,247,161
Commercial real estate:				
Investor developer	1,167,672	885,276	799,799	578,982
Construction	142,567	102,080	47,917	13,743
	1,310,239	987,356	847,716	592,725
Total loans	$7,440,576	$5,822,589	$4,583,412	$3,687,260

The Company manages risk associated with its loan portfolio through diversification, underwriting policies and procedures, and ongoing loan monitoring efforts. The commercial real estate portfolio includes investor/ developer permanent and construction loans and residential construction loans. Owner-occupied and investor/ developer loans generally have five year call provisions and bear the personal guarantees of the principals involved. Financing for investor/developer construction is generally for pre-leased or pre-sold property, while residential construction is provided against firm agreements of sale with speculative construction generally limited to two samples per project. The commercial loan portfolio is comprised of loans to businesses in the Philadelphia and New York City metropolitan areas. These loans are generally secured by business assets, personal guarantees, and/or personal assets of the borrower. The consumer loan portfolio is comprised primarily of loans secured by first and second mortgage liens on residential real estate.

The contractual maturity ranges of the loan portfolio and the amount of loans with predetermined interest rates and floating rates in each maturity range, as of December 31, 2003, are summarized in the following table.

	December 31, 2003			
	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years	Total
(dollars in thousands)				
Commercial:				
Term	$ 336,652	$ 580,584	$ 110,290	$ 1,027,526
Line of credit	920,292	38,866		959,158
Demand	1,077			1,077

	1,258,021	619,450	110,290	1,987,761
Owner-occupied	318,028	969,582	331,469	1,619,079
Consumer:				
Mortgages (1-4 family residential)	29,471	113,037	776,178	918,686
Installment	47,934	58,183	32,320	138,437
Home equity	113,913	422,044	869,838	1,405,795
Credit lines	21,809	38,770		60,579
	213,127	632,034	1,678,336	2,523,497
Commercial real estate:				
Investor developer	309,761	737,201	120,710	1,167,672
Construction	71,968	70,599		142,567
	381,729	807,800	120,710	1,310,239
Total loans	$2,170,905	$3,028,866	$2,240,805	$7,440,576
Interest rates:				
Predetermined	$ 575,602	$2,070,183	$1,407,087	$4,052,872
Floating	1,595,303	958,683	833,718	3,387,704
Total loans	$2,170,905	$3,028,866	$2,240,805	$7,440,576

During 2003, loans increased $1.6 billion, or 28% from $5.8 billion to $7.4 billion. At December 31, 2003, loans represented 36% of total deposits and 33% of total assets. All segments of the loan portfolio experienced growth in 2003. During the first three quarters of 2003, increased loan prepayment activity put pressure on overall loan growth. The prepayment activity slowed during the fourth quarter and helped result in increased loan growth relative to prior quarters. Management expects loan growth during 2004 to meet or exceed the growth in 2003, with commercial loan growth in the metro New York market helping to drive the growth.

The Company has traditionally been an active provider of real estate loans to creditworthy local borrowers, with such loans secured by properties within the Company's primary trade area. Loans to finance owner-occupied properties grew $273.8 million or 20% during 2003. Commercial loan growth of $460.9 million or 30% was led by activity in the middle market and healthcare sectors. Growth in consumer loans of $560.4 million, or 29%, was primarily in mortgage and home equity lending.

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Non-Performing Loans and Assets

Non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at December 31, 2003 were $23.6 million or .10% of total assets, as compared to $17.8 million or .11% of total assets at December 31, 2002.

Total non-performing loans (non-accrual loans, and restructured loans, excluding

loans past due 90 days or more and still accruing interest) at December 31, 2003 were $21.7 million as compared to $14.2 million a year ago. During 2003, consumer non-performing loans increased by approximately $3.5 million of loans that were part of attempts to defraud the Company and a number of other financial institutions and mortgage companies. The Company generally places a loan on non-accrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory. Generally loans past due 90 days are placed on non-accrual status, unless the loan is both well secured and in the process of collection. At December 31, 2003, loans past due 90 days or more and still accruing interest amounted to $538 thousand, compared to $620 thousand at December 31, 2002. Additional loans considered by the Company's internal loan review department as potential problem loans of $47.7 million at December 31, 2003 have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) totaled $1.8 million at December 31, 2003 as compared to $3.6 million at December 31, 2002. These properties have been written down to the lower of cost or fair value less disposition costs.

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

The following summary presents information regarding non-performing loans and assets as of December 31, 1999 through 2003.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands)					
Non-accrual loans (1):					
Commercial	$ 6,867	$ 5,412	$ 6,835	$ 4,955	$ 2,254
Consumer	9,242	2,734	1,484	1,295	674
Real estate					
Construction	138	131	1,590	1,459	55
Mortgage	5,494	5,891	6,924	5,840	5,230
Total non-accrual loans	21,741	14,168	16,833	13,549	8,213
Restructured loans (1):					
Commercial	1	5	8	11	277
Real estate mortgage				82	192
Total restructured loans	1	5	8	93	469
Total non-performing loans	21,742	14,173	16,841	13,642	8,682
Other real estate	1,831	3,589	1,549	2,959	3,523
Total non-performing assets(1):	$23,573	$17,762	$18,390	$16,601	$12,205

Non-performing assets as a percent of total assets	0.10%	0.11%	0.16%	0.20%	0.18%
Loans past due 90 days or more and still accruing interest	$538	$620	$519	$ 489	$ 499

Allowance for Loan Losses

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

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

In addition, a portion of the allowance is established for losses inherent in the loan portfolio which have not been identified by the more quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in the Company's historical loss experience. Those factors include changes in levels and trends of charge-offs, delinquencies, and nonaccrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers

and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions. While the allowance for loan losses is maintained at a level believed to be adequate by management for estimated losses in the loan portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

The allowance for loan losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Charge-offs occur when loans are deemed to be uncollectible. During 2003, net charge-offs amounted to $10.5 million, or .16% of average loans outstanding for the year, compared to $9.4 million, or .18% of average loans outstanding for 2002. During 2003, the Company recorded provisions of $31.9 million to the allowance for loan losses compared

to $33.2 million for 2002. The Company continued to proactively manage its exposure to credit risk in 2003. Based upon consistent application of the Company's reserve methodology, allowance levels increased by $21.3 million to $122.1 million or 1.51% of total loans at December 31, 2003, but decreased as a percentage of the total loans due to growth in the portfolio.

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

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands)					
Balance at beginning of period	$90,733	$66,981	$48,680	$38,382	$31,265
Provisions charged to operating expenses	31,850	33,150	26,384	13,931	9,175
	122,583	100,131	75,064	52,313	40,440
Recoveries of loans previously charged-off:					
Commercial	669	815	552	313	551
Consumer	584	339	288	249	286
Commercial real estate	11	176	134	14	132
Total recoveries	1,264	1,330	974	576	969
Loans charged-off:					
Commercial	(5,601)	(7,181)	(5,862)	(2,936)	(1,599)
Consumer	(5,950)	(3,514)	(2,784)	(1,220)	(1,078)
Commercial real estate	(239)	(33)	(411)	(53)	(350)
Total charged-off	(11,790)	(10,728)	(9,057)	(4,209)	(3,027)
Net charge-offs	(10,526)	(9,398)	(8,083)	(3,633)	(2,058)
Balance at end of period	$112,057	$90,733	$66,981	$48,680	$38,382
Net charge-offs as a percentage of average loans outstanding	0.16%	0.18%	0.19%	0.11%	0.08%
Allowance for loan losses as a percentage of year-end loans	1.51%	1.56%	1.46%	1.32%	1.30%

Allocation of the Allowance for Loan Losses

The following table details the allocation of the allowance for loan losses to the various categories, owner-occupied is included in commercial real estate. The allocation is made for analytical purposes and it is not necessarily indicative of the categories in which future loan losses may occur. The total

allowance is available to absorb losses from any segment of loans.

	Allowance for Loan Losses at December 31,							
	2003		2002		2001		2000	
	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gros Loans
(dollars in thousands)								
Commercial	$50,400	27%	$33,708	26%	$24,110	25%	$20,396	2
Consumer	13,082	34	14,497	34	9,915	34	4,632	3
Commercial real estate	48,575	39	42,528	40	32,956	41	23,652	4
	$112,057	100%	$90,733	100%	$66,981	100%	$48,680	10

Investment Securities

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

	December 31,		
	2003	2002	2001
(dollars in thousands)			
U.S. Government agency and mortgage-backed obligations	$10,511,545	$7,659,737	$3,994,523
Obligations of state and political subdivisions	30,927	23,185	82,922
Equity securities	16,588	24,054	16,325
Other	91,595	99,803	58,934
Securities available for sale	$10,650,655	$7,806,779	$4,152,704
U.S. Government agency and mortgage-backed obligations	$ 2,193,577	$ 624,688	$1,044,266
Obligations of state and political subdivisions	227,199	91,204	50,602
Other	69,708	47,134	37,304
Securities held to maturity	$ 2,490,484	$ 763,026	$1,132,172

The Company has segregated a portion of its investment portfolio as securities available for sale. The balance of the investment portfolio (excluding trading securities) is categorized as securities held to maturity. Investment securities are classified as available for sale if they might be sold in response to changes in interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, liquidity needs or other similar factors. These securities are carried at fair market value with unrealized gains and losses, net of income tax effects, recognized in Stockholders' Equity. Investment securities are classified as held to maturity when the Company has the intent and ability to hold those securities to maturity. Securities held to maturity are carried at cost and adjusted for accretion of discounts and amortization of premiums. Trading securities, primarily municipal securities, are carried at market value, with gains and losses, both realized and unrealized, included in other operating income.

In total, investment securities increased $4.4 billion from $8.9 billion to $13.3 billion at December 31, 2003. Deposit growth and other funding sources were used to increase the Company's investment portfolio. The available for sale portfolio increased $2.8 billion to $10.7 billion, and the securities held to maturity portfolio increased $1.7 billion to $2.5 billion at year-end 2003. The portfolio of trading securities decreased $156.0 million from year-end 2002 to $170.5 million at year-end 2003. During 2003, management determined it was appropriate to classify a greater portion of its securities purchases as held to maturity. By the end of 2004, up to a third of the investment portfolio may be in held to maturity securities.

At December 31, 2003, the average life and duration of the investment portfolio were approximately 4.9 years and 3.9 years, respectively, as compared to 3.0 years and 2.5 years, respectively, at December 31, 2002. At December 31, 2003 the yield on the portfolio was 4.84%, down from 5.30% at December 31, 2002. The decrease in yield was due to lower reinvestment rates, which reflect lower general market interest rates in 2003 as compared to 2002.

The Company's significant cash flow provides reinvestment opportunities as interest rates change. In addition, management continually reviews and repositions the investment portfolio to adjust for current and anticipated interest rate and yield curve levels. This repositioning involved sales of approximately $4.8 billion during 2003. Management expects to continue the repositioning of the investment portfolio in 2004 as warranted by the changing interest rate environment.

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations. These securities have little, if any, credit risk since they are either backed by the full faith and credit of the U.S. Government, or are guaranteed by an agency of the U.S. Government, or are AAA rated. These investment securities carry fixed coupons whose rate does not change over the life of the securities. Certain securities are purchased at premiums or discounts. Their yield will change depending on any change in the estimated rate of prepayments. The Company amortizes premiums and accretes discounts over the estimated average life of the securities. Changes in the estimated average life of the investment portfolio will lengthen or shorten the period in which the premium or discount must be amortized or accreted, thus affecting the Company's investment yields. For the year ended December 31, 2003, the yield on the investment portfolio was 4.76%, a decrease of 92 basis points from 5.68% in fiscal 2002. The decrease in yield is a reflection of the general decline in market interest rates in 2003.

At December 31, 2003, the net unrealized depreciation in securities available

for sale included in stockholders' equity totaled $3.7 million, net of tax, compared to net unrealized appreciation of $113.6 million, net of tax, at December 31, 2002.

The contractual maturity distribution and weighted average yield of the Company's investment portfolio (excluding equity and trading securities) at December 31, 2003, are summarized in the following table. Weighted average yield is calculated by dividing income within each maturity range by the outstanding amortized cost amount of the related investment and has been tax effected, assuming a federal tax rate of 35%, on tax-exempt obligations.

	December 31, 2003							
	Due Under 1 Year		Due 1-5 Years		Due 5-10 Years		Due Over 10	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Y
(dollars in thousands)								
Securities available for sale:								
U.S. Government agency and mortgage-backed obligations	$137,589	1.00%	$ 1	8.50%	$346,674	4.50%	$10,027,28	
Obligations of state and political subdivisions	3,660	7.08	12,739	6.86	7,574	5.83	6,95	
Other securities	12,681	5.18	175	3.75	53,121	3.38	25,61	
	$153,930	1.49%	$12,915	6.82%	$407,369	4.38%	$10,059,85	
Securities held to maturity:								
U.S. Government agency and mortgage-backed obligations	$ 415	7.22%	$ 5,005	6.52%	$488,141	4.21%	$ 1,700,01	
Obligations of state and political subdivisions	99,837	1.18	112	2.17	14,661	7.65	112,58	
Other securities	69,708	1.79						
	$169,960	1.45%	$ 5,117	6.43%	$502,802	4.31%	$ 1,812,60	

Deposits

Total deposits at December 31, 2003 were $20.7 billion, an increase of $6.2 billion or 42% above total deposits of $14.5 billion at December 31, 2002. The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for sound growth and profitability. The Company regards core deposits as all deposits other than public certificates of deposit. Deposits in the various core categories increased $5.9 billion from year-end 2002 to year-end 2003.

Total deposits averaged $17.7 billion for 2003, an increase of $5.2 billion or 42% above the 2002 average. The average balance of noninterest-bearing demand

deposits in 2003 was $3.8 billion, a $1.2 billion or 43% increase over the average balance for 2002. The average total balance of passbook and statement savings accounts increased $1.3 billion, or 52% compared to the prior year. The average balance of interest-bearing demand accounts (money market and N.O.W. accounts) for 2003 was $7.0 billion, a $2.4 billion or 53% increase over the average balance for the prior year. The average balance of time deposits for 2003 was $3.2 billion, a $378.8 million or 13% increase over the average balance for 2002. For 2003, the cost of total deposits was 0.82% as compared to 1.34% in 2002.

The Company believes that its record of sustaining core deposit growth is reflective of the Company's retail approach to banking which emphasizes a combination of superior customer service, convenient branch locations, extended hours of operation, free checking accounts (subject to a small minimum balance requirement) and active marketing. This approach is especially reflected in the Company's comparable store deposit growth. The Company's comparable store deposit growth is measured as the year over year percentage increase in core deposits for branches open two years or more at the balance sheet date. At December 31, 2003, the comparable store deposit growth was 27% and included 184 branches. Management expects strong comparable store deposit growth in 2004 as additional metro New York stores continue to be added to the calculation.

The average balances and weighted average rates of deposits for each of the years 2003, 2002, and 2001 are presented below.

	2003		2002	
	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)				
Demand deposits:				
Noninterest-bearing	$ 3,826,885		$ 2,674,233	
Interest-bearing (money market and N.O.W. accounts)	6,964,158	0.73%	4,538,914	1.22%
Savings deposits	3,676,147	0.75	2,416,884	1.25
Time deposits/public funds	3,187,443	2.07	2,808,650	2.90
Total deposits	$ 17,654,633		$12,438,681	

The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 2003, 2002 and 2001 is presented below:

Maturity	2003	2002	2001
(dollars in thousands)			

3 months or less	$1,017,986	$ 950,299	$ 897,30
3 to 6 months	222,740	116,721	137,38
6 to 12 months	112,800	103,449	70,63
Over 12 months	23,272	10,646	6,82
Total	$1,376,798	$1,181,115	$1,112,14

Interest Rate Sensitivity and Liquidity

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

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

The following table illustrates the GAP position of the Company as of December 31, 2003.

	Interest Rate Sensitivity Gaps December 31, 2003					
	1-90 Days	91-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
(dollars in millions)						
Rate sensitive:						
Interest-earning assets						
Loans	$3,832.1	$108.3	$180.3	$1,926.9	$1,414.1	$7,461
Investment securities	765.7	726.8	1,338.4	6,622.3	3,858.4	13,311
Total interest-earning assets	4,597.8	835.1	1,518.7	8,549.2	5,272.5	20,773
Interest-bearing liabilities						

Transaction accounts	4,053.5				8,743.1	12,796
Time deposits	1,346.8	717.9	736.7	528.6		3,330
Other borrowed money	311.5					311
Long-term debt					200.0	200
Total interest-bearing liabilities	5,711.8	717.9	736.7	528.6	8,943.1	16,638
Period gap	(1,114.0)	117.2	782.0	8,020.6	(3,670.6)	$4,135
Cumulative gap	$(1,114.0)	$(996.8)	$(214.8)	$7,805.8	$4,135.2	
Cumulative gap as a percentage of total interest-earning assets	(5.4) %	(4.8)%	(1.0)%	37.6%	19.9%	

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

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

The Company's Asset/Liability Committee (ALCO) policy has established that interest income sensitivity will be

considered acceptable if net income in the above interest rate scenario is within 10% of net income in the flat rate scenario in the first year and within 15% over the two year time frame. Net income in the flat rate scenario is projected to increase by approximately 25% per year. The following table illustrates the impact on projected net income at December 31, 2003 and 2002 of a plus 200 and minus 100 basis point change in interest rates.

	Basis Point Change:	
	Plus 200	Minus 100
December 31, 2003:		
Twelve Months	1.6%	(2.3)%

Twenty Four Months	6.8%	(2.3)%
December 31, 2002:		
Twelve Months	8.8%	(5.4)%
Twenty Four Months	13.5%	(7.3)%

All of these forecasts are within an acceptable level of interest rate risk per the policies established by ALCO.

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

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off balance sheet items. The model calculates the market value of the Company's assets and liabilities in excess of book value in the current rate scenario, and then compares the excess of market value over book value given an immediate plus 200 and minus 100 basis point change in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate plus 200 or minus 100 basis point change would result in the loss of 45% or more of the excess of market value over book value in the current rate scenario. At December 31, 2003, the market value of equity indicates an acceptable level of interest rate risk.

The market value of equity model reflects certain estimates and assumptions regarding the impact on the market value of the Company's assets and liabilities given an immediate plus 200 or minus 100 basis point change in interest rates. One of the key assumptions is the market value assigned to the Company's core deposits, or the core deposit premium. Utilizing an independent consultant, the Company has completed and updated comprehensive core deposit studies in order to assign its own core deposit premiums as permitted by the Company's regulatory authorities. The studies have consistently confirmed management's assertion that the Company's core deposits have stable balances over long periods of time, are generally insensitive to changes in interest rates and have significantly longer average lives and durations than the Company's loans and investment securities. Thus, these core deposit balances provide an internal hedge to market value fluctuations in the Company's fixed rate assets. Management believes the core deposit premiums produced by its core deposit study and utilized in its market value of equity model at December 31, 2003 provide an accurate assessment of the Company's interest rate risk. The following table depicts the average lives of the Company's loans, investments and deposits at December 31, 2003:

	Average Life (in years)
Loans	3.5
Investments	4.9
Deposits	13.6

The MVE analyzes both sides of the balance sheet and, as indicated below, demonstrates the inherent value of the Company's core deposits in a rising rate environment. As rates rise, the value of the Company's core deposits increases which helps offset the decrease in value of the Company's fixed rate assets. The

following table summarizes the market value of equity at December 31, 2003 (in millions, except for per share amounts):

	Market Value of Equity	Per Share
Plus 200 basis point	$3,254	$58.95
Current Rate	$3,379	$60.57
Minus 100 basis point	$2,646	$51.05

Although the use of derivatives in 2003 was minimal, the Company may utilize interest rate derivatives to manage interest rate risk, including interest rate swaps, interest rate caps and floors, interest rate forwards, and exchange-traded futures and options contracts. Further discussion of the accounting for derivative instruments is included in Note 1 to the consolidated financial statements.

Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, and cash flow from its amortizing investment and loan portfolios. If necessary, the Company has the ability to raise liquidity through collateralized borrowings, FHLB advances, or the sale of its available for sale investment portfolio. As of December 31, 2003 the Company had in excess of $9.0 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 2003, deposit growth and short-term borrowings were used to fund growth in the loan portfolio and purchase additional investment securities.

Other Borrowed Money

Other borrowed money, or short-term borrowings, which consist primarily of securities sold under agreement to repurchase, federal funds purchased, and lines of credit, were used in 2003 to meet short-term liquidity needs. For 2003, short-term borrowings averaged $423.5 million as compared to $118.7 million in 2002. The average rate on the Company's short-term borrowings was 0.77% and 1.55% during 2003 and 2002, respectively. As of December 31, 2003, short-term borrowings included $200.0 million of securities sold under agreements to repurchase at an average rate of 1.27%, compared to $391.6 million at an average rate of 1.48% as of December 31, 2002.

Long-Term Debt

On March 11, 2002 the Company issued $200 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a Delaware business trust. The Convertible Trust Capital Securities mature in 2032. The net proceeds of this offering were used for general corporate purposes, including the redemption of the Company's $57.5 million of 8.75% Trust Capital Securities on July 1, 2002 and the repayment of the Company's $23.0 million of 8 3/8% subordinated notes on May 20, 2002.

Holders of the Convertible Trust Capital Securities may convert each security into 0.9478 shares of Company common stock, subject to adjustment, if (1) the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter beginning with the quarter ending June 30, 2003 is more than 110% of the Convertible Trust Capital Securities conversion price ($52.75 at December 31, 2003) then in effect on the last day of such calendar quarter, (2) the assigned credit rating by Moody's of the Convertible Trust Capital Securities is at or below Ba1, (3) the Convertible Trust Capital Securities are called for redemption, or (4) specified corporate transactions have occurred. As of December 31, 2003, the Convertible Trust Capital Securities were not convertible.

The Company may force conversion of the Convertible Trust Capital Securities if, at any time on or after March 11, 2005, the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days exceeds 120% of the Convertible Trust Capital Securities conversion price ($52.75 at December 31, 2003).

Once any of the above conditions are met, the Convertible Trust Capital Securities will be convertible into approximately 3.8 million shares of the Company's common stock. The effect of these securities on diluted earnings per share is calculated using the if-converted method. Under the if-converted method, the related interest charges on the Convertible Trust Capital Securities, adjusted for income taxes, is added back to the numerator and the common shares to be issued upon conversion are added to the denominator. If any of the above conditions are met in 2004, the impact of the if-converted method on diluted earnings per share will not be material.

Stockholders' Equity and Dividends

At December 31, 2003, stockholders' equity totaled $1,277.3 million, up $359.3 million or 39% over stockholders' equity of $918.0 million at December 31, 2002. This increase was due to the Company's increase in net income for the year and shares issued under the Company's common stock offering in September, the dividend reinvestment plan and employee compensation and benefit plans. Stockholders' equity as a percent of total assets was 5.6% at December 31, 2003 and 2002, respectively.

Capital Resources

In August 2003, the Company filed a Form S-3 shelf registration statement with the Securities and Exchange Commission (SEC). This shelf registration statement allows the Company to periodically offer and sell, individually or in any combination, common stock, preferred stock, debt securities, trust preferred securities, warrants to purchase other securities and units (which include a combination of any of the preceding securities) up to a total of $500 million, subject to market conditions and the Company's capital needs. During September 2003, the Company completed an offering of 5,000,000 shares of common stock for aggregate proceeds of approximately $209 million under this Form S-3 shelf registration. The proceeds from this offering are being used to support the Company's future growth.

Risk-based capital standards issued by bank regulatory authorities in the United States attempt to relate a banking company's capital to the risk profile of its assets and provide the basis for which all banking companies and banks are evaluated in terms of capital adequacy. The risk-based capital standards require all banks to have Tier 1 capital of at least 4% and total capital, including Tier 1 capital, of at least 8% of risk-adjusted assets. Tier 1 capital includes stockholders' equity (adjusted for goodwill, other intangibles, and the unrealized appreciation/depreciation in securities available for sale) plus the Convertible Trust Capital Securities. The Federal Reserve Board is evaluating

the qualification of the Convertible Trust Capital Securities as Tier 1 capital. Total capital is comprised of all of the components of Tier 1 capital plus qualifying subordinated debt instruments and the reserve for possible loan losses.

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

	December 31,		Minimum Regulatory Requirements	
	2003	2002	2003	2002
Risk based capital ratios:				
Tier 1	12.66%	11.47%	4.00%	4.00%
Total capital	13.62	12.51	8.00	8.00
Leverage ratio	6.61	6.37	4.00	4.00

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

At December 31, 2003 the Company's consolidated capital levels and each of the Company's banking subsidiaries met the regulatory definition of a "well capitalized" financial institution, i.e., a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6%, and a total risk-based capital ratio exceeding 10%. If it is determined that the Convertible Trust Capital Securities no longer qualify as Tier 1 capital, the Company will remain "well capitalized".

The Company's common stock is listed for trading on the New York Stock Exchange under the symbol CBH. The quarterly market price ranges and dividends paid per common share for each of the last two years are shown in the table below. As of February 5, 2004, there were approximately 49,000 holders of record of the Company's common stock.

Common Share Data			
	Market Prices		Cash Dividends
	High	Low	Per Share

2003 Quarter Ended			
December 31	$53.30	$47.33	$0.16000
September 30	47.91	37.30	0.17000
June 30	40.67	36.37	0.16000
March 31	45.60	37.74	0.17000
2002 Quarter Ended			
December 31	$47.23	$36.42	$0.15000
September 30	47.85	38.88	0.15000
June 30	50.24	43.70	0.15000
March 31	45.05	38.20	0.15000

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

Off-Balance Sheet Arrangements and Contractual Obligations

The Company enters into commitments to extend credit, such as letters of credit, which are not reflected in the consolidated financial statements. See note 12 to the Company's consolidated financial statements included elsewhere herein.

The Company has various contractual obligations that may require future cash payments. The following table presents, as of December 31, 2003, significant fixed and determinable contractual obligations to third parties by payment date excluding interest.

Contractual Obligations	Payments Due By Period				
	One Year or Less	One to Three Years	Three to Five Years	Beyond Five Years	Total
(dollars in millions)					
Deposits without a stated maturity	$ 5,425.9			$11,945.5	$17,371.4
Certificates of deposits	2,801.4	404.1	124.5		3,330.0
Other borrowed money	311.5				311.5
Long-term debt				200.0	200.0
Operating leases	29.0	58.2	57.0	299.0	443.2

Related Parties

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

Recent Accounting Statements

See note 1 to the Company's consolidated financial statements included elsewhere herein.

Results of Operations - 2002 versus 2001

Net income for 2002 was $144.8 million compared to $103.0 million in 2001. Diluted net income per common share was $2.04 compared to $1.51 per common share for the prior year.

Net interest income on a tax-equivalent basis for 2002 amounted to $585.9 million, an increase of $173.2 million, or 42% over 2001.

Interest income on a tax-equivalent basis increased $152.8 million or 25% to $768.5 million in 2002. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2002 decreased $20.4 million to $182.6 million from $203.0 million in 2001. This decrease was primarily related to decreases in the rates paid on the Company's deposits and other borrowed money.

The provision for loan losses was $33.2 million in 2002 compared to $26.4 million in the prior year.

For 2002, noninterest income totaled $257.5 million, an increase of $60.7 million or 31% from 2002. The growth in noninterest income was primarily reflected in increased deposit and service fees and other operating income, including the Company's insurance and capital markets divisions. Deposit charges and service fees increased $30.1 million, or 30%, over 2001 due primarily to higher transaction volumes. Commerce Insurance recorded an increase of $6.1 million in revenues to $55.9 million from $49.8 million in 2001. Commerce Capital Markets generated noninterest revenues of $35.1 million in 2002, an increase of $13.1 million from revenues of $22.0 million in 2001. Loan brokerage fees increased by $7.7 million in 2002.

Noninterest expenses totaled $579.2 million for 2002, an increase of $159.2 million, or 38% over 2001. Contributing to this increase was the addition of 40 new branches. With the addition of these new offices, staff, facilities, marketing, and related expenses rose accordingly. Salaries and benefits had the largest increase of $78.9 million during 2002. Other noninterest expenses rose $37.2 million to $124.1 million in 2002. This increase included increased bank-card related service charges of $8.3 million, increased business development expenses of $6.6 million and increased professional services/insurance expenses of $5.4 million.

Mergers and Acquisitions

During 2003, the Company purchased The Porch Agency, an insurance brokerage agency. The Company issued approximately 44,000 shares of common stock in connection with this immaterial acquisition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

Consolidated Balance Sheets

	(dollars in thousands)	2
Assets	Cash and due from banks	$
	Federal funds sold	
	Cash and cash equivalents	
	Loans held for sale	
	Trading securities	
	Securities available for sale	10
	Securities held to maturity	2
	(market value 2003 -$2,467,192; 2002- $791,889)	
	Loans	7
	Less allowance for loan losses	
		7
	Bank premises and equipment, net	
	Other assets	
	Total assets	$22
Liabilities	Deposits:	
	Demand:	
	Noninterest-bearing	$4
	Interest-bearing	8
	Savings	4
	Time	3
	Total deposits	20
	Other borrowed money	
	Other liabilities	
	Long-term debt	
		21
Stockholders' Equity	Common stock, 76,869,415 shares issued (68,043,171 shares in 2002)	
	Capital in excess of par value	
	Retained earnings	
	Accumulated other comprehensive (loss) income	
		1
	Less treasury stock, at cost, 363,076 shares (209,794 shares in 2002)	
	Total stockholders' equity	1
	Total liabilities and stockholders' equity	$22

See accompanying notes.

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Consolidated Statements of Income

		Year
	(dollars in thousands, except per share amounts)	2003
Interest Income	Interest and fees on loans	$391,361
	Interest on investment securities	524,015
	Other interest	255
	Total interest income	915,631
Interest Expense	Interest on deposits:	
	Demand	50,711
	Savings	27,596
	Time	66,115
	Total interest on deposits	144,422
	Interest on other borrowed money	3,263
	Interest on long-term debt	12,080
	Total interest expense	159,765
	Net interest income	755,866
	Provision for loan losses	31,850
	Net interest income after provision for loan losses	724,016
Noninterest Income	Deposit charges and service fees	160,678
	Other operating income	167,949
	Net investment securities gains	3,851
	Total noninterest income	332,478
Noninterest Expense	Salaries and benefits	354,954
	Occupancy	95,926
	Furniture and equipment	89,162
	Office	39,190
	Marketing	34,075
	Other	150,085
	Total noninterest expenses	763,392
	Income before income taxes	293,102
	Provision for federal and state income taxes	98,815
	Net income	$194,287

Net income per common and common equivalent share:	
Basic	$ 2.73
Diluted	$ 2.61
Average common and common equivalent shares outstanding:	
Basic	71,084
Diluted	74,462
Cash dividends, common stock	$ 0.66

See accompanying notes.

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Consolidated Statements of Cash Flows

		Year E
	(dollars in thousands)	2003
Operating Activities	Net income	$194,287
	Adjustments to reconcile net income to net cash provided by operating activities:	
	Provision for loan losses	31,850
	Provision for depreciation, amortization and accretion	132,432
	Gains on sales of securities available for sale	(3,851)
	Proceeds from sales of loans held for sale	1,429,072
	Originations of loans held for sale	(1,347,347)
	Net decrease (increase) in trading securities	156,021
	Increase in other assets	(30,489)
	(Decrease) increase in other liabilities	(55,229)
	Deferred income tax expense (benefit)	15,417
	Net cash provided by operating activities	522,163
Investing Activities	Proceeds from the sales of securities available for sale	4,864,321
	Proceeds from the maturity of securities available for sale	4,828,747
	Proceeds from the maturity of securities held to maturity	613,848
	Purchase of securities available for sale	(12,777,850)
	Purchase of securities held to maturity	(2,342,384)
	Net increase in loans	(1,781,455)
	Proceeds from sales of loans	125,368
	Purchases of premises and equipment	(300,335)
	Net cash used by investing activities	(6,769,740)
Financing Activities	Net increase in demand and savings deposits	5,631,174
	Net increase in time deposits	521,385

Net (decrease) increase in other borrowed money	(80,131)
Dividends paid	(46,525)
Issuance of common stock	208,825
Issuance of long-term debt	
Redemption of long-term debt	
Proceeds from issuance of common stock under dividend reinvestment and other stock plans	116,908
Other	(5,401)
Net cash provided by financing activities	6,346,235
Increase in cash and cash equivalents	98,658
Cash and cash equivalents at beginning of year	811,434
Cash and cash equivalents at end of year	$910,092
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$161,637
Income taxes	62,569

See accompanying notes.

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Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2003, 2002 and 2001

(in thousands, except per share amounts)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accum Ot Com hen Income
Balances at December 31, 2000	$49,627	$422,375	$27,083	$(1,622)	$(5,
Acquisition of insurance brokerage agencies (108 shares)	108	(885)			
As adjusted balance at January 1, 2001	49,735	421,490	27,083	(1,622)	(5,
Net income			103,022		
Other comprehensive income, net of tax					
Unrealized gain on securities (pre-tax $31,924)					20,
Reclassification adjustment (pre-tax $735)					
Other comprehensive income					
Total comprehensive income					
Cash dividends paid			(35,400)		
Shares issued under dividend reinvestment and compensation and benefit plans (2,202 shares)	2,202	50,802			
Restatement of par value	(17,865)	17,865			
Shares issued pursuant to stock split	31,761	(31,761)			
Other		3,501	(7)		

Balances at December 31, 2001	$65,833	$461,897	$94,698	$(1,622)	$15,
Net income			144,815		
Other comprehensive income, net of tax					
Unrealized gain on securities (pre-tax $153,397)					97,
Reclassification adjustment (pre-tax $0)					
Other comprehensive income					
Total comprehensive income					
Cash dividends paid			(39,911)		
Shares issued under dividend reinvestment and compensation and benefit plans (2,098 shares)	2,098	64,711			
Acquisition of insurance brokerage agency (113 shares)	113	4,633			
Other	(1)	7,554	2	(424)	
Balances at December 31, 2002	$68,043	$538,795	$199,604	$(2,046)	$113,
Net income			194,287		
Other comprehensive loss, net of tax					
Unrealized loss on securities (pre-tax $146,701)					(93,
Reclassification adjustment (pre-tax $36,988)					(24,
Other comprehensive loss					
Total comprehensive income					
Cash dividends paid			(46,525)		
Shares issued under dividend reinvestment and compensation and benefit plans (3,782 shares)	3,782	113,126			
Common stock issued (5,000 shares)	5,000	203,825			
Acquisition of insurance brokerage agency (44 shares)	44	1,848			
Other		8,501	(1)	(7,293)	
Balances at December 31, 2003	$76,869	$866,095	$347,365	$(9,339)	$(3,

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. (the Company) and its consolidated subsidiaries. All material intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with the current year presentation.

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

advisory services.

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

Investment Securities

Commerce Capital Markets, Inc. (CCMI) maintains a portfolio of trading account securities, which are carried at market. Gains and losses, both realized and unrealized, are included in other operating income. Trading gains of $13.0 million, $11.5 million, and $10.6 million were recorded in 2003, 2002, and 2001, respectively, including an unrealized loss of $192,000 at December 31, 2003 and an unrealized gain of $987,000 at December 31, 2002.

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

Those securities that might be sold in response to changes in market interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, or similar other factors are classified as available for sale. Available for sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for accretion of discounts and amortization of premiums. Realized gains and losses are determined on the specific certificate method and are included in noninterest income.

Loans

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

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

Allowance for Loan Losses

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

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Notes to Consolidated Financial Statements

Bank Premises and Equipment

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

Other Real Estate (ORE)
Real estate acquired in satisfaction of a loan is reported in other assets at the lower of cost or fair value less disposition costs. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to ORE and recorded at the lower of cost or fair value less disposition costs based on their appraised value at the date actually or constructively received. Losses arising from the acquisition of such property are charged against the allowance for loan losses. Subsequent adjustments to the carrying values of ORE properties are charged to operating expense. Included in other noninterest expense is $180,000, $231,000, and $1.7 million related to ORE expenses, net for 2003, 2002, and 2001, respectively.

Intangible Assets
Goodwill and certain other intangible assets, which do not possess finite useful lives, are not amortized into net income over an estimated life but rather are tested at least annually for impairment. Intangible assets determined to have finite lives, $4.4 million at December 31, 2003, are amortized over their estimated useful lives, generally 10-15 years, and also continue to be subject to impairment testing. The excess of cost over fair value of net assets acquired (goodwill) is included in other assets and amounted to $5.5 million at December 31, 2003.

Advertising Costs
Advertising costs are expensed as incurred.

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

Restriction on Cash and Due From Banks
The Banks are required to maintain reserve balances with the Federal Reserve Bank. The weighted average amount of the reserve balances for 2003 and 2002 were approximately $62.8 million and $39.6 million, respectively.

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

Recent Accounting Statements
In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (FAS 148). This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirement of FAS No. 123, "Accounting for Stock-Based

Compensation." This statement is effective for fiscal years ending after December 15, 2002 and did not have an impact on the financial condition or operating results of the Company.

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Notes to Consolidated Financial Statements

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

	2003	2002	20
Reported net income	$194,287	$144,815	$103,
Less: Stock option compensation expense determined under fair value method, net of tax	(10,048)	(8,429)	(5,
Pro forma net income	$184,239	$136,386	$97,
Reported net income per share:			
Basic	$ 2.73	$ 2.16	$ 1
Diluted	2.61	2.04	1
Pro forma net income per share:			
Basic	$ 2.59	$ 2.04	$ 1
Diluted	2.47	1.94	1

The fair value of options granted in 2003, 2002, and 2001 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.00% to 4.86%, dividend yields of 1.50% to 2.50%, volatility factors of the expected market price of the Company's common stock of .304 to .309, and weighted average expected lives of the options of 4.75 to 5.22 years.

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

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain embedded derivatives, and for hedging activities under FASB

Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). This Statement amends FAS 133 to reflect the decisions made as part of the Derivatives Implementation Group (DIG) and in other FASB projects or deliberations. FAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of FAS 149 did not have an impact on the Company's financial condition or operating results.

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

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). This Interpretation requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of obligations undertaken. The liability that must be recognized is specifically related to the obligation to stand ready to perform over the term of the guarantee. The initial recognition and measurement provisions of this guidance are effective on a prospective basis for guarantees issued or modified on or after January 1, 2003. This Interpretation also expands the disclosures that a guarantor must make about its obligations under certain guarantees. These disclosure requirements are effective for financial statements of interim or annual periods ending after October 15, 2002. See Note 12 for further discussion of the Company's guarantees. The adoption of FIN 45 did not have a material impact on the Company's financial condition or operating results.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). In December 2003, the FASB decided to defer the implementation date of FIN 46 to periods ending after March 15, 2004 for all variable interest entities with the exception of special-purpose entities, which are subject to adoption in periods ending after December 15, 2003. FIN 46 provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, noncontrolling interests and results of operations of a VIE need to be included in a company's consolidated financial statements. FIN 46's consolidation criteria are based on an analysis of risks and rewards, not control, and represent a significant and complex modification of previous accounting principles. Management does not believe the application of FIN 46 to any of its various investments or interests, if required, will have a material impact on the Company's financial condition or operating results.

During the fourth quarter of 2003, the Company applied the provisions of FIN 46 to its wholly-owned subsidiary business trust, Commerce Capital Trust II, that has issued convertible trust preferred securities to third party investors. The Company believes Commerce Capital Trust II qualifies as a special-purpose entity that falls within the adoption exception noted above. The trusts' only assets are junior subordinated convertible debentures issued by the Company that were

acquired by the trust using proceeds from the issuance of trust preferred securities and common stock. These debentures totaled $200.0 million at December 31, 2003. The adoption of FIN 46 has resulted in the deconsolidation of Commerce Capital Trust II. As a result of deconsolidation, the trust preferred securities have been re-characterized as "Long-term debt" on the consolidated balance sheet.

The Company makes investments directly in low-income housing tax credit (LIHTC) operating partnerships, private venture capital funds and Small Business Investment Companies (SBIC). The Company has determined these entities do not meet the consolidation criteria of FIN 46. At December 31, 2003, the Company's investment in these entities totals $30.1 million.

2. Mergers and Acquisitions

During 2003, the Company purchased The Porch Agency, an insurance brokerage agency, which was merged with Commerce Insurance. The Company issued approximately 44,000 shares of common stock in connection with this immaterial acquisition.

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

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

3. Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity (in thousands) at December 31, 2003 and 2002 follows:

	December 31,					
	2003					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Un
U.S. Government agency and mortgage-backed obligations	$10,528,396	$82,057	$(98,908)	$10,511,545	$7,491,768	$
Obligations of state and political subdivisions	30,223	821	(117)	30,927	22,041	
Equity securities	8,571	8,017		16,588	18,898	
Other	89,372	2,223		91,595	96,291	

Securities available for sale	$10,656,562	$93,118	$(99,025)	$10,650,655	$7,628,998	$
U.S. Government agency and mortgage-backed obligations	$ 2,193,577	$15,209	$(27,088)	$ 2,181,698	$ 624,688	$
Obligations of state and political subdivisions	227,199	30	(11,443)	215,786	91,204	
Other	69,708			69,708	47,134	
Securities held to maturity	$ 2,490,484	$15,239	$(38,531)	$ 2,467,192	$ 763,026	$

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations. These securities have little, if any, credit risk since they are either backed by the full faith and credit of the U.S. Government, or are guaranteed by an agency of the U.S. Government, or are AAA rated. Management does not believe any individual unrealized loss as of December 31, 2003 represents an other-than-temporary impairment. The unrealized losses on these securities are caused by the changes in interest rates. The Company believes it will collect all amounts contractually due on these securities and that it has the intent and ability to hold these securities until the fair value is at least equal to the carrying value.

The amortized cost and estimated market value of investment securities (in thousands) at December 31, 2003, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because obligors have the right to repay obligations without prepayment penalties.

	Available for Sale		Held to Maturi	
	Amortized Cost	Market Value	Amortized Cost	
Due in one year or less	$ 153,408	$ 153,930	$ 169,545	$
Due after one year through five years	12,310	12,915	112	
Due after five years through ten years	59,590	60,695	450,878	
Due after ten years	31,743	32,572	112,589	
Mortgage backed securities	10,390,940	10,373,955	1,757,360	1,
Equity securities	8,571	16,588		
	$10,656,562	$10,650,655	$2,490,484	$2,

Proceeds from sales of securities available for sale during 2003, 2002 and 2001 were $4.86 billion, $1.51 billion and $381.3 million, respectively. Gross gains of $32.6 million, $6.8 million and $2.2 million were realized on the sales in 2003, 2002, and 2001, respectively, and gross losses of $28.8 million, $6.8 million and $1.2 million were realized in 2003, 2002 and 2001, respectively.

At December 31, 2003 and 2002, investment securities with a carrying value of $5.0 billion and $2.1 billion, respectively, were pledged to secure deposits of public funds.

Notes to Consolidated Financial Statements

4. Loans

The following is a summary of loans outstanding (in thousands) at December 31, 2003 and 2002:

	December 31,	
	2003	2002
Commercial:		
Term	$1,027,526	$ 842,869
Line of credit	959,158	683,640
Demand	1,077	317
	1,987,761	1,526,826
Owner-occupied	1,619,079	1,345,306
Consumer:		
Mortgages (1-4 family residential)	918,686	626,652
Installment	138,437	140,493
Home equity	1,405,795	1,139,589
Credit lines	60,579	56,367
	2,523,497	1,963,101
Commercial real estate:		
Investor developer	1,167,672	885,276
Construction	142,567	102,080
	1,310,239	987,356
	$7,440,576	$5,822,589

Loans to executive officers and directors of the Company and its subsidiaries, and companies with which they are associated, are made in the ordinary course of business and on substantially the same terms as comparable unrelated transactions. The following table summarizes the Company's related party loans (in millions) at December 31, 2003 and 2002:

	December 31,	
	2003	2002
Executive officers	$ 1.4	$ 0.2
Bancorp directors	22.6	22.1
	$ 24.0	$ 22.3

In addition, the Company had loans to directors of its subsidiary banks totaling $121.7 million and $102.5 million at December 31, 2003 and 2002, respectively.

In addition to the services referenced in Note 7, the Company purchased goods and services, including legal services, from related parties. Such disbursements aggregated $1.2 million, $5.9 million, and $4.5 million, in 2003, 2002, and 2001, respectively. Management believes disbursements made to related parties were substantially equivalent to those that would have been paid to unaffiliated companies for similar goods and services.

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Notes to Consolidated Financial Statements

5. Allowance for Loan Losses

The following is an analysis of changes in the allowance for loan losses (in thousands) for 2003, 2002 and 2001:

	2003	2002	2001
Balance, January 1	$ 90,733	$66,981	$48,680
Provision charged to operating expense	31,850	33,150	26,384
Recoveries of loans previously charged off	1,264	1,330	974
Loan charge-offs	(11,790)	(10,728)	(9,057)
Balance, December 31	$112,057	$90,733	$66,981

6. Non-Performing Loans and Other Real Estate

The total of non-performing loans (non-accrual and restructured loans) was $21.7 million and $14.2 million at December 31, 2003 and 2002, respectively. Non-performing loans of $0.9 million, $3.8 million and $0.9 million net of charge offs of $0, $0 and $17,000 were transferred to other real estate during 2003, 2002 and 2001, respectively. Other real estate ($1.8 million and $3.6 million at December 31, 2003 and 2002, respectively) is included in other assets.

At December 31, 2003 and 2002, the recorded investment in loans considered to be impaired under FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" totaled $15.6 million and $9.0 million, respectively, all of which are included in non-performing loans. The reserve for loan losses related to impaired loans totaled approximately $3.5 million and $2.2 million at December 31, 2003 and 2002, respectively. As permitted, all homogenous smaller balance consumer and residential mortgage loans are excluded from individual review for impairment. The majority of impaired loans were measured using the fair market value of collateral. Impaired loans averaged approximately $12.3 million and $10.6 million during 2003 and 2002, respectively. Interest income of approximately $1.9 million, $1.4 million, and $2.1 million would have been recorded on non-performing loans (including impaired loans) in accordance with their original terms in 2003, 2002, and 2001, respectively. Actual interest income recorded on these loans amounted to $418,000, $275,000, and $237,000 during 2003, 2002, and 2001, respectively.

7. Bank Premises, Equipment, and Leases

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

	December 31,	
	2003	2002
Land	$180,324	$123,880
Buildings	323,810	247,508
Leasehold improvements	128,261	43,130
Furniture, fixtures and equipment	335,579	265,712
Leased property under capital leases	124	124
	968,098	680,354
Accumulated depreciation and amortization	(243,809)	(181,165)
	724,289	499,189
Premises and equipment in progress	87,162	81,629
	$811,451	$580,818

At December 31, 2003, the Company leased from various related parties under separate operating lease agreements the land on which it has constructed 19 offices. Rents paid under these agreements represent market rates, are supported by independent appraisals and approved by the independent members of the Board of Directors. The aggregate annual rental under these leases was approximately $1.9 million, $1.6 million, and $1.8 million in 2003, 2002, and 2001, respectively. These leases expire periodically beginning in 2005 but are renewable through 2040.

Total rent expense charged to operations under operating leases was approximately $33.7 million in 2003, $21.8 million in 2002, and $11.6 million in 2001. Total depreciation expense charged to operations was $69.7 million, $52.7 million and $41.2 million in 2003, 2002 and 2001, respectively.

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Notes to Consolidated Financial Statements

The future minimum rental commitments, by year, under the non-cancelable leases, including escalation clauses, are as follows (in thousands) at December 31, 2003:

	Operating
2004	$ 28,987
2005	29,058
2006	29,113
2007	28,249
2008	28,783

Later years	298,998
Net minimum lease payments	$443,188

The Company has obtained architectural design and facilities management services for over 25 years from a business owned by the spouse of the Chairman of the Board of the Company. The Company spent $6.4 million, $4.6 million, and $2.3 million in 2003, 2002, and 2001, respectively, for such services and related costs. Additionally, the business received additional revenues for project management of approximately $3.8 million, $3.5 million, and $1.9 million in 2003, 2002, and 2001, respectively, on furniture and facility purchases made directly by the Company. In 2003, the Board approved the transfer, without cost, into the Company of the project management services. The business will continue to provide architectural and design services to the Company. Management believes these disbursements were substantially equivalent to those that would have been paid to unaffiliated companies for similar services. The Board of Directors believes this arrangement has been an important factor in the success of the Commerce brand.

8. Deposits

The aggregate amount of time certificates of deposits in denominations of $100,000 or more was $1.4 billion and $1.2 billion at December 31, 2003 and 2002, respectively.

9. Other Borrowed Money

Other borrowed money consists primarily of securities sold under agreements to repurchase, dollar rolls, federal funds purchased, and lines of credit. The following table represents information for other borrowed money (in thousands) at December 31, 2003 and 2002:

	December 31,			
	2003		2002	
	Amount	Average Rate	Amount	Average Rate
Securities sold under agreements to repurchase	$311,510	1.10%	$391,641	1.56
Average amount outstanding	$423,538	0.77%	$118,734	1.55
Maximum month-end balance	1,114,482		391,641	

As of December 31, 2003, the Company had a line of credit of $820.7 million from the Federal Home Loan Bank of New York, a line of credit of $187.7 million from the Federal Home Loan Bank of Pittsburgh, and a $60.0 million line of credit from a group of other banks, all of which was available. In addition, CCMI had a line of credit of $50.0 million from another bank, all of which was available.

10. Long-Term Debt

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

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

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Notes to Consolidated Financial Statements

On March 11, 2002 the Company issued $200.0 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. The Convertible Trust Capital Securities mature in 2032. Holders of the Convertible Trust Capital Securities may convert each security into 0.9478 shares of Company common stock, subject to adjustment, if (1) the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter beginning with the quarter ending June 30, 2002 is more than 110% of the Convertible Trust Capital Securities conversion price ($52.75 at December 31, 2003) then in effect on the last day of such calendar quarter, (2) the assigned credit rating by Moody's of the Convertible Trust Capital Securities is at or below Bal, (3) the Convertible Trust Capital Securities are called for redemption, or (4) specified corporate transactions have occurred. All $200.0 million of the Convertible Trust Capital Securities currently qualify as Tier 1 capital for regulatory capital purposes. The net proceeds of this offering were used for general corporate purposes, including the redemption of the Company's $57.5 million of 8.75% Trust Capital Securities on July 1, 2002 and the repayment of the Company's $23.0 million of 8 3/8% subordinated notes on May 20, 2002. As of December 31, 2003, the Convertible Trust Capital Securities were not convertible.

11. Income Taxes

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

	2003	2002	2001
Current:			
Federal	$77,437	$62,660	$52,085
State	5,961	4,069	658
Deferred:			
Federal	15,417	6,359	(4,054)
	$98,815	$73,088	$48,689

The above provision includes income taxes related to securities gains of $1.3 million, $0 and $400,000 for 2003, 2002 and 2001, respectively.

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

	2003	2002	2001
Expected provision at statutory rate:	35.0%	35.0%	35.0%
Difference resulting from:			
Tax-exempt interest on loans	(1.5)	(1.7)	(2.0)
Tax-exempt interest on securities	(1.7)	(1.8)	(1.8)
State income taxes (net of federal benefit)	1.3	1.2	0.3
Other	0.6	0.8	0.6
	33.7%	33.5%	32.1%

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

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Notes to Consolidated Financial Statements

The significant components of the Company's deferred tax liabilities and assets as of December 31, 2003 and 2002 are as follows (in thousands):

	2003	2002
Deferred tax assets:		
Loan loss reserves	$38,623	$ 30,960
Intangibles	2,172	2,837
Other reserves	3,951	2,702
Fair value adjustment, available for sale securities	2,206	
Other		274
Total deferred tax assets	46,952	36,773
Deferred tax liabilities:		
Depreciation	(37,661)	(16,157)
Fair value adjustment, available for sale securities		(64,167)
Other	(4,760)	(2,875)
Total deferred tax liabilities	(42,421)	(83,199)
Net deferred assets (liabilities)	$ 4,531	$(46,426)

No valuation allowance was recognized for the deferred tax assets at December 31, 2003 and 2002, respectively.

12. Commitments, Letters of Credit and Guarantees

In the normal course of business, there are various outstanding commitments to extend credit, such as letters of credit, which are not reflected in the accompanying consolidated financial statements. These arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies. Collateral is obtained based on management's credit assessment of the borrower. At December 31, 2003, the Company had outstanding standby letters of credit in the amount of $602.6 million.

In addition, the Company is committed as of December 31, 2003 to advance $417.9 million on construction loans, $818.9 million on home equity lines of credit and $1.7 billion on lines of credit. All other commitments total approximately $452.8 million. The Company anticipates no material losses as a result of these transactions.

The Company has commitments to fund LIHTC partnerships, private venture capital funds and SBICs that total approximately $21.3 million at December 31, 2003.

The fair value of the fees associated with standby letters of credit originated since January 1, 2003, which is the implementation date for the recognition provisions of FIN 45, have been deferred and recorded in "Other liabilities" on the consolidated balance sheet. These fees are immaterial to the Company's consolidated financial statements at December 31, 2003.

13. Common Stock

At December 31, 2003, the Company's common stock had a par value of $1.00. The Company had 150,000,000 shares authorized as of this date.

During September 2003, the Company completed an offering of 5,000,000 shares of common stock for aggregate proceeds of approximately $209 million under its previously filed Form S-3 shelf registration. The proceeds from this offering will be used to support the Company's future growth.

On December 16, 2003, the Board of Directors declared a cash dividend of $0.19 for each share of common stock outstanding payable January 20, 2004 to shareholders of record on January 6, 2004.

14. Earnings Per Share

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

	Year Ended December 31,		
	2003	2002	2001
Basic:			
Net income applicable to common stock	$194,287	$144,815	$103,022
Average common shares outstanding	71,084	66,795	64,666

Net income per common share	$2.73	$2.16	$1.59
Diluted:			
Net income applicable to common stock on a diluted basis	$194,287	$144,815	$103,022
Average common shares outstanding	71,084	66,795	64,666
Additional shares considered in diluted computation assuming:			
Exercise of stock options	3,378	4,108	3,436
Average common and common equivalent shares outstanding	74,462	70,903	68,102
Net income per common and common equivalent share	$2.61	$2.04	$1.51

15. Benefit Plans

Employee Stock Option Plan

The Company has the 1997 Employee Stock Option Plan (the Plan) for the officers and employees of the Company and its subsidiaries as well as a plan for its non-employee directors. The Plan authorizes the issuance of up to 17,234,000 shares of common stock (as adjusted for stock dividends) upon the exercise of options. As of December 31, 2003, options to purchase 14,403,096 shares of common stock have been issued under the Plan. The option price for options issued under the Plan must be at least equal to 100% of the fair market value of the Company's common stock as of the date the option is granted. All options granted after December 31, 2002 will vest evenly over four years from the date of grant. The options expire not later than 10 years from the date of grant. In addition, there are options outstanding from prior stock option plans of the Company, which were granted under similar terms. No additional options may be issued under these prior plans.

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

	Shares Under Option	Weighted Average Exercise Price
Balance at January 1, 2001	8,654,050	15.86
Options granted	2,695,050	30.68
Options exercised	1,092,393	14.70
Options canceled	74,017	26.30
Balance at December 31, 2001	10,182,690	19.83
Options granted	2,088,744	40.40
Options exercised	974,145	18.59
Options canceled	248,736	29.69
Balance at December 31, 2002	11,048,553	23.71

Options granted	2,674,960	42.48
Options exercised	1,572,220	15.30
Options canceled	193,691	37.55
Balance at December 31, 2003	11,957,602	28.76

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Notes to Consolidated Financial Statements

Information concerning options outstanding as of December 31, 2003 is as follows:

	Options Outstanding			Options Exercisa	
Range of Exercise prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable as of 12/31/2003	Wei Ave Exerci
$4.95 to $10.00	1,138,968	2.3	$ 8.11	1,138,968	$
$10.01 to $20.00	2,355,361	5.2	18.01	2,346,624	
$20.01 to $35.00	3,950,328	6.1	26.51	3,455,798	
$35.00 to $49.37	4,512,945	8.7	41.56	1,431,455	

Employee 401(k) Plan
The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code. The plan allows all eligible employees to defer a percentage of their income on a pretax basis through contributions to the plan. Under the provisions of the plan, the Company may match a percentage of the employees' contributions subject to a maximum limit. The charge to operations for Company matching contributions was $3.4 million, $2.8 million and $2.2 million for 2003, 2002 and 2001, respectively. As part of the 401(k) plan, the Company maintains an Employee Stock Ownership Plan (ESOP) component for all eligible employees. As of December 31, 2003, the ESOP held 1,533,000 shares of the Company's common stock, all of which were allocated to participant accounts. Employer contributions are determined at the discretion of the Board of Directors. No contribution expense was recorded in 2003 or 2002. The total expense associated with the ESOP for 2001 was $100,000.

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

16. Fair Value of Financial Instruments

FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments" (FAS 107), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated

by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. FAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following table represents the carrying amounts and fair values of the Company's financial instruments at December 31, 2003 and 2002:

	December 31,			
	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fa Val
Financial assets:				
Cash and cash equivalents	$ 910,092	$ 910,092	$ 811,434	$ 81
Loans held for sale	42,769	42,769	96,920	9
Trading securities	170,458	170,458	326,479	32
Investment securities	13,141,139	13,117,847	8,569,805	8,59
Loans (net)	7,328,519	7,454,910	5,731,856	5,76
Financial liabilities:				
Deposits	20,701,400	20,724,863	14,548,841	14,57
Other borrowed money	311,510	311,510	391,641	39
Long-term debt	200,000	239,000	200,000	22
Off-balance sheet instruments:				
Standby letters of credit	$ 1,802	$ 1,802		$
Commitments to extend credit		1,365		

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

17. Quarterly Financial Data (unaudited)

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

	Three Months Ended			
	December 31	September 30	June 30	March
2003				
Interest income	$256,125	$233,901	$218,744	$206
Interest expense	41,001	39,792	39,440	39
Net interest income	215,124	194,109	179,304	167
Provision for loan losses	10,800	7,250	6,900	6
Provision for federal and state income taxes	29,321	25,231	22,779	21
Net income	56,606	49,474	45,317	42
Net income per common share:				
Basic	$ 0.75	$ 0.70	$ 0.65	$
Diluted	0.71	0.67	0.63	
2002				
Interest income	$202,024	$196,775	$188,368	$168,
Interest expense	42,528	46,221	49,742	44
Net interest income	159,496	150,554	138,626	124
Provision for loan losses	8,000	8,000	10,250	6
Provision for federal and state income taxes	20,258	19,669	17,763	15
Net income	40,574	37,689	34,802	31
Net income per common share:				

Basic	$ 0.60	$ 0.56	$ 0.52	$
Diluted	0.57	0.53	0.49	

Notes to Consolidated Financial Statements

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

Balance Sheets

	December 31,	
(dollars in thousands)	2003	2002
Assets		
Cash	$ 2,667	$ 3,034
Securities available for sale	101,589	24,059
Investment in subsidiaries	1,375,806	1,094,635
Other assets	8,843	9,452
	$1,488,905	$1,131,180
Liabilities		
Other liabilities	$ 11,617	$ 13,170
Long-term debt	200,000	200,000
	211,617	213,170
Stockholders' equity		
Common stock	76,869	68,043
Capital in excess of par value	866,095	538,795
Retained earnings	347,365	199,604
Accumulated other comprehensive (loss) income	(3,702)	113,614
	1,286,627	920,056
Less treasury stock	9,339	2,046
Total stockholders' equity	1,277,288	918,010
	$1,488,905	$1,131,180

Statements of Income

	Year Ended December 31,		
(dollars in thousands)	2003	2002	2001

Income:			
Dividends from subsidiaries	$ 44,500	$ 9,600	$ 22,400
Interest income	476	552	454
Other	1,711	2,826	7,022
	46,687	12,978	29,876
Expenses:			
Interest expense	12,448	15,554	7,258
Operating expenses	3,877	4,460	3,214
	16,325	20,014	10,472
Income (loss) before income taxes and equity in undistributed income of subsidiaries	30,362	(7,036)	19,404
Income tax benefit	4,971	5,757	1,004
	35,333	(1,279)	20,408
Equity in undistributed income of subsidiaries	158,954	146,094	82,614
Net income	$194,287	$144,815	$103,022

Notes to Consolidated Financial Statements

Statements of Cash Flows

	Year Ended December 31,	
(dollars in thousands)	2003	2002
Operating activities:		
Net income	$ 194,287	$144,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiaries	(158,954)	(146,094)
Gains on sales of securities available for sale		
Decrease increase in other assets	609	2,082
Increase (decrease) in other liabilities	5,946	(11,509)
Net cash provided (used) by operating activities	41,888	(10,706)
Investing activities:		
Investments in subsidiaries	(239,500)	(145,520)
Proceeds from sale of securities available for sale		3,018
Proceeds from the maturity of securities available for sale	144,314	95,972
Purchase of securities available for sale	(218,969)	(91,414)
Other	(15)	19
Net cash used by investing activities	(314,170)	(137,925)
Financing activities:		
Proceeds from issuance of common stock under dividend reinvestment and other stock plans	116,908	66,809
Cash dividends	(46,525)	(39,911)

Issuance of common stock	208,825	
Issuance of long-term debt		206,186
Redemption of long-term debt		(82,000)
Other	(7,293)	(421)
Net cash provided by financing activities	271,915	150,663
(Decrease) increase in cash and cash equivalents	(367)	2,032
Cash and cash equivalents at beginning of year	3,034	1,002
Cash and cash equivalents at end of year	$ 2,667	$ 3,034
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 12,268	$ 13,551
Income taxes	56,357	56,586

Notes to Consolidated Financial Statements

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

The approval of the Comptroller of the Currency is required for a national bank to pay dividends if the total of all dividends declared in any calendar year exceeds net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. New Jersey state banks are subject to similar dividend restrictions. Commerce NJ, Commerce PA, Commerce Shore, Commerce North and Commerce Delaware can declare dividends in 2004 without additional approval of approximately $138.1 million, $77.4 million, $43.9 million, $47.4 million and $1.7 million, respectively, plus an additional amount equal to each bank's net profit for 2004 up to the date of any such dividend declaration.

The Federal Reserve Act requires the extension of credit by any of the Company's banking subsidiaries to certain affiliates, including Commerce Bancorp, Inc. (parent), be secured by readily marketable securities, that extension of credit to any one affiliate be limited to 10% of the capital and capital in excess of par or stated value, as defined, and that extensions of credit to all such affiliates be limited to 20% of capital and capital in excess of par or stated value. At December 31, 2003 and 2002, the Company complied with these guidelines.

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 2003 and 2002, the Company and each of its subsidiary banks were categorized as "well-capitalized" under the regulatory framework for prompt corrective action. As a result of the issuance of FIN 46, the Federal Reserve Board is evaluating whether deconsolidation of the trust will affect the qualification of the Convertible Trust Capital Securities as Tier 1 capital. If it is determined that the Convertible Trust Capital Securities no longer qualify as Tier 1 capital, the Company will remain "well capitalized". There are no conditions or events since December 31, 2003 that management believes have changed any subsidiary bank's capital category.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-based assets (as defined) and of Tier I capital to average assets (as defined), or leverage. Management believes, as of December 31, 2003, that the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

The following table presents the Company's and Commerce NJ's risk-based and leverage capital ratios at December 31, 2003 and 2002:

	Per Regulatory Guidelines				
	Actual		Minimum		"Well Capit
	Amount	Ratio	Amount	Ratio	Amount
December 31, 2003					
Company					
Risk based capital ratios:					
Tier I	$1,471,131	12.66%	$464,961	4.00%	$697,442
Total capital	1,583,188	13.62	929,922	8.00	1,162,403
Leverage ratio	1,471,131	6.61	890,390	4.00	1,112,987
Commerce NJ					
Risk based capital ratios:					
Tier 1	$769,945	10.81%	$284,796	4.00%	$427,194
Total capital	845,009	11.87	569,592	8.00	711,991
Leverage ratio	769,945	6.03	510,853	4.00	638,566
December 31, 2002					
Company					
Risk based capital ratios:					
Tier I	$995,826	11.47%	$347,373	4.00%	$521,059
Total capital	1,086,559	12.51	697,746	8.00	868,432
Leverage ratio	995,826	6.37	625,219	4.00	781,524
Commerce NJ					
Risk based capital ratios:					
Tier 1	$526,612	9.77	$215,519	4.00%	$323,279
Total capital	586,328	10.88	431,039	8.00	538,799

Leverage ratio	526,612	5.75	366,657	4.00	458,321

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Notes to Consolidated Financial Statements

19. Segment Reporting

The Company operates one reportable segment of business, Community Banks, which includes Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware. Through its Community Banks, the Company provides a broad range of retail and commercial banking services, and corporate trust services. Parent/Other includes the holding company, Commerce Insurance (whose revenues of $66.5 million, $55.9 million and $49.8 million in 2003, 2002, and 2001, respectively, were reported in other operating income), and CCMI (whose noninterest revenues of $42.5 million, $35.1 million, and $22.8 million in 2003, 2002, and 2001, respectively, were reported in other operating income).

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

	2003			2002			
	Community Banks	Parent/ Other	Total	Community Banks	Parent/ Other	Total	Co
Net interest income	$761,530	$(5,664)	$755,866	$579,687	$(6,932)	$572,755	$
Provision for loan losses	31,850	-	31,850	33,150	-	33,150	
Net interest income after provision	729,680	(5,664)	724,016	546,537	(6,932)	539,605	
Noninterest income	222,967	109,511	332,478	166,384	91,082	257,466	
Noninterest expense	676,265	87,127	763,392	500,522	78,646	579,168	
Income before income taxes	276,382	16,720	293,102	212,399	5,504	217,903	
Income tax expense	93,314	5,501	98,815	72,839	249	73,088	
Net income	$183,068	$11,219	$194,287	$139,560	$ 5,255	$144,815	$
Average assets (in millions)	$ 17,754	$ 1,836	$ 19,590	$ 12,192	$ 1,560	$ 13,752	$

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

entities.

20. Derivative Financial Instruments

As part of CCMI's broker-dealer activities, the Company maintains a trading securities portfolio for distribution to its customers in order to meet those customers' needs. In order to reduce the exposure to market risk relating to the inventory, the Company buys and sells a variety of derivative financial instruments including futures and option contracts. Market risk includes changes in interest rates or value fluctuations in the underlying financial instruments. The Company uses notional (contract) amounts to measure derivative activity. Notional amounts are not included on the balance sheet, as those amounts are not actually paid or received at settlement. The following table reflects the open commitments for futures and options and the associated unrealized gains (losses) for the years ended December 31, 2003 and 2002, respectively:

	Notional Amount Long (Short)		Unrealized Gain (Loss) Net	
	2003	2002	2003	2002
Municipal bond futures	$ -	$ 36,500	$ -	$ 278
Treasury bond futures	(3,000)	(60,000)	(68)	(2,537)
Treasury bond put options	(5,000)	45,000	3	(23)
Treasury bond call options	(97,500)	(105,000)	343	(1,342)
Total	$ (105,500)	$(83,500)	$ 278	$(3,624)

The average notional amount for futures and options contracts for the years ended December 31, 2003 and 2002 was $240.9 million and $257.9 million, respectively. Realized and unrealized gains and losses related to derivative financial instruments are included in other operating income in the statement of income.

The following table discloses the notional amounts and related fair value of the Company's interest rate swap positions (dollars in thousands) at December 31, 2003 and 2002, respectively:

	Notional Amount		Estimated Fair Value	
	2003	2002	2003	2002
Interest Rate Swaps:				
Assets	$155,635	$109,432	$9,488	$11,164
Liabilities	$155,635	109,432	(8,659)	(10,338)
			$ 828	$ 826

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Commerce Bancorp, Inc. and Subsidiaries
Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Commerce Bancorp, Inc. and Subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Bancorp, Inc. and Subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 16, 2004

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

None.

Item 9A. Controls and Procedures

The Company, under supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal

financial officer concluded that the Company's disclosure controls and procedures are effective in reaching a reasonable level of assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms.

The principal executive officer and principal financial officer also conducted an evaluation of internal control over financial reporting ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter (the Company's fourth fiscal quarter in the case of an annual report) that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter covered by this report.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations to enhance, where necessary its procedures and controls.

Part III

Item 10. Directors and Executive Officers of Registrant.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2004 Annual Meeting of Shareholders, which will be filed with the SEC.

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to its principal executive officer, principal financial officer, principal accounting officer, controller and any other person performing similar functions and a Code of Business Conduct and Ethics that applies to all of its directors and employees, including, without limitation, its principal executive officer, principal financial officer, principal accounting officer and all of its employees performing financial or accounting functions. The Company's Code of Ethics for Senior Financial Officers and Code of Business Conduct and Ethics are posted on its website, www.commerceonline.com. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its Code of Ethics for Senior Financial Officers by posting such information on its website at the location specified above.

Item 11. Executive Compensation.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2004 Annual Meeting of Shareholders, which will be filed with the SEC.

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

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2004 Annual Meeting of Shareholders, which will be filed with the SEC. The following table details information regarding the Company's existing equity compensation plans as of

December 31, 2003:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights
Equity compensation plans approved by security holders	11,957,602	$28.76
Equity compensation plans not approved by security holders	N/A	N/A
Total	11,957,602	$28.76

Item 13. Certain Relationships and Related Transactions.

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2004 Annual Meeting of Shareholders, which will be filed with the SEC.

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Item 14. Principal Accountant Fees and Services

The information called for by this item is incorporated by reference to the Company's definitive proxy statement relating to its 2004 Annual Meeting of Shareholders, which will be filed with the SEC.

Part IV

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

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

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Income for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Report of Independent Auditors

(a)(2) Schedules

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

(a)(3) Exhibits

Exhibit Number	Description of Exhibit	
3.1	Restated Certificate of Incorporation of the Company, as amended.	Incorporated by re Report on Form 10- December 31, 2002.
3.2	By-laws of the Company, as amended.	Incorporated by re Report on Form 10- December 31, 2002.
4.1	Certificate of Trust of Commerce Capital Trust II, a Delaware statutory trust, filed March 4, 2002.	Incorporated by re Registration State (Registration No.
4.2	Declaration of Trust of Commerce Capital Trust II, dated as of March 4, 2002 among Commerce Bancorp, Inc., as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee and the Administrative Trustees named therein.	Incorporated by re Registration State (Registration No.
4.3	Amended and Restated Declaration of Trust of Commerce Capital Trust II, dated as of March 11, 2002, among Commerce Bancorp, Inc., as Sponsor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, the Administrative Trustees, and the holders from time to time of unindividual beneficial interests in the assets of the Trust, including form of 5.95% Convertible Trust Preferred Security.	Incorporated by re Registration State (Registration No.

Exhibits (continued)

Exhibit Number	Description of Exhibit	
4.4	Indenture, dated as of March 11, 2002, between Commerce Bancorp, Inc. and The Bank of New York as Debenture Trustee, including form of 5.95% Junior Subordinated Convertible Debenture due March 11, 2032.	Incorporated by re Registration State (Registration No.
4.5	Registration Rights Agreement, dated March 11, 2002, among Commerce Bancorp, Inc., and Commerce Capital Trust II, as issuers, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of itself and as representative of the other initial purchasers.	Incorporated by re Registration State (Registration No.

	4.6	Guarantee Agreement, dated as of March 11, 2002, between Commerce Bancorp, Inc. and The Bank of New York, as Guarantee Trustee.	Incorporated by re Registration State (Registration No.
	10.1	Ground lease, dated July 1, 1984, among Commerce NJ and Group Four Equities, relating to the branch office in Gloucester Township, New Jersey.	Incorporated by re Registration State Amendments Nos. 1 No. 2-94189)
	10.2	Ground lease, dated April 15, 1986, between Commerce NJ and Mount Holly Equities, relating to Commerce NJ's branch office in Mt. Holly, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
*	10.3	The Company's 1984 Incentive Stock Option Plan.	Incorporated by re Registration State Amendments Nos. 1 No. 2-94189)
*	10.4	The Company's Employee Stock Ownership Plan.	Incorporated by re Report on Form 10- December 31, 1989.
	10.5	Lease, dated March 29, 1985, between Commerce PA and Devon Properties (Ltd.), and lease dated September 4, 1985, between Commerce PA and Devon Properties (Ltd.), relating to Commerce PA's branch office in Devon, Pennsylvania.	Incorporated by re Registration State (Registration No.
	10.6	Assignment of Lease and Assumption Agreement dated November 30, 1987, between the Company and Commerce PA, relating to Commerce PA's branch office in Devon, Pennsylvania.	Incorporated by re Report on Form 10- December 31, 1987.
	10.7	Lease between the Company and Astoria Associates, relating to the Company's and Commerce NJ's headquarters facilities.	Incorporated by re Registration State (Registration No.
	10.8	Ground lease, dated April 15, 1986, between Commerce NJ and U.S. Equities, relating to one of Commerce NJ" branch offices in Washington Township, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
	10.9	Ground lease, dated February 1, 1988, between Commerce NJ and Diversified Properties of New Jersey, relating to one of Commerce NJ's branch offices in Washington Township, New Jersey.	Incorporated by re Annual Report on F year ended Decembe

Exhibits (continued)

	10.10	Ground lease, dated February 15, 1998, between Commerce NJ and Diversified Properties of New Jersey, relating to one of the Commerce NJ's branch offices in Cherry Hill, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
*	10.11	The Company's 1989 Stock Option Plan for Non-Employee Directors.	Incorporated by re Registration State

			Amendments Nos. 1 No. 33-31042)
*	10.12	A copy of employment contracts with Vernon W. Hill, II, C. Edward Jordan, Jr., and Peter Musumeci, Jr., dated January 2, 1992.	Incorporated by re Annual Report on F year ended Decembe
*	10.13	A copy of the Retirement Plan for Outside Directors of Commerce Bancorp, Inc.	Incorporated by re Annual Report on F year ended Decembe
*	10.14	The Company's 1994 Employee Stock Option Plan.	Incorporated by re Report on Form 10- December 31, 1994.
*	10.15	The Company's 1997 Employee Stock Option Plan.	Incorporated by re Definitive Proxy S Annual Meeting of thereto.
*	10.16	A copy of employment contracts with Dennis M. DiFlorio and Robert D. Falese dated January 1, 1998.	Incorporated by re Annual Report on F year ended Decembe
	10.17	Ground lease, dated June 1, 1994, between Commerce NJ and Absecon Associates, L.L.C., relating to Commerce NJ's branch office in Absecon, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
	10.18	Ground lease, dated September 11, 1995, between Commerce Shore and Whiting Equities, L.L.C., relating to Commerce Shore's branch office in Manchester Township, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
	10.19	Ground lease, dated November 1, 1995, between Commerce NJ and Evesboro Associates, L.L.C., relating to Commerce NJ's branch office in Evesham Township, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
	10.20	Ground lease, dated October 1, 1996, between Commerce NJ and Triad Equities, L.L.C., relating to one of Commerce NJ's branch offices in Gloucester Township, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
	10.21	Ground lease, dated October 11, 1996 and First Lease Amendment dated November 25, 1996 between Commerce PA and Plymouth Equities, L.L.C., relating to Commerce PA's branch office in Plymouth Township, PA.	Incorporated by re Report on Form 10- December 31, 1997.
	10.22	Ground lease, dated January 16, 1998, between Commerce NJ and Ewing Equities, L.L.C., relating to Commerce NJ's branch in Ewing, New Jersey.	Incorporated by re Annual Report on F year ended Decembe

Exhibits (continued)

*	10.23	The Company's 1998 Stock Option Plan for Non-Employee Directors.	Incorporated by re Definitive Proxy S

		Annual Meeting of thereto.
10.24	Ground lease, dated July 31, 1998, between Commerce NJ and English Creek Properties, L.L.C., relating to Commerce NJ's branch in Egg Harbor Township, New Jersey.	Incorporated by re Report on Form 10- December 31, 1998.
10.25	Ground lease, dated November 30, 1998, between Commerce Shore and Brick/Burnt Tavern Equities, L.L.C., relating to Commerce Shore's branch office in Brick, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
10.26	Ground lease, dated November 30, 1998, between Commerce Shore and Aberdeen Equities, L.L.C., relating to Commerce Shore's branch office in Aberdeen, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
10.27	Ground lease, dated November 30, 1998, between Commerce NJ and Hamilton/Wash Properties, L.L.C., relating to Commerce NJ's branch office in Hamilton Township, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
10.28	Ground lease, dated April 2, 1999, between Commerce PA and Abington Equities, L.L.C., relating to Commerce PA's branch office in Abington Township, Pennsylvania.	Incorporated by re Annual Report on F year ended Decembe
10.29	Ground lease, dated October 1999, between Commerce PA and Bensalem Equities, L.L.C., relating to Commerce PA's branch office in Bensalem, Pennsylvania.	Incorporated by re Annual Report on F year ended Decembe
10.30	Ground lease, dated June 9, 2000, between Commerce NJ and Galloway Equities, L.L.C., relating to Commerce NJ's branch office in Galloway, New Jersey.	Incorporated by re Annual Report on F year ended Decembe
10.31	Ground lease, dated December 11, 2000, between Commerce PA and Chadds Ford Equities, L.L.C., relating to Commerce PA's branch office in Chadds Ford, Pennsylvania.	Incorporated by re Annual Report on F year ended Decembe
10.32	Ground lease, dated March 10, 2000, between Commerce PA and Chalfont Equities, L.L.C., relating to Commerce PA's branch office in New Britain Township, Pennsylvania.	Incorporated by re Annual Report on F year ended Decembe
10.33	Ground lease, dated January 4, 2001, between Commerce PA and Warminster Equities, L.L.C., relating to Commerce PA's branch office in Warminster Township, Pennsylvania.	Incorporated by re Annual Report on F year ended Decembe
10.34	Ground lease dated January 1, 2001, between Commerce NJ and Willingboro Equities, L.L.C., relating to Commerce NJ's branch office in Willingboro, New Jersey.	Incorporated by re Form 10-Q for the 2003.
10.35	Ground lease dated November 27, 2001, between Commerce PA and Warrington Equities, L.L.C., relating to Commerce PA's branch office in Warrington, Pennsylvania.	Incorporated by re Form 10-Q for the 2003.

*	10.36	The Company's Supplemental Executive Retirement Plan.	

Exhibits (continued)

21.1	Subsidiaries of the Company.	Incorporated by re 1. "BUSINESS" of t
23.1	Consent of Ernst & Young LLP.	
31.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	

* Management contract or compensation plan or arrangement.

(b) Reports on Form 8-K

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

On October 30, 2003, we filed a Current Report on Form 8-K in response to published articles concerning a possible investigation of the municipal underwriting business of Commerce Capital Markets, Inc., a subsidiary of Commerce Bancorp, Inc.

On December 4, 2003, we filed a Current Report on Form 8-K, which included certain questions and answers regarding corporate information.

(c)(d) Exhibits and Financial Statement Schedules

All other exhibits and schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and, therefore, have been omitted.

SIGNATURES

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

Commerce Bancorp, Inc.

By /s/ Vernon W. Hill, II

Vernon W. Hill, II
Chairman of the Board
and President

Date: March 12, 2004

By /s/ Douglas J. Pauls

Douglas J. Pauls
Senior Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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

Signature	Title
/s/ Vernon W. Hill, II Vernon W. Hill, II	Chairman of the Board, President and Director (Principal Executive Officer)
/s/ Robert C. Beck Robert C. Beck	Secretary and Director
/s/ Jack R Bershad Jack R Bershad	Director
/s/ Joseph Buckelew Joseph Buckelew	Director
/s/ Donald T. DiFrancesco Donald T. DiFrancesco	Director
/s/ Morton N. Kerr Morton N. Kerr	Director
/s/ Steven M. Lewis Steven M. Lewis	Director

Signature	Title
/s/ George E. Norcross, III George E. Norcross, III	Director
/s/ Joseph J. Plumeri Joseph J. Plumeri	Director
/s/ Daniel J. Ragone Daniel J. Ragone	Director
/s/ William A. Schwartz Jr. William A. Schwartz Jr.	Director
/s/ Joseph T. Tarquini Jr. Joseph T. Tarquini Jr.	Director
/s/ Frank C. Videon Sr. Frank C. Videon Sr.	Director