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COMMERCE BANCORP INC /NJ/
Form 10-Q
August 08, 2003

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

Form 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 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 #0-12874

[COMPANY LOGO OMITTED]

(Exact name of registrant as specified in its charter)

New Jersey

22-2433468

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification
Number)

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

(Address of Principal Executive Offices) (Zip Code)

(856) 751-9000

(Registrant's telephone number, including area code)

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

Yes X

No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X
 --

No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock

69,895,566

(Title of Class)

(No. of Shares Outstanding
as of August 1, 2003)

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

| | |
|------------------------|----------|
| | June 30, |
| | ----- |
| (dollars in thousands) | 2003 |
| | ----- |

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| | | |
|----------------------|--|--------------|
| Assets | Cash and due from banks | \$ 1,013,885 |
| | Federal funds sold | - |
| | | ----- |
| | Cash and cash equivalents | 1,013,885 |
| | Loans held for sale | 91,285 |
| | Trading securities | 209,451 |
| | Securities available for sale | 10,259,811 |
| | Securities held to maturity | 841,752 |
| | (market value 06/03-\$855,444; 12/02-\$791,889) | |
| | Loans | 6,378,623 |
| | Less allowance for loan losses | 99,318 |
| | | ----- |
| | | 6,279,305 |
| | Bank premises and equipment, net | 701,246 |
| | Other assets | 440,577 |
| | | ----- |
| | Total assets | \$19,837,312 |
| | | ===== |
| Liabilities | Deposits: | |
| | Demand: | |
| | Interest-bearing | \$ 6,616,309 |
| | Noninterest-bearing | 4,185,186 |
| | Savings | 3,786,798 |
| | Time | 3,198,789 |
| | | ----- |
| | Total deposits | 17,787,082 |
| | Other borrowed money | 507,975 |
| | Other liabilities | 331,765 |
| | Convertible Trust Capital Securities - Commerce Capital Trust II | 200,000 |
| | | ----- |
| | Total liabilities | 18,826,822 |
| Stockholders' Equity | Common stock, 69,920,679 shares issued (68,043,171 shares at December 31, 2002) | 69,921 |
| | Capital in excess of par or stated value | 591,060 |
| | Retained earnings | 265,239 |
| | Accumulated other comprehensive income | 89,515 |
| | | ----- |
| | | 1,015,735 |
| | Less treasury stock, at cost, 286,358 shares (209,794 shares at December 31, 2002) | 5,245 |
| | | ----- |
| | Total stockholders' equity | 1,010,490 |
| | | ----- |
| | Total liabilities and stockholders' equity | \$19,837,312 |
| | | ===== |

See accompanying notes.

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

| | | Three Months Ended June 30, | | |
|--|--|--------------------------------|------------------|-----------------|
| (dollars in thousands, except per share amounts) | | 2003 | 2002 | 2001 |
| Interest income | Interest and fees on loans | \$ 95,548 | \$ 86,959 | \$ 101,293 |
| | Interest on investments | 123,098 | 101,293 | 116,116 |
| | Other interest | 98 | 116 | |
| | Total interest income | 218,744 | 188,368 | 407,509 |
| Interest expense | Interest on deposits: | | | |
| | Demand | 11,961 | 14,707 | |
| | Savings | 6,754 | 8,133 | |
| | Time | 17,387 | 21,538 | |
| | Total interest on deposits | 36,102 | 44,378 | |
| | Interest on other borrowed money | 318 | 282 | |
| | Interest on long-term debt | 3,020 | 5,082 | |
| | Total interest expense | 39,440 | 49,742 | |
| | Net interest income | 179,304 | 138,626 | 307,000 |
| | Provision for loan losses | 6,900 | 10,250 | |
| | Net interest income after provision for loan losses | 172,404 | 128,376 | 307,000 |
| Noninterest income | Deposit charges and service fees | 38,765 | 31,629 | |
| | Other operating income | 43,388 | 30,100 | |
| | Net investment securities gains | 1,217 | - | |
| | Total noninterest income | 83,370 | 61,729 | 1,000 |
| Noninterest expense | Salaries and benefits | 86,338 | 64,178 | |
| | Occupancy | 22,695 | 13,083 | |
| | Furniture and equipment | 20,556 | 15,588 | |
| | Office | 9,233 | 7,454 | |
| | Marketing | 9,198 | 6,112 | |
| | Other | 39,658 | 31,125 | |
| | Total noninterest expenses | 187,678 | 137,540 | 300,000 |
| | Income before income taxes | 68,096 | 52,565 | 1,000 |
| | Provision for federal and state income taxes | 22,779 | 17,763 | |
| | Net income | \$ 45,317 | \$ 34,802 | \$ 1,000 |

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| | | | |
|--|---------|---------|----|
| Net income per common and common equivalent share: | | | |
| Basic | \$ 0.65 | \$ 0.52 | \$ |
| Diluted | \$ 0.63 | \$ 0.49 | \$ |
| Average common and common equivalent shares outstanding: | | | |
| Basic | 69,193 | 66,552 | |
| Diluted | 72,128 | 71,007 | |
| Cash dividends, common stock | \$ 0.16 | \$ 0.15 | \$ |

See accompanying notes.

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

| (dollars in thousands) | | 2003 |
|------------------------|---|---------|
| Operating activities | Net income \$ 88,2 Adjustments to reconcile net income to net cash provided by operating activities: <ul style="list-style-type: none"> Provision for loan losses 13, Provision for depreciation, amortization and accretion 60, Gain on sales of securities available for sale 1, Proceeds from sales of loans held for sale 802, Originations of loans held for sale (757, Net decrease in trading securities 117, Increase in other assets (18, Decrease in other liabilities (13, | |
| | Net cash provided by operating activities | 294, |
| Investing activities | <ul style="list-style-type: none"> Proceeds from the sales of securities available for sale 2,070, Proceeds from the maturity of securities available for sale 2,493, Proceeds from the maturity of securities held to maturity 279, Purchase of securities available for sale (7,207, Purchase of securities held to maturity (358, Net increase in loans (653, Proceeds from sales of loans 52, Capital expenditures (151, | |
| | Net cash used by investing activities | (3,475, |
| Financing activities | <ul style="list-style-type: none"> Net increase in demand and savings deposits 2,848, Net increase in time deposits 390, Net increase (decrease) in other borrowed money 116, Redemption of long term debt Proceeds from issuance of Trust Capital Securities | |

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| | |
|---|-----------|
| Dividends paid | (22, |
| Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 52, |
| Other | (1, |
| ----- | |
| Net cash provided by financing activities | 3,382, |
| | |
| Increase in cash and cash equivalents | 202, |
| Cash and cash equivalents at beginning of year | 811, |
| ----- | |
| Cash and cash equivalents at end of period | \$ 1,013, |
| ===== | |
| Supplemental disclosures of cash flow information: | |
| Cash paid during the period for: | |
| Interest | \$ 79, |
| Income taxes | 36, |

See accompanying notes.

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

Six months ended June 30, 2003
(in thousands)

| | Common Stock | Capital in Excess of Par or Stated Value | Retained Earnings | Treas Stock |
|--|-----------------|---|----------------------|----------------|
| Balances at December 31, 2002 | \$68,043 | \$538,795 | \$199,604 | \$(2, |
| Net income | | | 88,207 | |
| Other Comprehensive Income, net of tax | | | | |
| Unrealized loss on securities | | | | |
| Reclassification adjustment | | | | |
| Other comprehensive income | | | | |
| Total comprehensive income | | | | |
| Cash dividends paid | | | (22,569) | |
| Shares issued under dividend reinvestment and compensation and benefit plans (1,834 shares) | 1,834 | 50,417 | | |
| Acquisition of insurance brokerage agencies (44 shares) | 44 | 1,848 | | |
| Other | | | | (3) (3, |
| ----- | | | | |
| Balances at June 30, 2003 | \$69,921 | \$591,060 | \$265,239 | \$(5, |

See accompanying notes.

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

A. Consolidated Financial Statements

The consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted pursuant to such rules and regulations. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2002. The results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. (the Company) and all of its subsidiaries, including Commerce Bank, N.A. (Commerce NJ), Commerce Bank/Pennsylvania, N.A., Commerce Bank/Shore, N.A., Commerce Bank/North, Commerce Bank/Delaware, N.A., Commerce Insurance Services, Inc. (CIS), Commerce Capital Trust II, and Commerce Capital Markets, Inc. (CCMI). All material intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with 2003 presentation.

B. Recent Announcements

On August 8, 2003, the Company filed a Form S-3 shelf registration statement with the Securities and Exchange Commission (SEC). Once declared effective by the SEC, the shelf registration statement will allow 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.

C. Bank 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.

During the second quarter of 2003, the Company reclassified capital expenditures

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for bank premises and equipment in progress, previously reported in Other assets, to Bank premises and equipment, net. As of June 30, 2003 and December 31, 2002, Bank premises and equipment in progress was \$98.1 million and \$81.6 million, respectively.

D. Commitments

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

E. Comprehensive Income

Total comprehensive income, which for the Company included net income and unrealized gains and losses on the Company's available for sale securities, amounted to \$41.6 million and \$116.2 million, respectively, for the three months ended June 30, 2003 and 2002. For the six months ended June 30, 2003 and 2002, total comprehensive income was \$64.1 million and \$122.7 million, respectively.

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F. New Accounting Standards

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (FAS 150), which the Company adopted on July 1, 2003. This statement establishes standards for the 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 June 15, 2003. Management does not expect the adoption of FAS 150 to have a material impact on the Company's results of operations and financial position.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (FAS 149), which the Company adopted on July 1, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for contracts entered into or modified and for hedging relationships designated after June 30, 2003. Management does not expect the adoption of FAS 149 to have a material impact on the Company's results of operations and financial position.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), which the Company adopted on July 1, 2003. This interpretation provides guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. 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 is in the process of reviewing the application of FIN 46 to all of its interests in operating entities that are not presently consolidated. Management does not expect the adoption of FIN 46 to have a material impact on the Company's

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consolidated financial 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 requirements of FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FAS 123). This statement is effective for fiscal years ending after December 15, 2002 and did not have an impact on the financial condition or operating results of the Company.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---------------------------------|-------------------------------|----------|-----------------------------|------|
| | 2003 | 2002 | 2003 | 2002 |
| Net income, as reported | \$45,317 | \$34,802 | \$85,207 | |
| Pro forma net income | \$43,084 | \$32,695 | \$83,594 | |
| Pro forma net income per share: | | | | |
| Basic | \$ 0.62 | \$ 0.49 | \$ 1.22 | |
| Diluted | \$ 0.60 | \$ 0.46 | \$ 1.16 | |

The fair value of options granted in 2003 and 2002 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 4.41%, dividend yields of 1.50% to 2.50%, volatility factors of the expected market price of the Company's common stock of .304 and weighted average expected lives of the options of 5.22 and 4.75 years.

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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.

G. Segment Information

Selected segment information is as follows:

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| ----- | | | | |
|-------------------------------------|--------------------|------------------|------------|-------------------|
| Three Months Ended June 30, 2003 | | | | |
| ----- | | | | |
| | Community Banks | Parent/ Other | Total | Communit Banks |
| ----- | | | | |
| Net interest income | \$ 180,729 | \$ (1,425) | \$ 179,304 | \$ 142,29 |
| Provision for loan losses | 6,900 | | 6,900 | 10,25 |
| ----- | | | | |
| Net interest income after provision | 173,829 | (1,425) | 172,404 | 132,04 |
| Noninterest income | 56,009 | 27,361 | 83,370 | 39,89 |
| Noninterest expense | 166,136 | 21,542 | 187,678 | 118,29 |
| ----- | | | | |
| Income before income taxes | 63,702 | 4,394 | 68,096 | 53,63 |
| Income tax expense | 21,317 | 1,462 | 22,779 | 19,03 |
| ----- | | | | |
| Net income | \$ 42,385 | \$ 2,932 | \$ 45,317 | \$ 34,60 |
| ===== | | | | |
| Average assets (in millions) | \$ 16,715 | \$ 1,784 | \$ 18,499 | \$ 11,50 |
| ===== | | | | |

| ----- | | | | |
|-------------------------------------|--------------------|------------------|------------|-------------------|
| Six Months Ended June 30, 2003 | | | | |
| ----- | | | | |
| | Community Banks | Parent/ Other | Total | Communit Banks |
| ----- | | | | |
| Net interest income | \$ 348,958 | \$ (2,325) | \$ 346,633 | \$ 267,76 |
| Provision for loan losses | 13,800 | | 13,800 | 17,15 |
| ----- | | | | |
| Net interest income after provision | 335,158 | (2,325) | 332,833 | 250,61 |
| Noninterest income | 106,004 | 53,432 | 159,436 | 75,94 |
| Noninterest expense | 315,586 | 44,213 | 359,799 | 226,14 |
| ----- | | | | |
| Income before income taxes | 125,576 | 6,894 | 132,470 | 100,40 |
| Income tax expense | 42,292 | 1,971 | 44,263 | 34,29 |
| ----- | | | | |
| Net income | \$ 83,284 | \$ 4,923 | \$ 88,207 | \$ 66,11 |
| ===== | | | | |
| Average assets (in millions) | \$ 15,858 | \$ 1,812 | \$ 17,670 | \$ 11,00 |
| ===== | | | | |

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On March 11, 2002 the Company issued \$200 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. The Convertible Trust Capital Securities mature in 2032. Holders of the Convertible Trust Capital Securities may convert each security into 0.9478 shares of Company common stock, subject to adjustment, if (1) the closing sale price of Company common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter beginning with the quarter ending June 30, 2002 is more than 110% of the Convertible Trust Capital Securities conversion price (\$52.75 at June 30, 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 qualify as Tier 1 capital for regulatory capital purposes. As of June 30, 2003 the Convertible Trust Capital Securities were not convertible. The net proceeds of this offering were used for general corporate purposes, including the redemption of the Company's \$57.5 million of 8.75% Trust Capital Securities on July 1, 2002 and the repayment of the Company's \$23.0 million of 8 3/8% subordinated notes on May 20, 2002.

I. Earnings Per Share

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

| | Three Months Ended June 30 | | Six Months |
|---|-------------------------------|----------|---------------|
| | 2003 | 2002 | 2003 |
| Basic: | | | |
| Net income | \$45,317 | \$34,802 | \$88,2 |
| Average common shares outstanding | 69,193 | 66,552 | 68,7 |
| Net income per share of common stock | \$ 0.65 | \$ 0.52 | \$ 1. |
| Diluted: | | | |
| Net income | \$45,317 | \$34,802 | \$88,2 |
| Average common shares outstanding | 69,193 | 66,552 | 68,7 |
| Additional shares considered in diluted computation assuming: | | | |
| Exercise of stock options | 2,935 | 4,455 | 3,1 |
| Average common shares outstanding on a diluted basis | 72,128 | 71,007 | 71,9 |
| Net income per common share - diluted | \$ 0.63 | \$ 0.49 | \$ 1. |

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

 of Operation

Capital Resources

At June 30, 2003, stockholders' equity totaled \$1,010.5 million or 5.09% of total assets, compared to \$918.0 million or 5.60% of total assets at December 31, 2002.

The Company and its subsidiaries are subject to risk-based capital standards issued by bank regulatory authorities. Under these standards, Tier 1 capital includes stockholders' equity, as adjusted for certain items. The Company makes two significant adjustments in calculating regulatory capital. The first adjustment is to exclude from capital the unrealized appreciation or depreciation in its available for sale securities portfolio. The second adjustment is to add to capital the Convertible Trust Capital Securities. Total capital is comprised of all the components of Tier 1 capital plus the reserve for possible loan losses.

The table below presents the Company's and Commerce NJ's risk-based and leverage ratios at June 30, 2003 and 2002:

| | Actual | | Per Regulatory Guid | | " |
|----------------------------|-------------|--------|---------------------|-------|---|
| | Amount | Ratio | Amount | Ratio | |
| ----- | | | | | |
| June 30, 2003 | | | | | |
| Company | | | | | |
| Risk based capital ratios: | | | | | |
| Tier 1 | \$1,110,820 | 11.13% | \$399,313 | 4.00% | |
| Total capital | 1,210,138 | 12.12 | 798,627 | 8.00 | |
| Leverage ratio | 1,110,820 | 6.04 | 735,335 | 4.00 | |
| Commerce NJ | | | | | |
| Risk based capital ratios: | | | | | |
| Tier 1 | \$638,338 | 10.00% | \$255,361 | 4.00% | |
| Total capital | 704,660 | 11.04 | 510,722 | 8.00 | |
| Leverage ratio | 638,338 | 5.50 | 464,104 | 4.00 | |
| June 30, 2002 | | | | | |
| Company | | | | | |
| Risk based capital ratios: | | | | | |
| Tier 1 | \$ 931,146 | 12.54% | \$296,929 | 4.00% | |
| Total capital | 1,035,198 | 13.95 | 593,858 | 8.00 | |
| Leverage ratio | 931,146 | 7.10 | 524,807 | 4.00 | |
| Commerce NJ | | | | | |
| Risk based capital ratios: | | | | | |
| Tier 1 | \$ 463,215 | 10.39% | \$178,329 | 4.00% | |

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| | | | | |
|----------------|---------|-------|---------|------|
| Total capital | 515,483 | 11.56 | 356,658 | 8.00 |
| Leverage ratio | 463,215 | 6.25 | 296,235 | 4.00 |

At June 30, 2003, the Company's consolidated capital levels and each of the Company's bank subsidiaries met the regulatory definition of a "well capitalized" financial institution, i.e., a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6%, and a total risk-based capital ratio exceeding 10%. Management believes that as of June 30, 2003, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Deposits

Total deposits at June 30, 2003 were \$17.8 billion, up \$5.4 billion, or 44% over total deposits of \$12.4 billion at June 30, 2002, and up by \$3.3 billion, or 23% from year-end 2002. Deposit growth during the first six months of 2003 included core deposit growth in all categories as well as growth from the public sector. The Company experienced "same-store core deposit growth" of 29% at June 30, 2003 as compared to the same period in 2002 for those branches open for more than two years.

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Interest Rate Sensitivity and Liquidity

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

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

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

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net income in the above interest rate scenario is within 15% of net income in the flat rate scenario in the first year and within 30% over the two year time frame. At June 30, 2003, the Company's income simulation model indicates net income would decrease by 9.47% and by 15.03% in the first year and over a two year time frame, respectively, if rates decreased as described above. At June 30, 2002, the Company's income simulation model was run assuming a 200 basis point decrease and indicated net income would decrease by 0.35% and by 9.62% in the first year and over a two year time frame, respectively. At June 30, 2003, the model projects that net income would increase by 1.34% and by 11.09% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease by 0.18% and increase 5.71%, respectively, at June 30, 2002. All of these net income projections are within an acceptable level of interest rate risk pursuant to the policy established by ALCO.

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

Since June 30, 2003, longer-term interest rates have risen sharply, resulting in a steeper yield curve. If interest rates remain at current levels for the next 12 months, the Company's models project that the net interest margin will increase, resulting in increased net income. In addition, the Company's market value of equity (MVE) would increase as more fully described below.

Management also monitors interest rate risk by utilizing a market value of equity at risk model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities. 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 or 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 June 30, 2003, the market value of equity model indicates an acceptable level of interest rate risk.

The MVE 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. The following table depicts the average lives of the Company's loans, investments and deposits at June 30, 2003:

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| | Average Life (in years) |
|-------------|----------------------------|
| Loans | 3.5 |
| Investments | 3.8 |
| Deposits | 14.3 |

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 more than the decrease in value of the Company's fixed rate assets. The following table summarizes the market value of equity at June 30, 2003 (in millions, except for per share amounts):

| | Market Value Of Equity | Per Share |
|-----------------------|---------------------------|-----------|
| Plus 200 basis point | \$4,183 | \$60.07 |
| Current Rate | \$3,804 | \$54.63 |
| Minus 100 basis point | \$2,885 | \$41.43 |

Liquidity involves the Company's ability to raise funds to support asset growth or decrease assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, cash flow from its amortizing investment and loan portfolios, as well as the use of short-term borrowings, as required. If necessary, the Company has the ability to raise liquidity through collateralized borrowings, FHLB advances, or the sale of its available for sale investment portfolio. As of June 30, 2003 the Company had in excess of \$8.7 billion in immediately available liquidity which includes securities that could be sold or used for collateralized borrowings, cash on hand, and borrowing capacities under existing lines of credit. During the first six months of 2003, deposit growth was used to fund growth in the loan portfolio and purchase additional investment securities.

Short-Term Borrowings

Short-term borrowings, or other borrowed money, consist primarily of securities sold under agreements to repurchase and overnight lines of credit, and are used to meet short term funding needs. At June 30, 2003, short-term borrowings aggregated \$508.0 million and had an average rate of 0.70%, as compared to \$391.6 million at an average rate of 1.55% at December 31, 2002.

Interest Earning Assets

For the six month period ended June 30, 2003, interest earning assets increased \$3.0 billion from \$14.8 billion to \$17.8 billion. This increase was primarily in investment securities and the loan portfolio as described below.

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Loans

During the first six months of 2003, loans increased \$556.0 million from \$5.8 billion to \$6.4 billion. At June 30, 2003, loans represented 36% of total deposits and 32% of total assets. All segments of the loan portfolio experienced growth in the first six months of 2003, including loans secured by commercial real estate properties, commercial loans, and consumer loans.

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

| | June 30, 2003 | December 31, 2002 |
|------------------------------------|------------------|----------------------|
| | ----- | |
| (dollars in thousands) | | |
| Commercial real estate: | | |
| Owner-occupied | \$ 1,486,464 | \$ 1,345,306 |
| Investor developer | 981,657 | 885,276 |
| Construction | 113,931 | 102,080 |
| | ----- | |
| | 2,582,052 | 2,332,662 |
| Commercial: | | |
| Term | 897,252 | 842,869 |
| Line of credit | 787,084 | 683,640 |
| Demand | 1,512 | 317 |
| | ----- | |
| | 1,685,848 | 1,526,826 |
| Consumer: | | |
| Mortgages (1-4 family residential) | 676,350 | 626,652 |
| Installment | 135,750 | 140,493 |
| Home equity | 1,239,553 | 1,139,589 |
| Credit lines | 59,070 | 56,367 |
| | ----- | |
| | 2,110,723 | 1,963,101 |
| | ----- | |
| Total loans | \$6,378,623 | \$5,822,589 |
| | ===== | |

Investments

For the first six months of 2003, total securities increased \$2.4 billion from \$8.9 billion to \$11.3 billion. The available for sale portfolio increased \$2.5 billion to \$10.3 billion at June 30, 2003 from \$7.8 billion at December 31, 2002, and the securities held to maturity portfolio increased \$78.8 million to \$841.8 million at June 30, 2003 from \$763.0 million at year-end 2002. The portfolio of trading securities decreased \$117.0 million from year-end 2002 to \$209.5 million at June 30, 2003. At June 30, 2003, the average life of the investment portfolio was approximately 3.8 years, and the duration was approximately 3.1 years. At June 30, 2003, total securities represented 57% of

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total assets.

During the second quarter of 2003, the Company continued its ongoing review and repositioning of the portfolio to adjust for current and anticipated interest rate and yield curve levels. This repositioning of the portfolio involved sales of approximately \$1.4 billion for the second quarter which reduced future prepayment risk, provided enhanced yields on new purchases and had minimal effect on the duration of the portfolio.

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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.

| | June 30, | December 31, |
|--|------------------------|--------------|
| | 2003 | 2002 |
| | (dollars in thousands) | |
| U.S. Government agency and mortgage backed obligations | \$10,119,546 | \$7,659,737 |
| Obligations of state and political subdivisions | 30,438 | 23,185 |
| Equity securities | 14,276 | 24,054 |
| Other | 95,551 | 99,803 |
| | ----- | ----- |
| Securities available for sale | \$10,259,811 | \$7,806,779 |
| | ===== | ===== |
| U.S. Government agency and mortgage backed obligations | \$595,518 | \$624,688 |
| Obligations of state and political subdivisions | 181,511 | 91,204 |
| Other | 64,723 | 47,134 |
| | ----- | ----- |
| Securities held to maturity | \$841,752 | \$763,026 |
| | ===== | ===== |

Net Income

Net income for the second quarter of 2003 was \$45.3 million, an increase of \$10.5 million or 30% over the \$34.8 million recorded for the second quarter of 2002. Net income for the first six months of 2003 totaled \$88.2 million, an increase of \$21.7 million or 32% from \$66.5 million in the first six months of 2002. On a per share basis, diluted net income for the second quarter and first six months of 2003 was \$0.63 and \$1.23 per common share compared to \$0.49 and \$0.94 per common share for the same periods in 2002.

Return on average assets (ROA) and return on average equity (ROE) for the second quarter of 2003 were 0.98% and 17.91%, respectively, compared to 1.06% and 18.99%, respectively, for the same 2002 period. ROA and ROE for the first six months of 2003 were 1.00% and 17.92%, respectively, compared to 1.07% and 18.99%, respectively, for the same 2002 period.

Net Interest Income

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Net interest income totaled \$179.3 million for the second quarter of 2003, an increase of \$40.7 million or 29% from \$138.6 million in the second quarter of 2002. Net interest income for the first six months of 2003 was \$346.6 million, up \$83.9 million or 32% from \$262.7 million for the first six months of 2002. The improvement in net interest income was due primarily to the Company's continued ability to grow deposits and its loan and investment portfolios.

The following table sets forth balance sheet items on a daily average basis for the three months ended June 30, 2003, March 31, 2003 and June 30, 2002 and presents the daily average interest earned on assets and paid on liabilities for such periods.

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Average Balances and Net Interest Income

| (dollars in thousands) | June 2003 | | | March 2003 | | |
|-------------------------------------|---------------------|------------------|--------------|---------------------|------------------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Earning Assets | | | | | | |
| Investment securities | | | | | | |
| Taxable | \$10,026,080 | \$119,147 | 4.77% | \$ 8,681,675 | \$109,916 | 5.1 |
| Tax-exempt | 192,892 | 3,689 | 7.67 | 140,307 | 2,545 | 7.3 |
| Trading | 158,297 | 2,389 | 6.05 | 270,299 | 3,215 | 4.8 |
| Total investment securities | 10,377,269 | 125,225 | 4.84 | 9,092,281 | 115,676 | 5.1 |
| Federal funds sold | 32,095 | 97 | 1.21 | 27,154 | 80 | 1.1 |
| Loans | | | | | | |
| Commercial mortgages | 2,319,945 | 37,156 | 6.42 | 2,177,008 | 35,125 | 6.5 |
| Commercial | 1,552,400 | 21,587 | 5.58 | 1,496,039 | 20,943 | 5.6 |
| Consumer | 2,109,143 | 33,336 | 6.34 | 2,075,256 | 33,719 | 6.5 |
| Tax-exempt | 264,737 | 5,338 | 8.09 | 258,614 | 5,129 | 8.0 |
| Total loans | 6,246,225 | 97,417 | 6.26 | 6,006,917 | 94,916 | 6.4 |
| Total earning assets | \$16,655,589 | \$222,739 | 5.36% | \$15,126,352 | \$210,672 | 5.6 |
| Sources of Funds | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Regular savings | \$3,477,229 | \$6,755 | 0.78% | \$ 3,021,219 | \$6,355 | 0.8 |
| N.O.W. accounts | 437,455 | 734 | 0.67 | 403,415 | 813 | 0.8 |
| Money market plus | 5,989,878 | 11,226 | 0.75 | 5,472,788 | 11,584 | 0.8 |
| Time deposits | 2,313,690 | 14,093 | 2.44 | 2,148,534 | 13,731 | 2.5 |
| Public funds | 878,005 | 3,294 | 1.50 | 793,437 | 3,115 | 1.5 |
| Total deposits | 13,096,257 | 36,102 | 1.11 | 11,839,393 | 35,598 | 1.2 |

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| | | | | | | |
|---|--------------|-----------|-------|---------------|-----------|-----|
| Other borrowed money | 278,780 | 318 | 0.46 | 272,304 | 914 | 1.3 |
| Long-term debt | 200,000 | 3,020 | 6.06 | 200,000 | 3,020 | 6.1 |
| <hr/> | | | | | | |
| Total deposits and interest-bearing liabilities | 13,575,037 | 39,440 | 1.17 | 12,311,697 | 39,532 | 1.3 |
| Noninterest-bearing funds (net) | 3,080,552 | | | 2,814,655 | | |
| <hr/> | | | | | | |
| Total sources to fund earning | \$16,655,589 | 39,440 | 0.95 | \$ 15,126,352 | 39,532 | 1.0 |
| <hr/> | | | | | | |
| Net interest income and margin tax-equivalent basis | | \$183,299 | 4.41% | | \$171,140 | 4.5 |
| <hr/> | | | | | | |
| Other Balances | | | | | | |
| <hr/> | | | | | | |
| Cash and due from banks | \$945,600 | | | \$ 865,209 | | |
| Other assets | 994,784 | | | 933,321 | | |
| Total assets | 18,498,841 | | | 16,831,542 | | |
| Total deposits | 16,734,886 | | | 15,033,367 | | |
| Demand deposits (noninterest-bearing) | 3,638,629 | | | 3,193,974 | | |
| Other liabilities | 273,183 | | | 369,691 | | |
| Stockholders' equity | 1,011,992 | | | 956,180 | | |

- Notes - Weighted average yields on tax-exempt obligations have been computed on a tax-equivalent basis assuming a federal tax rate of 35%.
- Non-accrual loans have been included in the average loan balance.
 - Investment securities includes investments available for sale.
 - Consumer loans include mortgage loans held for sale.

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Noninterest Income

Noninterest income totaled \$83.4 million for the second quarter of 2003, an increase of \$21.7 million or 35% from \$61.7 million in the second quarter of 2002. Noninterest income for the first six months of 2003 increased to \$159.4 million from \$117.6 million in the first six months of 2002, a 36% increase.

Increased deposit charges and service fees of \$7.1 million and \$13.0 million during the three and six months ended June 30, 2003, respectively, resulted primarily from higher transaction volumes. In addition, other operating income increased \$13.3 million during the second quarter of 2003 and \$27.7 million during the first six months of 2003 as compared to the same periods in 2002. Included in these increases are increased revenues from CCMI, the Company's municipal public finance subsidiary, of \$1.6 million and \$5.2 million during the three and six months ended June 30, 2003, respectively, and from CIS, the Company's insurance brokerage subsidiary, of \$2.9 million and \$5.6 million during the three and six months ended June 30, 2003, respectively, as compared to the same periods in 2002.

The growth in non-interest income for the second quarter and the first six months of 2003 is more fully depicted below:

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| | Three Months Ended | | | Six M |
|--------------------------------|------------------------|----------|------------|-----------|
| | 6/30/03 | 6/30/02 | % Increase | 6/30/03 |
| | (Dollars in thousands) | | | (Dollars |
| Deposit charges & service fees | \$38,765 | \$31,629 | 23% | \$73,607 |
| Other operating income: | | | | |
| Insurance | 17,190 | 14,241 | 21 | 33,245 |
| Capital Markets | 9,695 | 8,082 | 20 | 19,698 |
| Loan Brokerage Fees | 7,545 | 4,118 | 83 | 15,468 |
| Other | 8,958 | 3,659 | 145 | 16,337 |
| Total other | 43,388 | 30,100 | 44 | 84,748 |
| Net investment security gains | 1,217 | - | - | 1,081 |
| Total non-interest income | \$83,370 | \$61,729 | 35% | \$159,436 |

Noninterest Expense

For the second quarter of 2003, noninterest expense totaled \$187.7 million, an increase of \$50.1 million or 36% over the second quarter in 2002. For the first six months of 2003, noninterest expense totaled \$359.8 million, an increase of \$96.3 million or 37% over \$263.5 million for the first six months of 2002. Contributing to these increases was new branch activity over the past twelve months, with the number of branches increasing from 196 at June 30, 2002 to 243 at June 30, 2003. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. The increases reflect the rapid growth during each respective period and also reflect substantial infrastructure investments made by the Company to support future growth.

For the second quarter of 2003, other noninterest expenses rose \$8.5 million over the second quarter of 2002. For the first six months of 2003, other noninterest expense rose \$15.6 million over the first six months of 2002. These increases resulted primarily from higher bank card-related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

The Company's operating efficiency ratio (noninterest expenses, less other real estate expense, divided by net interest income plus noninterest income excluding non-recurring gains) was 71.3 % for the first six months of 2003 as compared to 69.11% for the same 2002 period. The Company's efficiency ratio remains above its peer group primarily due to its aggressive growth expansion activities.

Loan and Asset Quality

Total non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at June 30, 2003 were \$24.1 million, or 0.12% of total assets compared to \$17.8 million or 0.11% of total assets at December 31, 2002 and \$17.6 million or 0.13% of total assets at June 30, 2002.

Total non-performing loans (non-accrual loans and restructured loans, excluding loans past due 90 days or more and still accruing interest) at June 30, 2003 were \$22.5 million or 0.35% of total loans compared to \$14.2 million or 0.24% of total loans at December 31, 2002 and \$15.1 million or 0.29% of total loans at June 30, 2002. At June 30, 2003, loans past due 90 days or more and still accruing interest amounted to \$434 thousand compared to \$620 thousand at December 31, 2002 and \$834 thousand at June 30, 2002. Additional loans considered as potential problem loans by the Company's internal loan review department (\$32.0 million at June 30, 2003) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) at June 30, 2003 totaled \$1.5 million compared to \$3.6 million at December 31, 2002 and \$2.5 million at June 30, 2002. These properties have been written down to the lower of cost or fair value less disposition costs.

The following summary presents information regarding non-performing loans and assets as of June 30, 2003 and the preceding four quarters (dollar amounts in thousands).

| | June 30, 2003 | March 31, 2003 | December 31, 2002 | September 2002 |
|-----------------------------|------------------|-------------------|----------------------|-------------------|
| Non-accrual loans: | | | | |
| Commercial | \$7,049 | \$4,874 | \$5,412 | \$7,049 |
| Consumer | 9,517 | 9,860 | 6,326 | 5,412 |
| Real estate: | | | | |
| Construction | - | - | 131 | - |
| Mortgage | 5,970 | 4,249 | 2,299 | 2,299 |
| Total non-accrual loans | 22,536 | 18,983 | 14,168 | 15,110 |
| Restructured loans: | | | | |
| Commercial | 3 | 4 | 5 | 3 |
| Consumer | | | | |
| Real estate: | | | | |
| Construction | | | | |
| Mortgage | | | | |
| Total restructured loans | 3 | 4 | 5 | 3 |
| Total non-performing loans | 22,539 | 18,987 | 14,173 | 15,113 |
| Other real estate | 1,540 | 3,553 | 3,589 | 2,500 |
| Total non-performing assets | 24,079 | 22,540 | 17,762 | 17,613 |

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| | | | | |
|---|----------|----------|----------|----------|
| Loans past due 90 days or more and still accruing | 434 | 376 | 620 | |
| ----- | | | | |
| Total non-performing assets and loans past due 90 days or more | \$24,513 | \$22,916 | \$18,382 | \$18,382 |
| ===== | | | | |
| Total non-performing loans as a percentage of total period-end loans | 0.35% | 0.32% | 0.24% | 0.24% |
| Total non-performing assets as a percentage of total period-end assets | 0.12% | 0.13% | 0.11% | 0.11% |
| Total non-performing assets and loans past due 90 days or more as a percentage of total period-end assets | 0.12% | 0.13% | 0.11% | 0.11% |

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| | | | | |
|---|------------------|-------------------|----------------------|-------------------|
| | June 30, 2003 | March 31, 2003 | December 31, 2002 | September 2002 |
| ----- | | | | |
| Allowance for loan losses as a percentage of total non-performing loans | 441% | 499% | 640% | |
| Allowance for loan losses as a percentage of total period-end loans | 1.56% | 1.58% | 1.56% | 1.56% |
| Total non-performing assets and loans past due 90 days or more as a percentage of stockholders' equity and allowance for loan losses | 2% | 2% | 2% | |

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

| | | | | |
|--|--------------------------------|----------|------------------------------|----------|
| | Three Months Ended 06/30/03 | 06/30/02 | Six Months Ended 06/30/03 | 06/30/02 |
| ----- | | | | |
| Balance at beginning of period | \$94,731 | \$72,253 | \$90,733 | \$66,900 |
| Provisions charged to operating expenses | 6,900 | 10,250 | 13,800 | 17,100 |
| ----- | | | | |
| | 101,631 | 82,503 | 104,533 | 84,000 |

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| | | | | |
|------------------------------------|----------|----------|----------|--------|
| Recoveries on loans charged-off: | | | | |
| Commercial | 141 | 215 | 345 | 4 |
| Consumer | 146 | 105 | 277 | 2 |
| Real estate | - | - | - | |
| | ----- | ----- | ----- | ----- |
| Total recoveries | 287 | 320 | 622 | 6 |
| Loans charged-off: | | | | |
| Commercial | (1,197) | (1,874) | (3,065) | (3,0 |
| Consumer | (1,390) | (841) | (2,755) | (1,5 |
| Real estate | (13) | (10) | (17) | (|
| | ----- | ----- | ----- | ----- |
| Total charge-offs | (2,600) | (2,725) | (5,837) | (4,6 |
| | ----- | ----- | ----- | ----- |
| Net charge-offs | (2,313) | (2,405) | (5,215) | (4,0 |
| | ----- | ----- | ----- | ----- |
| Balance at end of period | \$99,318 | \$80,098 | \$99,318 | \$80,0 |
| | ===== | ===== | ===== | ===== |
| Net charge-offs as a percentage of | | | | |
| average loans outstanding | 0.15% | 0.19% | 0.17% | 0. |
| Net reserve additions | \$4,587 | \$7,845 | \$8,585 | \$13,1 |

Recent Announcements

On August 8, 2003, the Company filed a Form S-3 shelf registration statement with the Securities and Exchange Commission (SEC). Once declared effective by the SEC, the shelf registration statement will allow 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.

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To support its growth, which has exceeded 40% per year for the last two years, the Company expects to complete an initial offering under the shelf registration during 2003, which could include up to \$250 million in equity. If the Company had completed such an equity offering at June 30, 2003, its pro-forma regulatory capital ratios would be as follows:

| | | |
|-------|----------|--------------|
| ----- | June 30, | "Well |
| | 2003 | Capitalized" |
| ----- | | ----- |

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| | | |
|---------------|---------|--------|
| Leverage | 7.40 % | 5.00% |
| Tier 1 | 13.56 % | 6.00% |
| Total Capital | 14.55 % | 10.00% |

In addition, management projects that the Company's book value would increase by approximately \$2.00 per share.

Forward-Looking Statements

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

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

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Quarterly evaluation of the Company's Disclosure Controls and Internal Controls. As of the end of the period covered by this quarterly report, the Company has evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" ("Disclosure Controls"). This evaluation ("Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

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

Conclusions. Based upon the Controls Evaluation, the CEO and CFO have concluded that, subject to the limitations noted above, the Disclosure Controls are effective in reaching a reasonable level of assurance that management is timely alerted to material information relating to the Company during the period when its periodic reports are being prepared.

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

PART II. OTHER INFORMATION

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

The Annual Meeting of the Registrant's Shareholders was held on May 20, 2003. Proxies representing 61,477,881 shares were received (total shares outstanding

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as of the record date were 68,797,955). The only items of business acted upon at the Annual Meeting were (i) the election of 12 directors for one year terms; and (ii) approval of the amendment of Commerce Bancorp, Inc.'s 1998 Stock Option Plan for Non-Employee Directors to increase the number of shares that may be issued under such plan by 500,000 shares. The number of votes cast for, against, or withheld, as well as the number of abstentions and broker non-votes was as follows:

(i) Election of directors:

| Name of Nominee ----- | For --- | (Withhold Authority) Against ----- |
|-----------------------------|------------|--|
| Vernon W. Hill, II | 59,135,267 | 2,342,614 |
| Robert C. Beck | 59,136,642 | 2,341,239 |
| Donald T. DiFrancesco | 59,032,096 | 2,445,785 |
| Jack R Bershad | 51,084,929 | 10,392,952 |
| Morton N. Kerr | 58,311,655 | 3,166,226 |
| Steven M. Lewis | 59,210,052 | 2,267,829 |
| George E. Norcross, III | 58,986,721 | 2,491,160 |
| Daniel J. Ragone | 58,188,561 | 3,289,320 |
| William A. Schwartz Jr. | 59,209,794 | 2,268,087 |
| Joseph T. Tarquini Jr. | 59,040,761 | 2,437,120 |
| Joseph M. Buckelew | 59,199,780 | 2,278,101 |
| Frank C. Videon Sr. | 59,153,381 | 2,324,500 |

(ii) Approval of the amendment of Commerce Bancorp, Inc.'s 1998 Stock Option Plan for Non-Employee Directors to increase the number of shares that may be issued under such plan by 500,000 shares:

| For --- | Against ----- | Abstain ----- | Broker Non-Vote ----- |
|------------|------------------|------------------|-----------------------------|
| 43,975,139 | 17,165,927 | 462,591 | 7,194,298 |

Item 6. Exhibits and Reports on Form 8-K

Exhibits

Exhibit 31 - 302 Certification

Exhibit 32 - 906 Certification

Reports on Form 8-K

On April 11, 2003, we filed a Current Report on Form 8-K which included as exhibits a press release, issued by us on April 10, 2003, announcing our results for the second quarter of 2003 and certain supplemental information.

On April 29, 2003, we filed a Current Report on Form 8-K which included as exhibits a press release, issued by us on April 24, 2003, announcing an Investor Conference to be held on Tuesday, April 29, 2003 and the slide package presented at the Investor Conference.

SIGNATURES

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

COMMERCE BANCORP, INC.

(Registrant)

August 8, 2003

(Date)

/s/ DOUGLAS J. PAULS

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