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COMMERCE BANCORP INC /NJ/
Form 10-Q
November 13, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarter ended September 30, 2001

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 #1-12069

COMMERCE BANCORP (LOGO)
(Exact name of registrant as specified in its charter)

New Jersey

22-2433468

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification
Number)

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

(Address of Principal Executive Offices) (Zip Code)

(856) 751-9000

(Registrant's telephone number, including area code)

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

Yes

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

32,688,053

(Title of Class)

(No. of Shares Outstanding
as of 11/5/01)

COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

		September 30,
	(dollars in thousands)	2001
Assets	Cash and due from banks	\$ 458,454
	Federal funds sold	195,600
	Cash and cash equivalents	654,054
	Loans held for sale	37,446
	Trading securities	184,985
	Securities available for sale	3,372,318
	Securities held to maturity	1,229,294
	(market value 09/01-\$1,249,073; 12/00-\$1,503,202)	
	Loans	4,322,326
	Less allowance for loan losses	61,386
		4,260,940
	Bank premises and equipment, net	311,425
	Other assets	337,470

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\$10,387,932
=====

Liabilities	Deposits:		
	Demand:		
	Interest-bearing		\$3,275,292
	Noninterest-bearing		2,197,555
	Savings		1,759,711
	Time		2,179,657

	Total deposits		9,412,215
	Other borrowed money		84,673
	Other liabilities		173,861
	Trust Capital Securities - Commerce Capital Trust I		57,500
	Long-term debt		23,000

			9,751,249
Stockholders' Equity	Common stock, 32,675,538 shares issued (31,761,453 shares in 2000)		51,056
	Capital in excess of par or stated value		461,114
	Retained earnings		75,437
	Accumulated other comprehensive income		50,698

			638,305
	Less treasury stock, at cost		1,622

	Total stockholders' equity		636,683

			\$10,387,932
			=====

See accompanying notes.

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

		Three Months Ended		
		September 30,		
		2001	2000	
(dollars in thousands, except per share amounts)				
Interest Income	Interest and fees on loans	\$ 83,679	\$ 76,601	\$2
	Interest on investments	67,037	52,871	1
	Other interest	2,265	1,713	
		-----	-----	-----
	Total interest income	152,981	131,185	4
		-----	-----	-----
Interest Expense	Interest on deposits:			
	Demand	16,371	19,641	

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	Savings	8,465	10,652	
	Time	23,469	20,614	
		-----	-----	
	Total interest on deposits	48,305	50,907	1
	Interest on other borrowed money	737	3,115	
	Interest on long-term debt	1,226	1,599	
		-----	-----	
	Total interest expense	50,268	55,621	1
		-----	-----	
	Net interest income	102,713	75,564	2
	Provision for loan losses	6,335	3,668	
		-----	-----	
	Net interest income after provision for loan losses	96,378	71,896	2
Noninterest	Deposit charges and service fees	22,121	14,758	
Income	Other operating income	29,653	22,930	
	Net investment securities gains			
		-----	-----	
	Total noninterest income	51,774	37,688	1
		-----	-----	
Noninterest	Salaries	42,199	30,685	1
Expense	Benefits	9,956	6,131	
	Occupancy	9,639	7,651	
	Furniture and equipment	12,657	9,943	
	Office	6,726	6,204	
	Audit and regulatory fees and assessments	1,011	947	
	Marketing	6,443	3,147	
	Other real estate (net)	450	104	
	Other	20,512	13,689	
		-----	-----	
	Total noninterest expenses	109,593	78,501	2
		-----	-----	
	Income before income taxes	38,559	31,083	1
	Provision for federal and state income taxes	12,278	10,092	
		-----	-----	
	Net income	\$ 26,281	\$ 20,991	\$
		=====	=====	=====
	Net income per common and common equivalent share:			
	Basic	\$ 0.81	\$ 0.68	\$
		-----	-----	
	Diluted	\$ 0.77	\$ 0.64	\$
		-----	-----	
	Average common and common equivalent shares outstanding:			
	Basic	32,479	31,109	
		-----	-----	
	Diluted	34,253	32,752	
		-----	-----	
	Cash dividends declared, common stock	\$ 0.28	\$ 0.25	\$
		=====	=====	=====

See accompanying notes.

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

		N
	(dollars in thousands)	2001
Operating Activities	Net income \$ 74,79 Adjustments to reconcile net income to net cash provided by operating activities: <ul style="list-style-type: none"> Provision for loan losses 18,92 Provision for depreciation, amortization and accretion 31,54 Gains on sales of securities available for sale (98) Proceeds from sales of mortgages held for sale 488,07 Originations of mortgages held for sale (483,73) Net loan chargeoffs (6,22) Net increase in trading securities (75,67) Increase in other assets (168,36) Increase in other liabilities 121,37 	
	Net cash (used in) provided by operating activities	(26)
Investing activities	<ul style="list-style-type: none"> Proceeds from the sales of securities available for sale 374,52 Proceeds from the maturity of securities available for sale 580,91 Proceeds from the maturity of securities held to maturity 267,24 Purchase of securities available for sale (2,155,38) Purchase of securities held to maturity (48,06) Net increase in loans (643,78) Proceeds from sales of loans 8,72 Purchases of premises and equipment (65,08) 	
	Net cash used by investing activities	(1,680,91)
Financing activities	<ul style="list-style-type: none"> Net increase in demand and savings deposits 1,378,02 Net increase in time deposits 646,59 Net decrease in other borrowed money (199,04) Dividends paid (26,43) Proceeds from issuance of common stock under dividend reinvestment and other stock plans 40,50 Other (34) 	
	Net cash provided by financing activities	1,839,31
	Increase in cash and cash equivalents	158,13
	Cash and cash equivalents at beginning of year	495,91
	Cash and cash equivalents at end of period	\$ 654,05
Supplemental disclosures of cash flow information:		
	Cash paid during the period for:	
	Interest	\$158,89
	Income taxes	34,35

Other noncash activities:
Securitization of loans

See accompanying notes.

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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 a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

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

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. and all of its subsidiaries, including Commerce Bank, N.A. (Commerce NJ), Commerce Bank/Pennsylvania, N.A., Commerce Bank/Shore, N.A., Commerce Bank/North, Commerce Bank/Delaware, N.A., Commerce National Insurance Services, Inc. (Commerce National Insurance), Commerce Capital Trust I, and Commerce Capital Markets, Inc. (CCMI). All material intercompany transactions have been eliminated. Effective April 1, 2001, Commerce Bank/Central, N.A. was merged into Commerce NJ.

B. Commitments

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

C. Comprehensive Income

Total comprehensive income, which for the Company included net income and unrealized gains and losses on the Company's available for sale securities, amounted to \$73.3 million and \$39.0 million, respectively, for the three months ended September 30, 2001 and 2000. For the nine months ended September 30, 2001 and 2000, total comprehensive income was \$130.7 million and \$71.3 million, respectively.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

D. Segment Information

The Company operates one reportable segment of business, Community Banks, which includes Commerce NJ, Commerce PA, Commerce Shore, Commerce North, and Commerce Delaware. Through its Community Banks, the Company provides a broad range of retail and commercial banking services, and corporate trust services. Parent/Other includes the holding company, Commerce National Insurance, CCMI, and Commerce Capital Trust I.

Selected segment information is as follows:

	Three Months Ended September 30, 2001			Three Months Ended September 30, 2000	
	Community Banks	Parent/ Other	Total	Community Banks	Parent/ Other
Net interest income	\$ 103,136	\$ (423)	\$ 102,713	\$ 75,738	\$ 10,000
Provision for loan losses	6,335	-	6,335	3,668	-
Net interest income after provision	96,801	(423)	96,378	72,070	10,000
Noninterest income	33,278	18,496	51,774	22,529	10,000
Noninterest expense	93,896	15,697	109,593	65,800	10,000
Income before income taxes	36,183	2,376	38,559	28,799	10,000
Income tax expense	11,711	567	12,278	9,466	10,000
Net income	\$ 24,472	\$ 1,809	\$ 26,281	\$ 19,333	\$ 10,000
Average assets (in millions)	\$ 8,773,668	\$ 1,014,304	\$ 9,787,972	\$ 6,820,784	\$ 10,000

	Nine Months Ended September 30, 2001			Nine Months Ended September 30, 2000	
	Community Banks	Parent/ Other	Total	Community Banks	Parent/ Other
Net interest income	\$ 284,528	\$ (672)	\$ 283,856	\$ 219,253	\$ 10,000
Provision for loan losses	18,926	-	18,926	10,803	-
Net interest income after provision	265,602	(672)	264,930	208,450	10,000
Noninterest income	89,557	53,706	143,263	63,777	10,000
Noninterest expense	253,297	44,590	297,887	188,770	10,000
Income before income taxes	101,862	8,444	110,306	83,457	10,000
Income tax expense	33,276	2,238	35,514	27,495	10,000
Net income	\$ 68,586	\$ 6,206	\$ 74,792	\$ 55,962	\$ 10,000

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Average assets (in millions)	\$ 8,142,990	\$ 959,589	\$ 9,102,579	\$ 6,448,989	\$
	=====				

E. Recent Accounting Statements

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

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

In June 2001, the FASB issued Statements No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules beginning in the first quarter of 2002. Due to the immaterial amount of goodwill and intangible assets recorded on the Company's balance sheet, adoption of the Statements is not expected to have a material impact on the results of operations or the financial position of the Company.

F. Trust Capital Securities

On June 9, 1997, the Company issued \$57.5 million of 8.75% Trust Capital Securities through Commerce Capital Trust I, a newly formed Delaware business trust subsidiary of the Company. The net proceeds of the offering will be used for general corporate purposes, which may include contributions to subsidiary banks to fund their operations, the financing of one or more future acquisitions, repayment of indebtedness of the Company or of its subsidiary banks, investments in or extensions of credit to its subsidiaries, or the repurchase of shares of the Company's outstanding common stock. All \$57.5 million of the Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes.

G. Earnings Per Share

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

Three Months Ended
September 30

Nine
Se

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	2001	2000	2001
Basic:			
Net income applicable to common stock	\$26,281	\$20,991	\$74,7
Average common shares outstanding	32,479	31,109	32,2
Net income per common share - basic	\$0.81	\$0.68	\$2.
Diluted:			
Net income applicable to common stock on a diluted basis	\$26,281	\$20,991	\$74,7
Average common shares outstanding	32,479	31,109	32,2
Additional shares considered in diluted Computation assuming:			
Exercise of stock options	1,774	1,643	1,6
Average common shares outstanding On a diluted basis	34,253	32,752	33,8
Net income per common share - diluted	\$0.77	\$0.64	\$2.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

Capital Resources

At September 30, 2001, stockholders' equity totaled \$636.7 million or 6.13% of total assets, compared to \$492.2 million or 5.93% of total assets at December 31, 2000.

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

	Per Regulatory Guide			
	Actual Amount	Actual Ratio	Minimum Amount	Minimum Ratio
September 30, 2001				
Company				
Risk based capital ratios:				

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Tier 1	\$640,068	10.37%	\$246,880	4.00%	\$3
Total capital	706,054	11.44	493,759	8.00	6
Leverage ratio	640,068	6.56	390,325	4.00	4
Commerce NJ Risk based capital ratios:					
Tier 1	\$360,781	9.52%	\$151,642	4.00%	\$2
Total capital	402,049	10.61	303,284	8.00	3
Leverage ratio	360,781	6.31	228,676	4.00	2
September 30, 2000					
Company					
Risk based capital ratios:					
Tier 1	\$521,871	10.88%	\$191,813	4.00%	\$2
Total capital	578,428	12.06	383,625	8.00	4
Leverage ratio	521,871	6.85	304,648	4.00	3
Commerce NJ Risk based capital ratios:					
Tier 1	\$259,538	9.26%	\$112,055	4.00%	\$1
Total capital	287,271	10.25	224,110	8.00	2
Leverage ratio	259,538	6.15	168,758	4.00	2

At September 30, 2001, the Company's consolidated capital levels and each of the Company's bank subsidiaries met the regulatory definition of a "well capitalized" financial institution, i.e., a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6%, and a total risk-based capital ratio exceeding 10%. Management believes that as of September 30, 2001, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Deposits

Total deposits at September 30, 2001 were \$9.41 billion, up \$2.3 billion, or 33% over total deposits of \$7.10 billion at September 30, 2000, and up by \$ 2.02 billion, or 27% from year-end 2000. Deposit growth during the first nine months of 2001 included core deposit growth in all categories as well as growth from the public sector. The Company experienced "same-store core deposit growth" of 21% at September 30, 2001 as compared to deposits a year ago for those branches open for more than two years.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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.

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Income simulation also attends to the relative interest rate sensitivities of these items, and projects their behavior over an extended period of time. Finally, income simulation permits management to assess the probable effects on the balance sheet not only of changes in interest rates, but also of proposed strategies for responding to them.

The Company's income simulation model analyzes interest rate sensitivity by projecting net income over the next 24 months in a flat rate scenario versus net income in alternative interest rate scenarios. Management continually reviews and refines its interest rate risk management process in response to the changing economic climate. Currently, the Company's model projects a proportionate 200 basis point change during the next year, with rates remaining constant in the second year. The Company's ALCO policy has established that interest income sensitivity will be considered acceptable if net income in the above interest rate scenario is within 15% of net income in the flat rate scenario in the first year and within 30% over the two year time frame. At September 30, 2001, the Company's income simulation model indicates net income would increase by 1.99% and decrease by 4.28% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 7.61% and 4.80%, respectively, at September 30, 2000. At September 30, 2001, the model projects that net income would decrease by 4.59% and 2.27% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease of 7.52% and 5.31%, respectively, at September 30, 2000. All of these net income projections are within an acceptable level of interest rate risk pursuant to the policy established by ALCO.

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

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off balance sheet items. The model calculates the market value of the Company's assets and liabilities in excess of book value in the current rate scenario, and then compares the excess of market value over book value given an immediate 200 basis point change in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate 200 basis point change would result in the loss of 60% or more of the excess of market value over book value in the current rate scenario. At September 30, 2001, the market value of equity model indicates an acceptable level of interest rate risk.

Liquidity involves the Company's ability to raise funds to support asset growth or decrease assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, cash flow from its amortizing investment and loan portfolios, as well as the use of short-term borrowings, as required.

Short-Term Borrowings

Short-term borrowings, or other borrowed money, consist primarily of securities sold under agreements to repurchase and overnight lines of credit, and are used to meet short term funding needs. During the first nine months of 2001, the Company reduced its short-term borrowings, primarily through increased deposits. At September 30, 2001, short-term

COMMERCE BANCORP, INC. AND SUBSIDIARIES

borrowings aggregated \$84.7 million and had an average rate of 2.83%, as compared to \$283.7 million at an average rate of 6.70% at December 31, 2000.

Interest Earning Assets

For the nine month period ended September 30, 2001, interest earning assets increased \$1.91 billion from \$7.43 billion to \$9.34 billion. This increase was primarily in investment securities and the loan portfolio as described below.

Loans

During the first nine months of 2001, net loans increased \$622.4 million from \$3.64 billion to \$4.26 billion. At September 30, 2001, loans represented 45% of total deposits and 41% of total assets. All segments of the loan portfolio experienced growth in the first nine months of 2001, including loans secured by commercial real estate properties, commercial loans, and consumer loans.

Investments

In total, for the first nine months of 2001, securities increased \$1.15 billion from \$3.64 billion to \$4.79 billion. The available for sale portfolio increased \$1.35 billion to \$3.37 billion at September 30, 2001 from \$2.02 billion at December 31, 2000, and the securities held to maturity portfolio decreased \$284.2 million to \$1.23 billion at September 30, 2001 from \$1.51 billion at year-end 2000. The portfolio of trading securities increased \$75.7 million from year-end 2000 to \$185.0 million at September 30, 2001. At September 30, 2001, the average life of the investment portfolio was approximately 5.7 years, and the duration was approximately 4.2 years. At September 30, 2001, total securities represented 46% of total assets.

Net Income

Net income for the third quarter of 2001 was \$26.3 million, an increase of \$5.3 million or 25% over the \$21.0 million recorded for the third quarter of 2000. Net income for the first nine months of 2001 was \$74.8 million, an increase of \$16.1 million or 27% over the \$58.7 million recorded for the first nine months of 2000. On a per share basis, diluted net income for the third quarter of 2001 and the first nine months of 2001 were \$0.77 and \$2.21 per common share compared to \$0.64 and \$1.84 per common share for the respective 2000 periods.

Return on average assets (ROA) and return on average equity (ROE) for the third quarter of 2001 were 1.07% and 17.46%, respectively, compared to 1.11% and 20.02%, respectively, for the same 2000 period. ROA and ROE for the first nine months of 2001 were 1.10% and 17.82%, respectively, compared to 1.09% and 20.38% a year ago.

Net Interest Income

Net interest income totaled \$102.7 million for the third quarter of 2001, an increase of \$27.1 million or 36% from \$75.6 million in the third quarter of 2000. Net interest income for the first nine months of 2001 totaled \$283.9 million, up \$66.7 million or 31% from the first nine months of 2000. The improvement in net interest income for both periods was due primarily to volume increases in the loan and investment portfolios.

Noninterest Income

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Noninterest income totaled \$51.8 million for the third quarter of 2001, an increase of \$14.1 million or 37% from \$37.7 million in the third quarter of 2000. The increase was due primarily to increased deposit charges and service fees, which rose \$7.4 million over the third quarter of 2000 primarily due to higher transaction volumes. In addition, other operating income increased \$6.7 million over the prior year, including increased revenues of \$1.9 million from CCMI, the Company's municipal public finance subsidiary, increased revenues of \$1.7 million from Commerce National Insurance, the Company's insurance brokerage subsidiary, and increased bank card-related revenues of \$1.5 million.

For the first nine months of 2001, noninterest income totaled \$143.3 million, an increase of \$34.3 million or 31% from \$109.0 million in the first nine months of 2000. Deposit charges and service fees rose \$18.8 million over the prior year

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

primarily due to higher transaction volumes. Other operating income rose \$15.3 million over the first nine months of 2000, including increased revenues of \$5.2 million from CCMI, \$3.0 million from Commerce National Insurance, and \$3.7 million from bank card-related income. In addition, the Company recorded \$980 thousand in net investment securities gains in the first nine months of 2001 versus \$820 thousand a year ago.

Noninterest Expense

For the third quarter of 2001, noninterest expense totaled \$109.6 million, an increase of \$31.1 million or 40% over the same period in 2000. Contributing to this increase was new branch activity over the past twelve months, with the number of branches increasing from 140 at September 30, 2000 to 167 at September 30, 2001. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. Other noninterest expenses rose \$6.8 million over the third quarter of 2000. This increase resulted primarily from higher bank card-related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

For the first nine months of 2001, noninterest expense totaled \$297.9 million, an increase of \$70.0 million or 31% over \$227.9 million in the first nine months of 2000. Contributing to this increase was new branch activity and the growth of CCMI and Commerce National Insurance as noted above. Other noninterest expenses rose \$16.3 million over the first nine months of 2000. The increase resulted primarily from higher bank card-related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

The Company's operating efficiency ratio (noninterest expenses, less other real estate expense, divided by net interest income plus noninterest income excluding non-recurring gains) was 69.61% for the first nine months of 2001 as compared to 69.79% for the same 2000 period. The Company's efficiency ratio remains above its peer group primarily due to its aggressive growth expansion activities.

Loan and Asset Quality

Total non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at September 30, 2001 were \$20.8 million, or 0.20% of total assets compared to \$16.6 million or 0.20% of total assets at December 31, 2000 and \$16.1 million or 0.21% of total assets at September 30, 2000.

Total non-performing loans (non-accrual loans and restructured loans, excluding loans past due 90 days or more and still accruing interest) at September 30, 2001 were \$19.1 million or 0.44% of total loans compared to \$13.6 million or

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0.37% of total loans at December 31, 2000 and \$13.2 million or 0.36% of total loans at September 30, 2000. At September 30, 2001, loans past due 90 days or more and still accruing interest amounted to \$964 thousand compared to \$489 thousand at December 31, 2000 and \$561 thousand at September 30, 2000. Additional loans considered as potential problem loans by the Company's internal loan review department (\$41.3 million at September 30, 2001) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) at September 30, 2001 totaled \$1.7 million compared to \$3.0 million at December 31, 2000 and \$2.9 million at September 30, 2000. These properties have been written down to the lower of cost or fair value less disposition costs.

On pages 12 and 13 are tabular presentation showing detailed information about the Company's non-performing loans and assets and an analysis of the Company's allowance for loan losses and other related data for September 30, 2001, December 31, 2000, and September 30, 2000.

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

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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.

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

	September 30, 2001	June 30, 2001	March 31, 2001	December 31, 2000
Non-accrual loans:				
Commercial	\$09,196	\$10,608	\$10,681	\$04,95
Consumer	1,382	1,338	1,378	1,29
Real estate:				
Construction	1,590	1,590	1,590	1,45
Mortgage	6,944	5,598	5,756	5,84
Total non-accrual loans	19,112	19,134	19,405	13,54
Restructured loans:				
Commercial	9	10	11	1
Consumer				
Real estate:				
Construction				8
Mortgage				8
Total restructured loans	9	10	11	9
Total non-performing loans	19,121	19,144	19,416	13,64
Other real estate	1,671	1,552	1,452	2,95
Total non-performing assets	20,792	20,696	20,868	16,60
Loans past due 90 days or more and still accruing	964	1,416	537	48
Total non-performing assets and loans past due 90 days or more	\$21,756	\$22,112	\$21,405	\$17,09
Total non-performing loans as a percentage of total period-end loans	0.44%	0.47%	0.50%	0.37
Total non-performing assets as a percentage of total period-end assets	0.20%	0.22%	0.23%	0.20
Total non-performing assets and loans past due 90 days or more as a percentage of total period-end assets	0.21%	0.24%	0.24%	0.21
Allowance for loan losses as a percentage				

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of total non-performing loans	321%	301%	269%	357%
Allowance for loan losses as a percentage of total period-end loans	1.42%	1.40%	1.36%	1.32%
Total non-performing assets and loans past due 90 days or more as a percentage of stockholders' equity and allowance for loan losses	3%	4%	4%	3%

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COMMERCE BANCORP, INC. AND SUBSIDIARIES

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

	Three Months Ended 09/30/01	Three Months Ended 09/30/00	Nine Months Ended 09/30/01	Nine Months Ended 09/30/00
Balance at beginning of period	\$57,548	\$44,004	\$48,680	\$38,300
Provisions charged to operating expenses	6,335	3,668	18,926	10,800
	63,883	47,672	67,606	49,100
Recoveries on loans charged-off:				
Commercial	20	85	179	200
Consumer	85	53	221	200
Real estate	102	9	116	100
Total recoveries	207	147	516	400
Loans charged-off:				
Commercial	(2,016)	(73)	(4,350)	(1,390)
Consumer	(680)	(336)	(1,975)	(840)
Real estate	(8)	(53)	(411)	(500)
Total charge-offs	(2,704)	(462)	(6,736)	(2,730)
Net charge-offs	(2,497)	(315)	(6,220)	(1,820)
Balance at end of period	\$61,386	\$47,357	\$61,386	\$47,300
Net charge-offs as a percentage of average loans outstanding	0.23%	0.04%	0.21%	0.04%

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.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

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

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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)

November 13, 2001

/s/ DOUGLAS J. PAULS

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(Date)

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