COMMERCE BANCORP INC /NJ/
Form 10-K/A
March 19, 2004

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

FORM 10-K/A
(Amendment No. 1)

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

OR

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

Commission File #1-12609

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $2,497,629,542.(1)

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

EXPLANATORY NOTE
(Amounts in thousands)

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on March 11, 2004. This Amendment corrects typographical errors contained in the third chart on page 23 in Item 7, Management's Discussion and Analysis.

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

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

Executive Summary

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

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

The 2003 financial highlights are summarized below.

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

	2003	2002	Increase
(amounts in billions)			
Total Assets	$ 22.7	$ 16.4	38%
Total Loans (net)	7.3	5.7	28%
Total Investments	13.3	8.9	49%
Total Deposits	20.7	14.5	42%
(amounts in millions)			
Total Revenues	$ 1,088.3	$ 830.2	31%
Net Income	194.3	144.8	34%
Net Income per Share	2.61	2.04	28%

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

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

Net Interest Income
(dollars in millions)

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

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

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

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

Application of Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

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

Allowance for loan losses. The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio of the Company. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the

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

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

Segment Reporting

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

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

Average Balances and Net Interest Income

The table on page 15 sets forth balance sheet items on a daily average basis for the years ended December 31, 2003, 2002 and 2001 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2003, average interest earning assets totaled $17.7 billion, an increase of $5.2 billion, or 42% over 2002. This increase resulted primarily from the increase in the average balance of investments, which rose $4.0 billion, and the average balance of loans, which rose $1.2 billion during 2003. The growth in the average balance of interest earning assets was funded primarily by an increase in the average balance of deposits (including noninterest-bearing demand deposits) of $5.2 billion.

Net Interest Margin and Net Interest Income

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

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

interest income, including:

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

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

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

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

	2003 vs. 2002 Increase (Decrease) Due to Changes in (1)			2002 vs. 200 Increase (Decre Due to Changes i	
	Volume	Rate	Total	Volume	Rate
			(dollars in thousands)		
Interest on Investments:					
Taxable	$186,070	($65,123)	$120,947	$156,146	($29,8
Tax-exempt	6,277	706	6,983	1,968	(2
Trading	(1,029)	(1,527)	(2,556)	1,558	2
Federal Funds sold	(356)	(254)	(610)	(1,802)	(3,2
Interest on loans:					
Commercial mortgages	24,352	(10,574)	13,778	31,083	(17,2
Commercial	21,154	(6,710)	14,444	16,240	(17,0
Consumer	24,965	(17,970)	6,995	27,817	(13,9
Tax-exempt	4,515	(1,701)	2,814	1,612	(4
Total interest					

Income	265,948	(103,153)	162,795	234,622	(81,8
Interest expense:					
Savings	9,453	(12,089)	(2,636)	9,678	(12,0
N.O.W. Accounts	884	(1,682)	(798)	1,128	(2,6
Money Market plus	16,781	(20,685)	(3,904)	17,669	(24,3
Time Deposits	10,405	(18,077)	(7,672)	20,708	(20,7
Public funds	(1,069)	(6,711)	(7,780)	2,960	(19,4
Other Borrowed Money	2,349	(924)	1,425	379	(2,0
Long-term Debt	32	(1,517)	(1,485)	8,090	2
Total interest Expense	38,835	(61,685)	(22,850)	60,612	(81,0
Net increase	$227,113	($41,468)	$185,645	$174,010	($8

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

	Year Ended December 31,					
	2003			2002		
(dollars in thousands) Earning Assets	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Investment securities						
Taxable	$ 10,777,538	$508,758	4.72%	$ 6,835,820	$387,811	5.67%
Tax-exempt	201,775	13,835	6.86	110,235	6,852	6.22
Trading	193,376	9,637	4.98	214,016	12,193	5.70
Total investment securities	11,172,689	532,230	4.76	7,160,071	406,856	5.68
Federal funds sold	22,530	255	1.13	54,043	865	1.60
Loans						
Commercial mortgages	2,419,855	152,642	6.31	2,037,091	138,864	6.82
Commercial	1,605,845	87,782	5.47	1,219,182	73,338	6.02
Consumer	2,224,197	137,138	6.17	1,815,679	130,143	7.17
Tax-exempt	269,592	21,230	7.87	212,261	18,416	8.68
Total loans	6,519,489	398,792	6.12	5,284,213	360,761	6.83
Total earning assets	$17,714,708	$931,277	5.26%	$12,498,327	$768,482	6.15%

Sources of Funds						
Interest-bearing liabilities						
Savings	$3,676,147	$27,596	0.75%	$ 2,416,884	$ 30,232	1.25%
N.O.W. accounts	468,311	3,358	0.72	344,951	4,156	1.20
Money market plus	6,495,847	47,353	0.73	4,193,963	51,257	1.22
Time deposits	2,335,124	53,721	2.30	1,882,823	61,393	3.26
Public funds	852,319	12,394	1.45	925,827	20,174	2.18
Total deposits	13,827,748	144,422	1.04	9,764,448	167,212	1.71
Other borrowed money	423,538	3,263	0.77	118,734	1,839	1.55
Long-term debt	200,000	12,080	6.04	199,464	13,565	6.80
Total deposits and interest-bearing liabilities	14,451,286	159,765	1.11	10,082,646	182,616	1.81
Noninterest-bearing funds (net)	3,263,422			2,415,681		
Total sources to fund earning assets	$17,714,708	$159,765	0.90	$12,498,327	$182,616	1.46
Net interest income and margin tax-equivalent basis		$771,512	4.36		$585,866	4.69
Tax-exempt adjustment		15,646			13,111	
Net interest income and margin		$755,866	4.27%		$572,755	4.58%
Other Balances						
Cash and due from banks	$ 922,188			$630,134		
Other assets	1,053,283			702,898		
Total assets	19,590,319			13,752,237		
Demand deposits (noninterest-bearing)	3,826,885			2,674,233		
Other liabilities	279,203			212,775		
Stockholders' equity	1,032,945			782,583		

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Noninterest Income

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

	2003	2002
Deposit Charges & Service Fees	$160,678	$131,033
Other Operating Income:		
Insurance	66,482	55,875
Capital Markets	42,518	35,082

Loan Brokerage Fees	27,169	18,655
Other	31,780	16,821
Total other	167,949	126,433
Net Investment Securities Gains	3,851	
Total Noninterest Income	$332,478	$257,466

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

Noninterest Expenses

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

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

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

Income Taxes

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

Net Income

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

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

and revenue growth. Management projects that deposit growth and an improved net interest margin will positively impact revenues in 2004, and that revenue growth will exceed the growth in noninterest expenses.

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

Return on Average Equity and Average Assets

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

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

Loan Portfolio

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

	December 31,			
	2003	2002	2001	2000
		(dollars in thousands)		
Commercial:				
Term	$1,027,526	842,869	600,374	469,564
Line of credit	959,158	683,640	556,977	430,811
Demand	1,077	317	440	1,400
	1,987,761	1,526,826	1,157,791	901,775
Owner-occupied	1,619,079	1,345,306	1,028,408	945,599
Consumer:				
Mortgages (1-4 family residential)	918,686	626,652	471,680	351,644
Installment	138,437	140,493	161,647	154,415
Home equity	1,405,795	1,139,589	872,974	710,848
Credit lines	60,579	56,367	43,196	30,254
	2,523,497	1,963,101	1,549,497	1,247,161

Commercial real estate:				
Investor developer	1,167,672	885,276	799,799	578,982
Construction	142,567	102,080	47,917	13,743
	1,310,239	987,356	847,716	592,725
Total loans	$7,440,576	$5,822,589	$4,583,412	$3,687,260

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

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

	December 31, 2003			
	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years	Total
(dollars in thousands)				
Commercial:				
Term	$ 336,652	$ 580,584	$ 110,290	$ 1,027,526
Line of credit	920,292	38,866		959,158
Demand	1,077			1,077
	1,258,021	619,450	110,290	1,987,761
Owner-occupied	318,028	969,582	331,469	1,619,079
Consumer:				
Mortgages (1-4 family residential)	29,471	113,037	776,178	918,686
Installment	47,934	58,183	32,320	138,437
Home equity	113,913	422,044	869,838	1,405,795
Credit lines	21,809	38,770		60,579
	213,127	632,034	1,678,336	2,523,497
Commercial real estate:				
Investor developer	309,761	737,201	120,710	1,167,672
Construction	71,968	70,599		142,567

	381,729	807,800	120,710	1,310,239
Total loans	$2,170,905	$3,028,866	$2,240,805	$7,440,576
Interest rates:				
Predetermined	$ 575,602	$2,070,183	$1,407,087	$4,052,872
Floating	1,595,303	958,683	833,718	3,387,704
Total loans	$2,170,905	$3,028,866	$2,240,805	$7,440,576

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

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

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Non-Performing Loans and Assets

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

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

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

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

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

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands)					
Non-accrual loans (1):					
Commercial	$ 6,867	$ 5,412	$ 6,835	$ 4,955	$ 2,254
Consumer	9,242	2,734	1,484	1,295	674
Real estate					
Construction	138	131	1,590	1,459	55
Mortgage	5,494	5,891	6,924	5,840	5,230
Total non-accrual loans	21,741	14,168	16,833	13,549	8,213
Restructured loans (1):					
Commercial	1	5	8	11	277
Real estate mortgage				82	192
Total restructured loans	1	5	8	93	469
Total non-performing loans	21,742	14,173	16,841	13,642	8,682
Other real estate	1,831	3,589	1,549	2,959	3,523
Total non-performing assets(1):	$23,573	$17,762	$18,390	$16,601	$12,205
Non-performing assets as a percent of total assets	0.10%	0.11%	0.16%	0.20%	0.18%
Loans past due 90 days or more and still accruing interest	$538	$620	$519	$ 489	$ 499

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb losses inherent in the loan portfolio. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risks on a timely

basis so that an appropriate allowance can be maintained. Based on an evaluation of the loan portfolio, management presents a quarterly review of the loan loss reserve to the Board of Directors, indicating any changes in the reserve since the last review and any recommendations as to adjustments in the reserve. In making its evaluation, in addition to the factors discussed below, management considers the results of regulatory examinations, which typically include a review of the allowance for loan losses as an integral part of the examination process.

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

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

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

The allowance for loan losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Charge-offs occur when loans are deemed to be uncollectible. During 2003, net charge-offs amounted to $10.5 million, or .16% of average loans outstanding for the year, compared to $9.4 million, or .18% of average loans outstanding for 2002. During 2003, the Company recorded provisions of $31.9 million to the allowance for loan losses compared to $33.2 million for 2002. The Company continued to proactively manage its exposure to credit risk in 2003. Based upon consistent application of the Company's reserve methodology, allowance levels increased by $21.3 million to $122.1 million or 1.51% of total loans at December 31, 2003, but decreased as a percentage of the total loans due to growth in the portfolio.

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

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands)					

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

Allocation of the Allowance for Loan Losses

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

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

$112,057	100%	$90,733	100%	$66,981	100%	$48,680	10

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Investment Securities

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

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

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

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

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

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

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

At December 31, 2003, the net unrealized depreciation in securities available for sale included in stockholders' equity totaled $3.7 million, net of tax, compared to net unrealized appreciation of $113.6 million, net of tax, at December 31, 2002.

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

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

Deposits

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

Total deposits averaged $17.7 billion for 2003, an increase of $5.2 billion or 42% above the 2002 average. The average balance of noninterest-bearing demand deposits in 2003 was $3.8 billion, a $1.2 billion or 43% increase over the average balance for 2002. The average total balance of passbook and statement savings accounts increased $1.3 billion, or 52% compared to the prior year. The average balance of interest-bearing demand accounts (money market and N.O.W. accounts) for 2003 was $7.0 billion, a $2.4 billion or 53% increase over the average balance for the prior year. The average balance of time deposits for 2003 was $3.2 billion, a $378.8 million or 13% increase over the average balance for 2002. For 2003, the cost of total deposits was 0.82% as compared to 1.34% in 2002.

The Company believes that its record of sustaining core deposit growth is reflective of the Company's retail approach to banking which emphasizes a combination of superior customer service, convenient branch locations, extended hours of operation, free checking accounts (subject to a small minimum balance requirement) and active marketing. This approach is especially reflected in the Company's comparable store deposit growth. The Company's comparable store deposit growth is measured as the year over year percentage increase in core deposits for branches open two years or more at the balance sheet date. At

December 31, 2003, the comparable store deposit growth was 27% and included 184 branches. Management expects strong comparable store deposit growth in 2004 as additional metro New York stores continue to be added to the calculation.

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

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

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

Maturity	2003	2002	2001
(dollars in thousands)			
3 months or less	$1,017,986	$ 950,299	$ 897,30
3 to 6 months	222,740	116,721	137,38
6 to 12 months	112,800	103,449	70,63
Over 12 months	23,272	10,646	6,82
Total	$1,376,798	$1,181,115	$1,112,14

Interest Rate Sensitivity and Liquidity

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

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

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

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

	Interest Rate Sensitivity Gaps December 31, 2003					
	1-90 Days	91-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
(dollars in millions)						
Rate sensitive:						
Interest-earning assets						
Loans	$3,832.1	$108.3	$180.3	$1,926.9	$1,414.1	$7,461
Investment securities	765.7	726.8	1,338.4	6,622.3	3,858.4	13,311
Total interest-earning assets	4,597.8	835.1	1,518.7	8,549.2	5,272.5	20,773
Interest-bearing liabilities						
Transaction accounts	4,053.5				8,743.1	12,796
Time deposits	1,346.8	717.9	736.7	528.6		3,330
Other borrowed money	311.5					311
Long-term debt					200.0	200
Total interest-bearing liabilities	5,711.8	717.9	736.7	528.6	8,943.1	16,638
Period gap	(1,114.0)	117.2	782.0	8,020.6	(3,670.6)	$4,135
Cumulative gap	$(1,114.0)	$(996.8)	$(214.8)	$7,805.8	$4,135.2	
Cumulative gap as a percentage of total interest-earning						

assets	(5.4) %	(4.8)%	(1.0)%	37.6%	19.9%

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

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

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

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

	Basis Point Change:	
	Plus 200	Minus 100
December 31, 2003:		
Twelve Months	1.6%	(2.3)%
Twenty Four Months	6.8%	(2.3)%
December 31, 2002:		
Twelve Months	8.8%	(5.4)%
Twenty Four Months	13.5%	(7.3)%

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

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

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off

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

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

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

The MVE analyzes both sides of the balance sheet and, as indicated below, demonstrates the inherent value of the Company's core deposits in a rising rate environment. As rates rise, the value of the Company's core deposits increases which helps offset the decrease in value of the Company's fixed rate assets. The following table summarizes the market value of equity at December 31, 2003 (in millions, except for per share amounts):

	Market Value of Equity	Per Share
Plus 200 basis point	$4,531	$58.95
Current Rate	$4,656	$60.57
Minus 100 basis point	$3,924	$51.05

Although the use of derivatives in 2003 was minimal, the Company may utilize interest rate derivatives to manage interest rate risk, including interest rate swaps, interest rate caps and floors, interest rate forwards, and

exchange-traded futures and options contracts. Further discussion of the accounting for derivative instruments is included in Note 1 to the consolidated financial statements.

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

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Other Borrowed Money

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

Long-Term Debt

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

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

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

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

Stockholders' Equity and Dividends

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

Capital Resources

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

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

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

Minimum

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

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

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

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

Common Share Data			
	Market Prices		Cash Dividends
	High	Low	Per Share
2003 Quarter Ended			
December 31	$53.30	$47.33	$0.16000
September 30	47.91	37.30	0.17000
June 30	40.67	36.37	0.16000
March 31	45.60	37.74	0.17000
2002 Quarter Ended			
December 31	$47.23	$36.42	$0.15000
September 30	47.85	38.88	0.15000
June 30	50.24	43.70	0.15000
March 31	45.05	38.20	0.15000

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

Off-Balance Sheet Arrangements and Contractual Obligations

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

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

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

Related Parties

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

Recent Accounting Statements

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

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Results of Operations - 2002 versus 2001

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

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

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

primarily related to decreases in the rates paid on the Company's deposits and other borrowed money.

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

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

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

Mergers and Acquisitions

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

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

(a)(3) Exhibits

Exhibit Number	Description of Exhibit
31.1	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2003 to be signed on its behalf by the undersigned, thereunto duly authorized.

Commerce Bancorp, Inc.

By /s/ Douglas J. Pauls

Date: March 19, 2004

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