COMMERCE BANCORP INC /NJ/
Form 10-Q
November 08, 2004

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

Form 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2004

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 OMITTED]

(Exact name of registrant as specified in its charter)

New Jersey	22-2433468
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

(Address of Principal Executive Offices) (Zip Code)

(856) 751-9000

(Registrant's telephone number, including area code)

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

Yes X   No __

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

Yes X   No __

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock	79,334,532

(Title of Class)	(No. of Shares Outstanding as of November 1, 2004)

COMMERCE BANCORP, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(dollars in thousands)	September 30, 2004
Assets	Cash and due from banks	$ 1,069,318
	Federal funds sold	255,000
	Cash and cash equivalents	1,324,318
	Loans held for sale	36,740
	Trading securities	245,258
	Securities available for sale	12,692,985
	Securities held to maturity (market value 09/04-$4,069,903; 12/03-$2,467,192)	4,080,134
	Loans	8,910,967
	Less allowance for loan losses	131,529
		8,779,438
	Bank premises and equipment, net	963,459
	Other assets	309,149
		$ 28,431,481
Liabilities	Deposits:	
	Demand:	
	Noninterest-bearing	$ 6,047,322
	Interest-bearing	10,886,783
	Savings	6,104,644
	Time	3,202,883
	Total deposits	26,241,632
	Other borrowed money	165,853
	Other liabilities	274,377
	Long-term debt	200,000
		26,881,862
Stockholders' Equity	Common stock, 79,435,506 shares issued (76,869,415 shares at December 31, 2003)	79,436
	Capital in excess of par value	967,296
	Retained earnings	501,477
	Accumulated other comprehensive income (loss)	12,748
		1,560,957
	Less treasury stock, at cost, 397,805 shares (363,076 shares at December 31, 2003)	11,338
	Total stockholders' equity	1,549,619
		$ 28,431,481

See accompanying notes.

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

	(dollars in thousands, except per share amounts)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	N
Interest income	Interest and fees on loans	$124,698	$ 98,889	$3
	Interest on investments	195,968	134,984	5
	Other interest	148	28	
	Total interest income	320,814	233,901	8
Interest expense	Interest on deposits:			
	Demand	24,539	12,090	
	Savings	12,408	6,890	
	Time	14,210	16,682	
	Total interest on deposits	51,157	35,662	1
	Interest on other borrowed money	2,255	1,110	
	Interest on long-term debt	3,020	3,020	
	Total interest expense	56,432	39,792	1
	Net interest income	264,382	194,109	7
	Provision for loan losses	10,750	7,250	
	Net interest income after provision for loan losses	253,632	186,859	7
Noninterest income	Deposit charges and service fees	57,081	41,500	1
	Other operating income	42,089	41,976	1
	Net investment securities gains	943	1,682	
	Total noninterest income	100,113	85,158	2
Noninterest expense	Salaries and benefits	114,467	92,732	3
	Occupancy	31,689	24,760	
	Furniture and equipment	27,987	21,770	
	Office	11,082	9,906	
	Marketing	8,994	9,412	
	Other	52,943	38,732	1
	Total noninterest expenses	247,162	197,312	6

Income before income taxes	106,583	74,705	3
Provision for federal and state income taxes	36,493	25,231	1
Net income	$ 70,090	$ 49,474	$1
Net income per common and common equivalent share:			
Basic	$ 0.89	$ 0.70	$
Diluted	$ 0.84	$ 0.67	$
Average common and common equivalent shares outstanding:			
Basic	78,625	70,787	
Diluted	86,045	73,926	
Cash dividends, common stock	$ 0.19	$ 0.17	$

See accompanying notes.

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

		Nine Se
	(dollars in thousands)	20
Operating activities	Net income	$ 198,
	Adjustments to reconcile net income to net cash provided by operating activities:	
	Provision for loan losses	30,
	Provision for depreciation, amortization and accretion	97,
	Gain on sales of securities available for sale	(2,
	Proceeds from sales of loans held for sale	567,
	Originations of loans held for sale	(561,
	Net (increase) decrease in trading securities	(74,
	Increase in other assets, net	(11,
	Increase (decrease) in other liabilities	55,
	Net cash provided by operating activities	299,
Investing activities	Proceeds from the sales of securities available for sale	1,917,
	Proceeds from the maturity of securities available for sale	3,044,
	Proceeds from the maturity of securities held to maturity	644,

	Purchase of securities available for sale	(7,005,
	Purchase of securities held to maturity	(2,237,
	Net increase in loans	(1,481,
	Capital expenditures	(217,
	Net cash used by investing activities	(5,334,
Financing activities	Net increase in demand and savings deposits	5,667,
	Net (decrease) increase in time deposits	(127,
	Net decrease in other borrowed money	(145,
	Issuance of common stock	
	Dividends paid	(44,
	Proceeds from issuance of common stock under dividend reinvestment and other stock plans	100,
	Other	(1,
	Net cash provided by financing activities	5,449,
	Increase (decrease) in cash and cash equivalents	414,
	Cash and cash equivalents at beginning of year	910,
	Cash and cash equivalents at end of period	$ 1,324,
	Supplemental disclosures of cash flow information:	
	Cash paid during the period for:	
	Interest	$ 145,
	Income taxes	93,

See accompanying notes.

COMMERCE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQU
(unaudited)

Nine months ended September 30, 2004
(in thousands)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock
Balances at December 31, 2003	$76,869	$866,095	$347,365	$ (9,339
Net income			198,300	
Other comprehensive income (loss), net of tax				

Unrealized loss on securities (pre-tax $9,591)				
Reclassification adjustment (pre-tax $35,804)				
Other comprehensive income				
Total comprehensive income				
Cash dividends paid			(44,187)	
Shares issued under dividend reinvestment and compensation and benefit plans (2,567 shares)	2,567	98,387		
Other		2,814	(1)	(1,999
Balances at September 30, 2004	$79,436	$967,296	$501,477	$(11,338

See accompanying notes.

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

A. Consolidated Financial Statements

The consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements were prepared in accordance with the accounting policies set forth in note 1 (Significant Accounting Policies) of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The accompanying consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented. Such adjustments are of a normal recurring nature.

These consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2003. The results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The consolidated financial statements include the accounts of Commerce Bancorp, Inc. and its consolidated subsidiaries. All material intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with 2004 presentation.

B. Long Term Debt

On April 1, 2004, the Company's $200.0 million of 5.95% Convertible Trust Capital Securities, recorded on the consolidated balance sheet as long term debt, became convertible at the option of the holder. The holders of the Convertible Trust Capital Securities may convert each security into 0.9478 shares of Company common stock. The Company has calculated the effect of these securities on diluted net income per share by using the if-converted method. Under the if-converted method, the related interest charges on the Convertible Trust Capital Securities, adjusted for income taxes, have been added back to the numerator and the common shares to be issued upon conversion have been added to the denominator.

The Convertible Trust Capital Securities were issued on March 11, 2002 through Commerce Capital Trust II, a Delaware Business Trust. The Convertible Trust Capital Securities mature in 2032.

C. Bank Premises and Equipment

In accordance with U.S. generally accepted accounting principles, 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. As of September 30, 2004 and December 31, 2003, Bank premises and equipment in progress was $91.1 million and $87.2 million, respectively.

D. Commitments and Other

In the normal course of business, there are various outstanding commitments to extend credit, such as letters of credit and unadvanced loan commitments. Management does not anticipate any material losses as a result of these transactions. In accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), the Company defers the fees associated with standby letters of credit and records them in "Other liabilities" on the consolidated balance sheet. These fees are immaterial to the Company's consolidated financial statements at September 30, 2004.

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The Company makes investments directly in low-income housing tax credit (LIHTC) operating partnerships, private venture capital funds and Small Business Investment Companies (SBIC). The Company has determined these entities do not meet the consolidation criteria of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" (FIN 46R). At September 30, 2004 and December 31, 2003, the Company's investment in these entities totaled $44.9 million and $30.1 million, respectively.

E. Comprehensive Income (Loss)

Total comprehensive income (loss), which for the Company included net income and changes in unrealized gains and losses on the Company's available for sale securities, amounted to $204.8 million and $(3.5) million, respectively, for the three months ended September 30, 2004 and 2003. For the nine months ended September 30, 2004 and 2003, total comprehensive income was $214.8 million and $60.6 million, respectively.

F. New Accounting Standards

In September 2004, the EITF reached a consensus on Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share." Issue 04-8 addresses the effect of contingently convertible debt instruments (Co-Cos) on diluted EPS. The EITF defines Co-Cos as instruments that are convertible into common stock if one or more specified contingencies occur and at least one of the contingencies is based on the market price of the Company's common stock (market price contingency). Issue 04-8 requires that Co-Cos be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger has been met. This consensus must be applied by restating all periods during which the Co-Co was outstanding. Issue 04-8 is expected to be effective for interim or annual reporting periods ending after December 15, 2004. The Company has determined that its Convertible Trust Capital Securities meet the contingency requirements of Issue 04-8 and plans to adopt Issue 04-8 when it is effective, currently anticipated to be the fourth quarter of 2004. The adoption will require the Company to restate its prior diluted EPS calculations using the if-converted method for the periods since March 2002, which is when the Convertible Trust Capital Securities were issued. When adopted, the if-converted method will decrease previously reported diluted EPS by $0.03 and $0.01 per share for the years ended 2003 and 2002, respectively.

In March 2004, the EITF reached a consensus on Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." Issue 03-1 provides guidance that should be used to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. Issue 03-1 also includes accounting considerations subsequent to recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. In September 2004, the FASB deferred the implementation date of the provisions that relate to measurement and recognition of other-than-temporary impairments. The disclosure requirements of Issue 03-1 were effective for fiscal years ending after December 15, 2003. The Company is continuing to evaluate the impact of the measurement and recognition provisions of Issue 03-1 but does not expect it to have a material impact on the results of operations of the Company.

G. Legal Proceedings

During July and August 2004, six class action complaints were filed in the United States District Court for the District of New Jersey and the Eastern District of Pennsylvania against the Company and certain Company (or subsidiary) current and former officers and directors. All class action complaints have been consolidated in the United States District Court for the District of New Jersey, Camden Division. The complaints, which contain virtually the same factual allegations and causes of action, allege that the defendants violated the federal securities laws, specifically Sections 10 (b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities and Exchange Commission. The plaintiffs seek unspecified damages on behalf of a purported class of purchasers of the Company's securities during various periods. The Company believes these class action complaints are without merit. No accrual for a loss contingency has been recorded, as the risk of loss is considered remote.

H. Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Mo Septe
	2004	2003	2004
Reported net income	$ 70,090	$ 49,474	$ 198,30
Less: Stock option compensation expense determined under fair value method, net of tax	(3,090)	(2,684)	(9,60
Pro forma net income, basic	$ 67,000	$ 46,790	$ 188,70
Add: Interest expense on Convertible Trust Capital Securities, net of tax	1,963		5,88
Pro forma net income, diluted	$ 68,963		$ 194,58
Reported net income per share:			
Basic	$ 0.89	$ 0.70	$ 2.
Diluted	$ 0.84	$ 0.67	$ 2.
Pro forma net income per share:			
Basic	$ 0.85	$ 0.66	$ 2.
Diluted	$ 0.80	$ 0.63	$ 2.

The fair value of options granted in 2004 and 2003 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.09% and 3.00%, dividend yields of 1.33% and 1.50%, volatility factors of the expected market price of the Company's common stock of .255 and .304 and weighted average expected lives of the options of 5.27 and 5.22 years.

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

I. Segment Information

The Company operates one reportable segment of business, Community Banks, which includes all of the Company's banking subsidiaries. Through its Community Banks, the Company provides a broad range of retail and commercial banking services, and corporate trust services. Parent/Other includes the holding company, Commerce Insurance Services, Inc. and Commerce Capital Markets, Inc.

Selected segment information is as follows (in thousands):

	Three Months Ended September 30, 2004			Three M Septemb
	Community Banks	Parent/ Other	Total	Community Banks
Net interest income	$ 266,351	$ (1,969)	$ 264,382	$ 195,715
Provision for loan losses	10,750		10,750	7,250
Net interest income after provision	255,601	(1,969)	253,632	188,465
Noninterest income	67,167	32,946	100,113	58,384
Noninterest expense	221,704	25,458	247,162	175,547
Income before income taxes	101,064	5,519	106,583	71,302
Income tax expense	34,472	2,021	36,493	24,068
Net income	$ 66,592	$ 3,498	$ 70,090	$ 47,234
Average assets (in millions)	$ 25,203	$ 2,191	$ 27,394	$ 18,965

	Nine Months Ended September 30, 2004			Nine M Septemb
	Community Banks	Parent/ Other	Total	Community Banks
Net interest income	$ 744,572	$ (5,229)	$ 739,343	$ 544,673
Provision for loan losses	30,998		30,998	21,050
Net interest income after provision	713,574	(5,229)	708,345	523,623
Noninterest income	192,136	86,484	278,620	164,388
Noninterest expense	614,212	71,455	685,667	491,133
Income before income taxes	291,498	9,800	301,298	196,878
Income tax expense	99,596	3,402	102,998	66,360

Net income	$	191,902	$	6,398	$	198,300	$	130,518	$
Average assets (in millions)	$	23,471	$	2,104	$	25,575	$	16,905	$

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J. Net Income Per Share

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

	Three Months Ended September 30,		Nine M Sept
	2004	2003	2004
Basic:			
Net income available to common shareholders - basic	$ 70,090	$ 49,474	$198,300
Average common shares outstanding	78,625	70,787	77,925
Net income per common share - basic	$ 0.89	$ 0.70	$ 2.54
Diluted:			
Net income	$ 70,090	$ 49,474	$198,300
Add interest expense on Convertible Trust Capital Securities, net of tax	1,963		5,889
Net income available to common shareholders - diluted	$ 72,053	$ 49,474	$204,189
Average common shares outstanding	78,625	70,787	77,925
Additional shares considered in diluted computation assuming:			
Exercise of stock options	3,629	3,139	4,216
Conversion of Convertible Trust Capital Securities	3,791		3,791
Average common shares outstanding - diluted	86,045	73,926	85,932
Net income per common share - diluted	$ 0.84	$ 0.67	$ 2.38

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

Executive Summary

During the first nine months of 2004, the Company experienced strong deposit growth and positive operating leverage as year over year revenue growth of 30% exceeded non-interest expense growth of 23% during the same period. Total assets grew to $28.4 billion, an increase of 33% over September 30, 2003, while total deposits grew 34%. Net income increased 42% to $70.1 million and 44% to $198.3 million during the third quarter and first nine months of 2004, respectively, as compared to the same periods in 2003. Diluted net income per share increased by 25% to $.84 and $2.38 during the third quarter and first nine months of 2004, respectively, as compared to the same periods in 2003 despite the addition of 5.0 million shares from the Company's secondary offering in September 2003 and 3.8 million shares assuming conversion of the Company's Convertible Trust Capital Securities.

The Company has identified two critical accounting policies: the policies related to the allowance for loan losses and capitalization of branch costs. The foregoing critical accounting policies are more fully described in the Company's annual report on Form 10-K for the year ended December 31, 2003. During the first nine months of 2004, there were no material changes to the estimates or methods by which estimates are derived with regard to the critical accounting policies.

Capital Resources

At September 30, 2004, stockholders' equity totaled $1.5 billion or 5.45% of total assets, compared to $1.3 billion or 5.62% of total assets at December 31, 2003.

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

The table below presents Commerce Bancorp and Commerce N.A.'s risk-based and leverage ratios at September 30, 2004 and 2003:

	Actual Amount	Ratio	Per Regulatory Guid Minimum Amount	Ratio	"W Am
September 30, 2004:					
Commerce Bancorp					
Risk based capital ratios:					
Tier 1	$1,727,456	12.31%	$561,267	4.00%	$
Total capital	1,862,398	13.27	1,122,535	8.00	1,
Leverage ratio	1,727,456	6.30	1,097,088	4.00	1,
Commerce N.A.					
Risk based capital ratios:					
Tier 1	$1,167,708	11.30%	$413,165	4.00%	$
Total capital	1,270,293	12.30	826,331	8.00	1,
Leverage ratio	1,167,708	6.00	777,894	4.00	

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	Actual Amount	Ratio	Per Regulatory Guid Minimum Amount	Ratio	"W Am
September 30, 2003:					
Commerce Bancorp					
Risk based capital ratios:					
Tier 1	$1,388,033	12.68%	$438,024	4.00%	$
Total capital	1,491,625	13.62	876,048	8.00	1,
Leverage ratio	1,388,033	6.68	831,046	4.00	1,
Commerce N.A.					
Risk based capital ratios:					
Tier 1	$ 895,416	11.36%	$315,315	4.00%	$
Total capital	974,047	12.36	630,630	8.00	
Leverage ratio	895,416	6.13	583,857	4.00	

At September 30, 2004, 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, 2004, the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Deposits

Total deposits at September 30, 2004 were $ 26.2 billion, up $6.7 billion, or 34% over total deposits of $19.5 billion at September 30, 2003, and up by $5.5 billion, or 27% from year-end 2003. Deposit growth during the first nine months of 2004 included core deposit growth in both demand and savings products offset by a decrease in time deposits. The Company experienced core deposit growth in all customer categories. The Company regards core deposits as all deposits other than public certificates of deposit. Core deposit growth by type of customer is as follows (in millions):

	September 30, 2004	% of Total	September 30, 2003	% of Total	Annual Gro %
Consumer	$ 11,388	45%	$ 9,123	49%	25%
Commercial	8,989	36	6,610	36	36
Government	4,732	19	2,863	15	65
Total	$ 25,109	100%	$ 18,596	100%	35%

Same-store core 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. The Company experienced same-store core deposit growth of 21% at September 30, 2004.

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 the potential and probability of all assets and liabilities to mature or reprice. 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 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 twenty four month time frame. Net income in the flat rate scenario is projected to increase by approximately 25% per year. The following table illustrates the variance to the projected net income growth rate at September 30, 2004 and 2003 resulting from a plus 200 and minus 100 basis point change in interest rates.

	Basis Point Change	
	Plus 200	Minus 100
September 30, 2004:		
Twelve Months	1.21%	(6.34)%
Twenty Four Months	8.64%	(11.25)%
September 30, 2003:		
Twelve Months	8.16%	0.17%
Twenty Four Months	11.50%	(5.30)%

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 use of risk management strategies and tools, 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 (MVE). 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 and 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 September 30, 2004, the market value of equity model indicates an acceptable level of interest rate risk.

The MVE reflects certain estimates and assumptions regarding the impact on the market value of the Company's assets and liabilities given an immediate plus 200 or minus 100 basis point change in interest rates. One of the key assumptions is the market value assigned to the Company's core deposits, or the core deposit premium. Utilizing an independent consultant, the Company has periodically completed and updated comprehensive studies of its core deposit transaction accounts in order to assign its own core deposit premiums as permitted by the Company's regulatory

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authorities. The studies have consistently confirmed management's assertion that the Company's core deposit transaction accounts 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. At September 30, 2004, the average life of the Company's core deposit transaction accounts was 14.1 years. Thus, these core deposit balances provide an internal hedge to market value fluctuations in the Company's fixed rate assets.

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 offsets the decrease in value of the Company's fixed rate assets. The following table summarizes the market value of equity at September 30, 2004 (in millions, except for per share amounts):

	Market Value Of Equity	Per Share
Plus 200 basis points	$5,359	$67.46
Current Rate	$5,305	$66.79
Minus 100 basis points	$4,489	$56.51

Liquidity involves the Company's ability to raise funds to support asset growth or decrease assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, cash flow from its amortizing investment and loan portfolios, as well as the use of short-term borrowings, as required. If necessary, the Company has the ability to raise liquidity through collateralized borrowings or Federal Home Loan Bank advances. As of September 30, 2004 the Company had in excess of $12.7 billion in immediately available liquidity which includes unpledged securities that could be used for collateralized borrowings, cash on hand, and borrowing capacities under existing lines of credit. During the first nine months of 2004, deposit growth, short-term borrowings and maturing investment securities were used to fund growth in the loan portfolio and purchase additional investment securities.

Short-Term Borrowings

Short-term borrowings, or other borrowed money, consist primarily of securities sold under agreements to repurchase and overnight lines of credit, and are used to meet short-term funding needs. At September 30, 2004, short-term borrowings totaled $165.9 million and had an average rate of 1.49%, as compared to $311.5 million at an average rate of 0.77% at December 31, 2003.

Interest Earning Assets

The Company's cash flow from deposit growth and repayments from its investment portfolio totaled approximately $9.2 billion for the first nine months of 2004. This significant cash flow provides the Company with ongoing reinvestment opportunities as interest rates change. For the nine month period ended September 30, 2004, interest earning assets increased $5.4 billion from $20.8 billion to $26.2 billion. This increase was primarily in investment securities and the loan portfolio as described below.

Loans

During the first nine months of 2004, loans increased $1.5 billion from $7.4 billion to $8.9 billion. All segments of the loan portfolio experienced growth in the first nine months of 2004, including loans secured by commercial real estate properties, commercial loans, and consumer loans.

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

	September 30, 2004	December 31, 2003
	(in thousands)	
Commercial:		
Term	$ 1,184,854	$ 1,027,526
Line of credit	1,105,510	959,158
Demand		1,077
	2,290,364	1,987,761
Owner-occupied	1,913,351	1,619,079
	4,203,715	3,606,840
Consumer:		
Mortgages (1-4 family residential)	1,216,110	918,686
Installment	136,538	138,437
Home equity	1,712,733	1,405,795
Credit lines	67,616	60,579
	3,132,997	2,523,497
Commercial real estate:		
Investor developer	1,391,812	1,167,672
Construction	182,443	142,567
	1,574,255	1,310,239
Total loans	$ 8,910,967	$ 7,440,576

Investments

In total, for the first nine months of 2004, securities increased $3.7 billion from $13.3 billion to $17.0 billion. The available for sale portfolio increased $2.0 billion to $12.7 billion at September 30, 2004 from $10.7 billion at December 31, 2003, and the securities held to maturity portfolio increased $1.6 billion to $4.1 billion at September 30, 2004 from $2.5 billion at year-end 2003. The portfolio of trading securities increased $74.8 million from year-end 2003 to $245.3 million at September 30, 2004.

Detailed below is information regarding the composition and characteristics of the Company's investment portfolio, excluding trading securities, as of September 30, 2004.

Product Description	Amount	Average Yield	Average Book Price	Average Duratio
	(in millions)			(
Mortgage-backed Securities:				
Federal Agencies Pass Through Certificates (AAA Rated)	$ 4,032	5.01%	$101.20	3.67
Collateralized Mortgage Obligations (AAA Rated)	11,315	4.86	100.85	3.16
U.S. Government agencies/Other	1,426	3.77	100.26	4.53
Total	$16,773	4.81%	$100.89	3.40

The Company's mortgage-backed securities (MBS) portfolio comprises 90% of the total investment portfolio. The MBS portfolio consists of Federal Agencies Pass-Through Certificates and Collateralized Mortgage Obligations (CMO's) which are issued by federal agencies and other private sponsors. The Company's investment policy does not permit investments in inverse floaters, IO's, PO's and other similar issues.

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 (in thousands).

	At September 30, 2004		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agency and mortgage-backed obligations	$12,520,080	$ 79,678	$ (68,842)
Obligations of state and political subdivisions	104,623	1,098	(31)
Other	47,977	8,402	
Securities available for sale	$12,672,680	$ 89,178	$ (68,873)
U.S. Government agency and mortgage-backed obligations	$ 3,583,525	$ 23,131	$ (25,930)
Obligations of state and political subdivisions	400,145	1,558	(8,990)
Other	96,464		
Securities held to maturity	$ 4,080,134	$ 24,689	$ (34,920)

	At December 31, 2003		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government agency and mortgage-backed obligations	$10,528,396	$ 82,057	$ (98,908)
Obligations of state and political subdivisions	30,223	821	(117)
Other	97,943	10,240	
Securities available for sale	$10,656,562	$ 93,118	$ (99,025)
U.S. Government agency and mortgage-backed obligations	$ 2,193,577	$ 15,209	$ (27,088)
Obligations of state and political subdivisions	227,199	30	(11,443)
Other	69,708		
Securities held to maturity	$ 2,490,484	$ 15,239	$ (38,531)

Gross gains and losses on securities sold during the third quarter of 2004 were $2.1 million and $1.1 million, respectively. For the first nine months of 2004, gross gains and losses on securities sold amounted to $14.9 million and $12.9 million, respectively.

During the third quarter of 2004, $71.2 million of securities were sold which had unrealized losses at December 31, 2003. Gross gains and losses on these securities sold were $0 and $1.1 million, respectively. During the first nine months of 2004, $1.2 billion of securities were sold which had unrealized losses at December 31, 2003. Gross gains and losses on these securities sold were $1.8 million and $12.8 million, respectively.

The decrease in long-term interest rates during the third quarter led to a shortening of the duration of the available for sale portfolio to 3.31 years at September 30, 2004 from 4.07 years at June 30, 2004. The after-tax appreciation in the Company's available for sale portfolio was $12.7 million at September 30, 2004.

Net Income

Net income for the third quarter of 2004 was $70.1 million, an increase of $20.6 million or 42% over the $49.5 million recorded for the third quarter of 2003. Net income for the first nine months of 2004 totaled $198.3 million, an increase of $60.6 million or 44% from $137.7 million in the first nine months of 2003. On a per share basis, diluted net income for the third quarter and first nine months of 2004 was $0.84 and $2.38 per common share compared to $0.67 and $1.90 per common share for the same periods in 2003. Net income per share for the third quarter and first nine months of 2004 reflects the addition of 5.0 million shares from the Company's secondary offering in September 2003 and 3.8 million shares assuming conversion of the Convertible Trust Capital Securities.

Return on average assets (ROA) and return on average equity (ROE) for the third quarter of 2004 were 1.02% and 18.97%, respectively, compared to 0.96% and 21.17%, respectively, for the same 2003 period. ROA and ROE for the first nine months of 2004 were 1.03% and 18.90%, respectively, compared to 0.98% and 18.97%, respectively, for the same 2003 period. The increase in ROA is due to net income growth rates that have exceeded growth rates in average assets during the three month and nine month periods ended September 30, 2004 as compared to the same periods in 2003. The decrease in ROE is due to average equity growth rates that have exceeded net income rates growth during the three month and nine month periods ended September 30, 2004 as compared to the same periods in 2003. As noted above, net income has grown 42% and 44% during the third quarter and first nine months of 2004, respectively, as compared to the same 2003 periods. Average assets and average equity have grown 32% and 58%, respectively, from September 30, 2003 to September 30, 2004.

Net Interest Income

Net interest income totaled $264.4 million for the third quarter of 2004, an increase of $70.3 million or 36% from $194.1 million in the third quarter of 2003. Net interest income for the first nine months of 2004 was $739.3 million, up $198.6 million or 37% from $540.7 million for the first nine months of 2003. The increases in net interest income for the third quarter and first nine months of 2004 were due to the volume increases in interest earning assets resulting from the Company's strong, low-cost core deposit growth.

The increase in net interest income on a tax equivalent basis is shown below (in thousands).

	Net Interest Income			
2004 vs. 2003	Volume Increase	Rate Change	Total Increase	I
Quarter Ended September 30	$ 71,018	$ (167)	$ 70,851	
Nine Months Ended September 30	$213,027	$(12,976)	$200,051	

The net interest margin for the third quarter of 2004 was 4.29%, consistent with the margin for the second quarter of 2004 and up 8 basis points from the 4.21% margin for the third quarter of 2003.

The following table sets forth balance sheet items on a daily average basis for the three months ended September 30, 2004, June 30, 2004 and September 30, 2003 and presents the daily average interest earned on assets and paid on liabilities for such periods.

Average Balances and Net Interest

	September 2004			June 2004		
(dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Aver Rat
Earning Assets						
Investment securities						
Taxable	$15,741,541	$191,627	4.84%	$14,747,643	$173,678	4
Tax-exempt	385,814	5,126	5.29	290,200	4,465	6
Trading	159,954	1,552	3.86	174,578	2,075	4
Total investment securities	16,287,309	198,305	4.84	15,212,421	180,218	4
Federal funds sold	40,413	148	1.46	62,357	154	0
Loans						
Commercial mortgages	3,189,126	48,881	6.10	3,021,768	45,333	6
Commercial	2,069,986	28,552	5.49	1,961,351	25,477	5
Consumer	3,024,776	43,287	5.69	2,767,826	39,079	5

Tax-exempt	337,374	6,121	7.22	335,505	6,243	7
Total loans	8,621,262	126,841	5.85	8,086,450	116,132	5
Total earning assets	$24,948,984	$325,294	5.19%	$23,361,228	$296,504	5
Sources of Funds						
Interest-bearing liabilities						
Savings	$5,715,755	$12,408	0.86%	$5,276,657	$10,216	0
Interest bearing demand	10,270,059	24,539	0.95	9,643,771	18,729	0
Time deposits	2,409,160	11,046	1.82	2,507,526	11,378	1
Public funds	800,579	3,164	1.57	856,683	2,886	1
Total deposits	19,195,553	51,157	1.06	18,284,637	43,209	0
Other borrowed money	614,282	2,255	1.46	523,931	1,052	0
Long-term debt	200,000	3,020	6.01	200,000	3,020	6
Total deposits and interest-bearing liabilities	20,009,835	56,432	1.12	19,008,568	47,281	1
Noninterest-bearing funds (net)	4,939,149			4,352,660		
Total sources to fund earning assets	$24,948,984	56,432	0.90	$23,361,228	47,281	0
Net interest income and margin tax-equivalent basis		$268,862	4.29%		$249,223	4
Other Balances						
Cash and due from banks	$1,145,324			$1,163,942		
Other assets	1,430,576			1,419,098		
Total assets	27,393,847			25,822,157		
Total deposits	24,852,938			23,541,453		
Demand deposits (noninterest-bearing)	5,657,385			5,256,816		
Other liabilities	248,878			222,779		
Stockholders' equity	1,477,749			1,333,994		

Notes

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

Noninterest Income

Noninterest income totaled $100.1 million for the third quarter of 2004, an increase of $14.9 million or 18% from $85.2 million in the third quarter of 2003. Noninterest income for the first nine months of 2004 increased to $278.6 million from $244.6 million in the first nine months of 2003, a 14% increase. During the third quarter and first nine months of 2004, the increases of 18% and 14%, respectively, were primarily due to increased deposit charges and services fees, which rose $15.6 million, or 38%, and $40.2 million, or 35%, over the third quarter and first nine months of 2003, respectively.

The increases in deposit charges and services fees are primarily attributable to the Company's 34% deposit growth rate during this same period. These increases were offset by decreases in both Commerce Capital Markets, Inc. (CCMI) revenues and loan brokerage fees, which decreased in total by $4.9 million, or 30%, and $17.0 million, or 33%, during the third quarter and first nine months of 2004, respectively, compared to the same periods in 2003. The decrease in loan brokerage fees resulted from declines in mortgage refinancing activity during 2004. The decrease in CCMI revenues is related in part to the Company's decision to exit the negotiated public finance underwriting business, as discussed below.

	Three Months Ended			Nine
	9/30/04	9/30/03	% Increase	9/30/04
	(Dollars in thousands)			(Dollars
Deposit charges & service fees	$57,081	$41,500	38%	$155,279
Other operating income:				
Insurance	19,178	17,623	9	56,084
Capital Markets	8,268	9,138	(10)	24,617
Loan Brokerage Fees	3,027	7,073	(57)	9,805
Other	11,616	8,142	43	30,833
Total other	42,089	41,976	-	121,339
Net investment securities gains	943	1,682	(44)	2,002
Total non-interest income	$100,113	$85,158	18%	$278,620

The Company previously announced during its second quarter earnings conference call on July 13, 2004, that it was exiting the negotiated public finance underwriting business. Negotiated public finance revenues represented less than 1% of the Company's total revenues for the nine months ended September 30, 2004 and 2003.

Noninterest Expense

For the third quarter of 2004, noninterest expense totaled $247.2 million, an increase of $49.8 million or 25% over the same period in 2003. For the first nine months of 2004, noninterest expense totaled $685.7 million, an increase of $128.6 million or 23% over $557.1 million for the first nine months of 2003. Contributing to this increase was new branch activity over the past twelve months, with the number of branches increasing from 257 at September 30, 2003 to 297 at September 30, 2004. With the addition of these new offices, staff, facilities, and related expenses rose accordingly. Other noninterest expenses rose $14.2 million during the third quarter of 2004 over the same period in 2003 and $30.7 million during the first nine months of 2004 over the same period in 2003. These increases resulted primarily from higher bank card-related service charges, increased business development expenses, increased professional fees and increased provisions for non-credit-related losses. For the quarter and nine months ended September 30, 2004, provisions for non-credit-related losses were $5.4 million and $15.3 million, respectively, which represent increases of $1.9 million and $4.2 million, respectively, over the same periods in 2003. Such growth in non-credit related losses, which include fraud and forgery losses on deposit items, and other non-credit related items, is primarily attributable to the Company's growth in new branches and customer accounts.

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During the third quarter of 2004, the Company exited the negotiated public finance underwriting business. Exiting this business involved the elimination of public finance banking professionals and related support. The Company recorded non-recurring expenses of $1.3 million, primarily severance payments, in the third quarter related to the exit of this line of business.

The Company continued to experience positive operating leverage in the third quarter, as revenue growth of 31% exceeded non-interest expense growth of 25%. One important factor influencing the growth in non-interest expenses is that the Company absorbed significant start-up expenses related to the New York City and Long Island markets in prior years. As a result, the impact of the growth in non-interest expenses in these markets is declining in 2004.

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 67.63% for the first nine months of 2004 as compared to 71.20% for the same 2003 period. This improvement in the operating efficiency ratio is due to the positive operating leverage ratio discussed above. 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, 2004 were $38.3 million, or 0.13% of total assets compared to $23.6 million or 0.10% of total assets at December 31, 2003 and $24.8 million or 0.12% of total assets at September 30, 2003.

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, 2004 were $37.3 million or 0.42% of total loans compared to $21.7 million or 0.29% of total loans at December 31, 2003 and $23.1 million or 0.34% of total loans at September 30, 2003. At September 30, 2004, loans past due 90 days or more and still accruing interest amounted to $614 thousand compared to $538 thousand at December 31, 2003 and $649 thousand at September 30, 2003. Additional loans considered as potential problem loans by the Company's internal loan review department ($32.6 million at September 30, 2004) have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

The increase in commercial non-accrual loans during the third quarter of 2004 is the result of one large credit that was moved to non-accrual in the third quarter of 2004 and is in the process of collection. The increase is offset by a reduction in consumer non-accrual, with three credits relating to the 2003 attempt to defraud the Company and other financial institutions being charged-off. Additionally, during the third quarter one commercial credit was restructured and re-classified from Non-accrual loans to Restructured loans (both classifications are part of Total non-performing loans). The increase in commercial non-performing loans has led to the overall increase in non-performing assets noted during the first nine months of 2004. Total non-performing assets and loans past due 90 days or more increased from June 30, 2004 to September 30, 2004 primarily as a result of the increase in commercial non-accrual loans as previously discussed. Despite these increases, the overall asset quality of the Company, as measured in terms of non-performing assets to total assets, coverage ratios and non-performing assets to stockholders' equity, remains strong.

The following summary presents information regarding non-performing loans and assets as of September 30, 2004 and the preceding four quarters (dollar amounts in thousands).

	September 30, 2004	June 30, 2004	March 31, 2004	Decem 20
Non-accrual loans:				
Commercial	$22,647	$17,382	$19,701	$ 6
Consumer	9,784	11,675	9,984	9
Commercial real estate:				
Construction				
Mortgage	1,251	675	810	5
Total non-accrual loans	33,682	29,732	30,495	21
Restructured loans:				
Commercial	3,614	1	1	
Consumer				
Commercial real estate:				
Construction				
Mortgage				
Total restructured loans	3,614	1	1	
Total non-performing loans	37,296	29,733	30,496	21
Other real estate	972	653	1,890	1
Total non-performing assets	38,268	30,386	32,386	23
Loans past due 90 days or more and still accruing	614	318	696	

Total non-performing assets and loans past due 90 days or more	$38,882	$30,704	$33,082	$24
Total non-performing loans as a Percentage of total period-end loans	0.42%	0.36%	0.39%	0
Total non-performing assets as a Percentage of total period-end assets	0.13%	0.11%	0.13%	0
Total non-performing assets and loans past due 90 days or more as a Percentage of total period-end assets	0.14%	0.11%	0.13%	0
Allowance for loan losses as a percentage of total non-performing loans	353%	419%	385%	
Allowance for loan losses as a percentage of total period-end loans	1.48%	1.50%	1.51%	1
Total non-performing assets and loans past due 90 days or more as a Percentage of stockholders' equity and Allowance for loan losses	2%	2%	2%	

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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		Nine Months Ended	
	09/30/04	09/30/03	09/30/04	09/30/0
Balance at beginning of period	$124,688	$99,318	$112,057	$90,7
Provisions charged to operating expenses	10,750	7,250	30,998	21,0
	135,438	106,568	143,055	111,7
Recoveries on loans charged-off:				
Commercial	435	111	695	4
Consumer	265	239	636	5
Commercial real estate	4	-	52	
Total recoveries	704	350	1,383	9

Loans charged-off:				
Commercial	(1,634)	(1,608)	(6,514)	(4,6
Consumer	(2,968)	(1,684)	(4,744)	(4,4
Commercial real estate	(11)	(34)	(1,651)	(
Total charge-offs	(4,613)	(3,326)	(12,909)	(9,1
Net charge-offs	(3,909)	(2,976)	(11,526)	(8,1
Balance at end of period	$131,529	$103,592	$131,529	$103,5
Net charge-offs as a percentage of average loans outstanding	0.18%	0.18%	0.19%	0.
Net reserve additions	$ 6,841	$ 4,274	$19,472	$12,8

The increases in commercial and commercial real estate charge-offs during the first nine months of 2004 are primarily related to a large credit, with both a real estate as well as a commercial component, that experienced difficulties during the first quarter of 2004 and another non-accrual commercial credit. Charge-offs relating to these credits were approximately $3.0 million. Consumer loan charge-offs increased during the third quarter as a result of the previously mentioned charge-offs of three non-accrual loans. The net reserve additions for the first nine months and third quarter of 2004 are reflective of the increases in non-performing assets since December 31, 2003 and increases in the overall loan portfolio.

The Company considers the allowance for loan losses of $131.5 million adequate to cover probable losses inherent in the loan portfolio at September 30, 2004. The Company's determination of the level of the allowance for loan losses rests upon various judgments and assumptions surrounding the risk characteristics included in the loan portfolio. Such risk characteristics include changes in levels and trends of charge-offs, delinquencies, and non-accrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions, and other relevant factors, all of which may be susceptible to significant change.

Forward-Looking Statements

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

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

During the quarter ended September 30, 2004, there has not occurred any change in Internal Controls that has materially affected or is reasonably likely to materially affect Internal Controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

During July and August 2004, six class action complaints were filed in the United States District Court for the District of New Jersey and the Eastern District of Pennsylvania against the Company and certain Company (or subsidiary) current and former officers and directors. All class action complaints have been consolidated in the United States District Court for the District of New Jersey, Camden Division. The complaints, which contain virtually the same factual allegations and causes of action, allege that the defendants violated the federal securities laws, specifically Sections 10 (b) and 20 (a) of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities and Exchange Commission. The plaintiffs seek unspecified damages on behalf of a purported class of purchasers of the Company's securities during various periods. The Company believes these class action complaints are without merit. No accrual for a loss contingency has been recorded, as the risk of loss is considered remote.

Item 6. Exhibits

Exhibits

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.

Exhibit 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.

Exhibit 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 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 8, 2004
(Date)

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