

COMMERCE BANCORP INC /NJ/
Form 10-Q
November 07, 2005

**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, 2005

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

(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-2433468
(IRS Employer Identification
Number)

Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey 08034-5400
(Address of Principal Executive Offices) (Zip Code)

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

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

Yes

No

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

Yes

No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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

| | |
|----------------------------------|--|
| Common Stock (Title of Class) | 173,651,850 (No. of Shares Outstanding as of October 31, 2005) |
|----------------------------------|--|

COMMERCE BANCORP, INC. AND SUBSIDIARIES
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PART 1. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

| | | September 30, 2005 | December 31, 2004 |
|------------------------|---|-----------------------------------|------------------------------|
| (dollars in thousands) | | | |
| Assets | Cash and due from banks | \$ 1,345,080 | \$ 1,050,806 |
| | Federal funds sold | 14,500 | |
| | Cash and cash equivalents | 1,359,580 | 1,050,806 |
| | Loans held for sale | 85,372 | 44,072 |
| | Trading securities | 150,847 | 169,103 |
| | Securities available for sale | 8,965,121 | 8,044,150 |
| | Securities held to maturity (market value 09/05-\$12,814,738; 12/04-\$10,430,451) | 12,961,900 | 10,463,658 |
| | Loans | 11,289,423 | 9,454,611 |
| | Less allowance for loan losses | 138,903 | 135,620 |
| | | 11,150,520 | 9,318,991 |
| | Bank premises and equipment, net | 1,217,222 | 1,059,519 |
| | Other assets | 402,978 | 351,346 |
| | | \$ 36,293,540 | \$30,501,645 |
| Liabilities | Deposits: | | |
| | Demand: | | |
| | Noninterest-bearing | \$ 7,827,651 | \$ 6,406,614 |
| | Interest-bearing | 13,133,145 | 11,604,066 |
| | Savings | 8,676,201 | 6,490,263 |
| | Time | 3,606,689 | 3,157,942 |
| | Total deposits | 33,243,686 | 27,658,885 |
| | Other borrowed money | 703,227 | 661,195 |
| | Other liabilities | 232,266 | 315,860 |
| | Long-term debt | | 200,000 |
| | | 34,179,179 | 28,835,940 |
| Stockholders | Common stock, 173,784,250 shares issued (160,635,618 shares in 2004) | 173,784 | 160,636 |
| Equity | Capital in excess of par value | 1,263,180 | 951,476 |
| | Retained earnings | 725,215 | 543,978 |
| | Accumulated other comprehensive (loss) income | (35,108) | 20,953 |
| | | 2,127,071 | 1,677,043 |
| | Less treasury stock, at cost, 837,338 shares issued (795,610 shares in 2004) | 12,710 | 11,338 |

| | | |
|----------------------------|----------------------|--------------|
| Total stockholders' equity | 2,114,361 | 1,665,705 |
| | \$ 36,293,540 | \$30,501,645 |

See accompanying notes.

COMMERCE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

| | | Three Months Ended | | Nine Months Ended | |
|--|---|---------------------------|----------------|--------------------------|-------------|
| | | September 30, | | September 30, | |
| | | 2005 | 2004 | 2005 | 2004 |
| (dollars in thousands, except per share amounts) | | | | | |
| Interest income | Interest and fees on loans | \$ 178,878 | \$ 124,698 | \$ 485,935 | \$ 346,858 |
| | Interest on investments | 243,187 | 195,968 | 703,103 | 537,396 |
| | Other interest | 1,774 | 148 | 2,979 | 642 |
| | Total interest income | 423,839 | 320,814 | 1,192,017 | 884,896 |
| Interest expense | Interest on deposits: | | | | |
| | Demand | 68,100 | 24,539 | 168,526 | 59,211 |
| | Savings | 35,215 | 12,408 | 77,553 | 30,410 |
| | Time | 26,114 | 14,210 | 66,793 | 43,117 |
| | Total interest on deposits | 129,429 | 51,157 | 312,872 | 132,738 |
| | Interest on other borrowed money | 4,697 | 2,255 | 16,024 | 3,755 |
| | Interest on long-term debt | 2,339 | 3,020 | 8,379 | 9,060 |
| Total interest expense | 136,465 | 56,432 | 337,275 | 145,553 | |
| | Net interest income | 287,374 | 264,382 | 854,742 | 739,343 |
| | Provision for loan losses | 3,000 | 10,750 | 13,750 | 30,998 |
| | Net interest income after provision for loan losses | 284,374 | 253,632 | 840,992 | 708,345 |
| Noninterest income | Deposit charges and service fees | 72,302 | 57,081 | 201,068 | 155,279 |
| | Other operating income | 46,763 | 42,089 | 131,532 | 121,339 |
| | Net investment securities gains | 5,714 | 943 | 11,511 | 2,002 |
| | Total noninterest income | 124,779 | 100,113 | 344,111 | 278,620 |
| Noninterest expense | Salaries and benefits | 134,149 | 114,467 | 381,002 | 315,917 |
| | Occupancy | 41,873 | 31,689 | 118,976 | 87,748 |
| | Furniture and equipment | 32,371 | 27,987 | 90,192 | 79,167 |
| | Office | 14,871 | 11,082 | 40,125 | 32,922 |
| | Marketing | 12,460 | 8,994 | 26,717 | 26,968 |
| | Other | 52,858 | 52,943 | 168,475 | 142,945 |
| | Total noninterest expenses | 288,582 | 247,162 | 825,487 | 685,667 |
| | Income before income taxes | 120,571 | 106,583 | 359,616 | 301,298 |
| | Provision for federal and state income taxes | 41,116 | 36,493 | 123,615 | 102,998 |
| | Net income | \$ 79,455 | \$ 70,090 | \$ 236,001 | \$ 198,300 |
| | Net income per common and common equivalent share: | | | | |
| | Basic | \$ 0.48 | \$ 0.45 | \$ 1.45 | \$ 1.27 |

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| | | | | | | | | |
|--|----|----------------|----|---------|----|----------------|----|---------|
| Diluted | \$ | 0.45 | \$ | 0.42 | \$ | 1.36 | \$ | 1.19 |
| Average common and common equivalent shares outstanding: | | | | | | | | |
| Basic | | 165,701 | | 157,250 | | 162,947 | | 155,851 |
| Diluted | | 180,360 | | 172,090 | | 177,951 | | 171,865 |
| Dividends declared, common stock | \$ | 0.11 | \$ | 0.10 | \$ | 0.33 | \$ | 0.29 |

See accompanying notes.

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

| | | Nine Months Ended | |
|-----------------------------|--|--------------------------|--------------|
| | | September 30, | |
| (dollars in thousands) | | 2005 | 2004 |
| Operating activities | Net income | \$ 236,001 | \$ 198,300 |
| | Adjustments to reconcile net income to net cash provided by operating activities: | | |
| | Provision for loan losses | 13,750 | 30,998 |
| | Provision for depreciation, amortization and accretion | 118,578 | 97,203 |
| | Gain on sales of securities | (11,511) | (2,002) |
| | Proceeds from sales of loans held for sale | 826,293 | 567,653 |
| | Originations of loans held for sale | (618,093) | (561,624) |
| | Net decrease (increase) in trading securities | 18,256 | (74,800) |
| | Increase in other assets, net | (24,045) | (11,605) |
| | (Decrease) increase in other liabilities | (85,019) | 55,195 |
| | Net cash provided by operating activities | 474,210 | 299,318 |
| Investing activities | Proceeds from the sales of securities available for sale | 2,411,556 | 1,917,794 |
| | Proceeds from the maturity of securities available for sale | 2,151,775 | 3,044,415 |
| | Proceeds from the maturity of securities held to maturity | 2,001,015 | 644,684 |
| | Purchase of securities available for sale | (5,584,017) | (7,005,159) |
| | Purchase of securities held to maturity | (4,514,861) | (2,237,022) |
| | Net increase in loans | (2,094,779) | (1,481,917) |
| | Capital expenditures | (237,875) | (217,244) |
| | Net cash used by investing activities | (5,867,186) | (5,334,449) |
| Financing activities | Net increase in demand and savings deposits | 5,136,054 | 5,667,456 |
| | Net increase (decrease) in time deposits | 448,747 | (127,224) |
| | Net increase (decrease) in other borrowed money | 42,032 | (145,657) |
| | Dividends paid | (53,336) | (44,187) |
| | Redemption of long term debt | (155) | |
| | Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 129,447 | 100,954 |
| | Other | (1,039) | (1,985) |
| | Net cash provided by financing activities | 5,701,750 | 5,449,357 |
| | Increase in cash and cash equivalents | 308,774 | 414,226 |
| | Cash and cash equivalents at beginning of year | 1,050,806 | 910,092 |
| | Cash and cash equivalents at end of period | \$ 1,359,580 | \$ 1,324,318 |
| | Supplemental disclosures of cash flow information: | | |
| | Cash paid during the period for: | | |
| | Interest | \$ 332,875 | \$ 145,550 |

| | | |
|--|----------------|--------|
| Income taxes | 116,767 | 93,432 |
| Other noncash activities: | | |
| Transfer of loans to held for sale | 249,500 | |
| Issuance of common stock upon redemption of Convertible Trust | 195,069 | |
| Capital Securities | | |

See accompanying notes.

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

Nine months ended September 30, 2005
(in thousands)

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|--|-------------------------|---|------------------------------|---------------------------|--|--------------------|
| Balances at December 31, 2004 | \$160,636 | \$951,476 | \$543,978 | \$(11,338) | \$20,953 | \$1,665,705 |
| Net income | | | 236,001 | | | 236,001 |
| Other comprehensive loss, net of tax | | | | | | |
| Unrealized loss on securities (pre-tax \$85,175) | | | | | (53,660) | (53,660) |
| Reclassification adjustment (pre-tax \$3,694) | | | | | (2,401) | (2,401) |
| Other comprehensive loss | | | | | | (56,061) |
| Total comprehensive income | | | | | | 179,940 |
| Cash dividends | | | (54,761) | | | (54,761) |
| Shares issued under dividend reinvestment and compensation and benefit plans (5,572 shares) | 5,572 | 123,875 | | | | 129,447 |
| Shares issued upon redemption of Trust Capital Securities (7,576 shares) | 7,576 | 187,493 | | | | 195,069 |
| Other | | 336 | (3) | (1,372) | | (1,039) |
| Balances at September 30, 2005 | \$173,784 | \$1,263,180 | \$725,215 | \$(12,710) | \$(35,108) | \$2,114,361 |

See accompanying notes.

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

A. Consolidated Financial Statements

The consolidated financial statements included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements were compiled 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, 2004. 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, 2004. The results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

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 periods have been reclassified to conform with 2005 presentation.

Per share data and other appropriate share information for 2004 have been restated for the two-for-one stock split in the form of a 100% stock dividend effective March 7, 2005.

B. Long-Term Debt

Effective September 14, 2005, the Company redeemed all \$200.0 million of its 5.95% Convertible Trust Capital Securities issued through Commerce Capital Trust II, a Delaware business trust, on March 11, 2002. Each outstanding security was converted into 1.8956 shares of the Company's common stock, resulting in the issuance of approximately 7.6 million common shares.

The Company had calculated the effect of these securities on diluted net income per share in prior periods 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, had been added back to the numerator and the common shares to be issued upon conversion (7.6 million common shares) had been added to the denominator. Refer to Note I - Net Income Per Share for illustration of the if-converted method.

C. Bank Premises and Equipment

When capitalizing costs for store 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 store. Depreciation charges commence the month in which the store opens. All other pre-opening and post-opening costs related to stores are expensed as incurred. As of September 30, 2005 and December 31, 2004, bank premises and equipment in progress was \$141.0 million and \$109.6 million, respectively.

D. Commitments

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. Fees associated with standby letters of credit have been deferred and recorded in "Other liabilities" on the Consolidated Balance Sheets. These fees are immaterial to the Company's consolidated financial statements at September 30, 2005.

E. Comprehensive Income

Total comprehensive income, which for the Company included net income and changes in unrealized gains and losses on the Company's available for sale securities, amounted to \$36.0 million and \$204.8 million, respectively, for the three months ended September 30, 2005 and 2004. For the nine months ended September 30, 2005 and 2004, total comprehensive income was \$179.9 million and \$214.8 million, respectively.

F. New Accounting Standards

On April 14, 2005 the Securities and Exchange Commission (SEC) delayed the implementation date of FASB Statement No. 123R, "Share-Based Payment" (FAS 123R), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FAS 123). FAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and amends FASB Statement No. 95, "Statement of Cash Flows". FAS 123R requires all share-based payments to employees to be recognized in the income statement based on their fair values and no longer allows pro forma disclosure as an alternative to reflecting the impact of share-based payments on net income and net income per share. FAS 123R permits public companies to adopt its requirements using one of two methods for adoption: modified prospective or modified retrospective. A modified prospective method recognizes compensation cost beginning with the effective date of adoption for all share-based payments granted after the effective date and all unvested awards granted prior to the effective date. A modified retrospective method includes the requirements of the modified prospective method but also permits entities to restate prior period presentations. FAS 123R was originally required to be adopted no later than July 1, 2005; however, due to the SEC's deferral of the implementation date, the Company must now adopt no later than January 1, 2006. The Company plans to adopt FAS 123R on January 1, 2006 using the modified prospective method.

The Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and therefore does not recognize compensation expense for employee stock options. Accordingly, the adoption of FAS 123R will impact the Company's financial results. While the future impact of FAS 123R cannot be predicted, had the Company adopted FAS 123R for the periods presented, the impact would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and pro forma net income per share in Note G - Stock-Based Compensation.

G. Stock-Based Compensation

As stated in Note F - New Accounting Standards, the Company continued to follow APB 25 and related Interpretations to account for its stock-based compensation plans through the first nine months of 2005. If the Company had accounted for stock options under the fair value provisions of FAS 123, net income and net income per share would have been as follows (in thousands, except per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Reported net income | \$ 79,455 | \$70,090 | \$236,001 | \$ 198,300 |
| Less: Stock option compensation expense determined under fair value method, net of tax | (4,031) | (3,090) | (12,092) | (9,600) |
| Pro forma net income, basic | \$ 75,424 | \$67,000 | \$223,909 | \$ 188,700 |
| Add: Interest expense on Convertible Trust Capital Securities, net of tax | 1,520 | 1,963 | 5,446 | 5,889 |
| Pro forma net income, diluted | \$ 76,944 | \$68,963 | \$229,355 | \$ 194,589 |
| Reported net income per share: | | | | |
| Basic | \$ 0.48 | \$ 0.45 | \$ 1.45 | \$ 1.27 |
| Diluted | \$ 0.45 | \$ 0.42 | \$ 1.36 | \$ 1.19 |
| Pro forma net income per share: | | | | |
| Basic | \$ 0.46 | \$ 0.43 | \$ 1.37 | \$ 1.21 |
| Diluted | \$ 0.43 | \$ 0.40 | \$ 1.29 | \$ 1.13 |

The fair value of options granted in 2005 and 2004 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 4.05% to 3.09%, dividend yields of 1.47% to 1.33%, volatility factors of the expected market price of the Company's common stock of .267 to .255 and weighted average expected lives of the options of 5.27 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.

H. 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, 2005 | | | Three Months Ended September 30, 2004 | | |
|-------------------------------------|--|------------------|------------|--|------------------|------------|
| | Community Banks | Parent/ Other | Total | Community Banks | Parent/ Other | Total |
| Net interest income | \$ 288,799 | \$ (1,425) | \$ 287,374 | \$ 266,351 | \$ (1,969) | \$ 264,382 |
| Provision for loan losses | 3,000 | - | 3,000 | 10,750 | - | 10,750 |
| Net interest income after provision | 285,799 | (1,425) | 284,374 | 255,601 | (1,969) | 253,632 |
| Noninterest income | 99,833 | 24,946 | 124,779 | 67,167 | 32,946 | 100,113 |
| Noninterest expense | 274,652 | 13,930 | 288,582 | 221,704 | 25,458 | 247,162 |
| Income before income taxes | 110,980 | 9,591 | 120,571 | 101,064 | 5,519 | 106,583 |
| Income tax expense | 38,001 | 3,115 | 41,116 | 34,472 | 2,021 | 36,493 |
| Net income | \$ 72,979 | \$ 6,476 | \$ 79,455 | \$ 66,592 | \$ 3,498 | \$ 70,090 |
| Average assets (in millions) | \$ 32,129 | \$ 2,515 | \$ 34,644 | \$ 25,203 | \$ 2,191 | \$ 27,394 |

| | Nine Months Ended September 30, 2005 | | | Nine Months Ended September 30, 2004 | | |
|-------------------------------------|---|------------------|------------|---|------------------|------------|
| | Community Banks | Parent/ Other | Total | Community Banks | Parent/ Other | Total |
| Net interest income | \$ 859,613 | \$ (4,871) | \$ 854,742 | \$ 744,572 | \$ (5,229) | \$ 739,343 |
| Provision for loan losses | 13,750 | - | 13,750 | 30,998 | - | 30,998 |
| Net interest income after provision | 845,863 | (4,871) | 840,992 | 713,574 | (5,229) | 708,345 |
| Noninterest income | 265,052 | 79,059 | 344,111 | 192,136 | 86,484 | 278,620 |
| Noninterest expense | 769,320 | 56,167 | 825,487 | 614,212 | 71,455 | 685,667 |
| Income before income taxes | 341,595 | 18,021 | 359,616 | 291,498 | 9,800 | 301,298 |
| Income tax expense | 117,630 | 5,985 | 123,615 | 99,596 | 3,402 | 102,998 |
| Net income | \$ 223,965 | \$ 12,036 | \$ 236,001 | \$ 191,902 | \$ 6,398 | \$ 198,300 |
| Average assets (in millions) | \$ 30,370 | \$ 2,478 | \$ 32,848 | \$ 23,471 | \$ 2,104 | \$ 25,575 |

I. 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 Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Basic: | | | | |
| Net income available to common shareholders - basic | \$ 79,455 | \$ 70,090 | \$236,001 | \$198,300 |
| Average common shares outstanding - basic | 165,701 | 157,250 | 162,947 | 155,851 |
| Net income per common share - basic | \$ 0.48 | \$ 0.45 | \$ 1.45 | \$ 1.27 |
| Diluted: | | | | |
| Net income | \$ 79,455 | \$ 70,090 | \$236,001 | \$198,300 |
| Add interest expense on Convertible Trust Capital Securities, net of tax | 1,520 | 1,963 | 5,446 | 5,889 |
| Net income available to common shareholders - diluted | \$ 80,975 | \$ 72,053 | \$241,447 | \$204,189 |
| Average common shares outstanding | 165,701 | 157,250 | 162,947 | 155,851 |
| Additional shares considered in diluted computation assuming: | | | | |
| Exercise of stock options | 8,478 | 7,258 | 7,894 | 8,432 |
| Conversion of Convertible Trust Capital Securities | 6,181 | 7,582 | 7,110 | 7,582 |
| Average common shares outstanding - diluted | 180,360 | 172,090 | 177,951 | 171,865 |
| Net income per common share - diluted | \$ 0.45 | \$ 0.42 | \$ 1.36 | \$ 1.19 |

J. Subsequent Events

On July 25, 2005, the Company announced an agreement to acquire Palm Beach County Bank, based in West Palm Beach, Florida. Palm Beach County Bank is privately held with approximately \$350.0 million in assets and seven offices. The acquisition price, payable in Commerce Bancorp, Inc. common stock, is approximately \$100.0 million. Closing for the acquisition is expected in the fourth quarter of 2005.

On November 7, 2005, the consolidated class action complaint against the Company and certain Company (or subsidiary) current and former officers and directors was dismissed. Refer to Part II. Other Information - Item 1. Legal Proceedings for further discussion.

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

During the first nine months of 2005, the Company experienced strong deposit growth, the primary driver of its success. Total deposits grew to \$33.2 billion, an increase of 27% over September 30, 2004. Core deposits grew to \$32.4 billion, or 29%, year over year, including a record \$2.7 billion, or 9%, on a linked quarter basis. Total assets increased to \$36.3 billion, an increase of 28% over September 30, 2004, while total loans increased \$2.4 billion, or 27%, from \$8.9 billion to \$11.3 billion. Net income increased 13% to \$79.5 million and 19% to \$236.0 million during the third quarter and first nine months, respectively, as compared to the same periods in 2004, despite margin compression caused by the existing interest rate environment. Diluted net income per share increased by 7% to \$0.45 and 14% to \$1.36 during the third quarter and first nine months of 2005, respectively, as compared to the same periods in 2004.

Per share data and other appropriate share information for 2004 have been restated for the two-for-one stock split in the form of a 100% stock dividend effective March 7, 2005.

The Company has identified the policy related to the allowance for loan losses as being critical. The foregoing critical accounting policy is more fully described in the Company's annual report on Form 10-K for the year ended December 31, 2004. During the first nine months of 2005, there were no material changes to the estimates or methods by which estimates are derived with regard to the policy related to the allowance for loan losses.

Capital Resources

At September 30, 2005, stockholders' equity totaled \$2.1 billion or 5.83% of total assets, compared to \$1.7 billion or 5.46% of total assets at December 31, 2004.

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 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. As all of the Company's Convertible Trust Capital Securities were redeemed effective September 14, 2005, this adjustment was not necessary for the September 30, 2005 ratio calculations. Total capital is comprised of all the components of Tier 1 capital plus the allowance for loan losses.

The table below presents the Company's and Commerce NJ's risk-based and leverage ratios at September 30, 2005 and 2004 (amounts in thousands):

| | Actual | | Per Regulatory Guidelines | | | |
|----------------------------|-------------|--------|---------------------------|-------|--------------------|-------|
| | Amount | Ratio | Minimum Amount | Ratio | "Well Capitalized" | |
| | | | Amount | Ratio | Amount | Ratio |
| September 30, 2005: | | | | | | |
| Company | | | | | | |
| Risk based capital ratios: | | | | | | |
| Tier 1 | \$2,140,645 | 12.18% | \$703,048 | 4.00% | \$1,054,572 | 6.00% |
| Total capital | 2,286,589 | 13.01 | 1,406,096 | 8.00 | 1,757,620 | 10.00 |
| Leverage ratio | 2,140,645 | 6.17 | 1,386,656 | 4.00 | 1,733,320 | 5.00 |
| Commerce NJ | | | | | | |
| Risk based capital ratios: | | | | | | |

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| | | | | | | |
|----------------|-------------|--------|-----------|-------|-----------|-------|
| Tier 1 | \$1,879,731 | 11.73% | \$640,958 | 4.00% | \$961,438 | 6.00% |
| Total capital | 2,004,466 | 12.51 | 1,281,917 | 8.00 | 1,602,396 | 10.00 |
| Leverage ratio | 1,879,731 | 6.01 | 1,250,242 | 4.00 | 1,562,802 | 5.00 |

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| | Actual | | Per Regulatory Guidelines | | | |
|----------------------------|-------------|--------|---------------------------|-------|--------------------|-------|
| | Amount | Ratio | Minimum Amount | Ratio | "Well Capitalized" | |
| | | | | | Amount | Ratio |
| September 30, 2004: | | | | | | |
| Company | | | | | | |
| Risk based capital ratios: | | | | | | |
| Tier 1 | \$1,727,456 | 12.31% | \$561,267 | 4.00% | \$841,901 | 6.00% |
| Total capital | 1,862,398 | 13.27 | 1,122,535 | 8.00 | 1,403,169 | 10.00 |
| Leverage ratio | 1,727,456 | 6.30 | 1,097,088 | 4.00 | 1,371,360 | 5.00 |
| Commerce NJ | | | | | | |
| Risk based capital ratios: | | | | | | |
| Tier 1 | \$1,497,843 | 11.78% | \$508,526 | 4.00% | \$762,789 | 6.00% |
| Total capital | 1,618,047 | 12.73 | 1,017,052 | 8.00 | 1,271,315 | 10.00 |
| Leverage ratio | 1,497,843 | 6.05 | 990,503 | 4.00 | 1,238,129 | 5.00 |

At September 30, 2005, the Company's consolidated capital levels and the capital levels at 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, 2005, the Company and its subsidiaries met all capital adequacy requirements to which they are subject.

Deposits

Total deposits at September 30, 2005 were \$33.2 billion, up \$7.0 billion, or 27% over total deposits of \$26.2 billion at September 30, 2004, and up by \$5.6 billion, or 20% from year-end 2004. Deposit growth during the first nine months of 2005 included core deposit growth in all product and 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, 2005 | % of Total | September 30, 2004 | % of Total | Annual Growth % |
|------------|--------------------|------------|--------------------|------------|-----------------|
| Consumer | \$ 13,947 | 43% | \$ 11,388 | 45% | 22% |
| Commercial | 12,050 | 37 | 8,989 | 36 | 34 |
| Government | 6,374 | 20 | 4,732 | 19 | 35 |
| Total | \$ 32,371 | 100% | \$ 25,109 | 100% | 29% |

Comparable store core deposit growth is measured as the year over year percentage increase in core deposits at the balance sheet date. At September 30, 2005, the comparable store core deposit growth for stores open two years or more was 21% and for stores open one year or more was 26%.

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

The Company's income simulation model analyzes interest rate sensitivity by projecting net income over the next 24 months in a flat rate scenario versus net income in alternative interest rate scenarios. Management continually reviews and refines its interest rate risk management process in response to the changing economic climate. Currently, the Company's model projects a proportionate plus 200 and 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 two year time frame. The following table illustrates the impact on projected net income at September 30, 2005 and 2004 of a plus 200 and minus 100 basis point change in interest rates.

| | Basis Point Change | |
|---------------------|-------------------------------|----------------------|
| | Plus 200 | Minus 100 |
| September 30, 2005: | | |
| Twelve Months | (4.5)% | (5.1)% |
| Twenty Four Months | 2.4% | (7.7)% |
| September 30, 2004: | | |
| Twelve Months | 1.21% | (6.34)% |
| Twenty Four Months | 8.64% | (11.25)% |

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 fixing the cost of its short-term borrowings.

Many assumptions were used by the Company to calculate the impact of changes in interest rates, including the proportionate shift in rates. Actual results may not be similar to the Company's projections due to several factors including the timing and frequency of rate changes, market conditions and the shape of the yield curve. Actual results may also differ due to the Company's actions, if any, in response to the changing rates.

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 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, 2005, the market value of equity model 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. 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. At September 30, 2005, the average life of the Company's core deposit transaction accounts was 15.7 years.

The market value of equity model 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 September 30, 2005 (in millions, except for per share amounts):

| | Market Value Of Equity | Per Share |
|------------------------|---------------------------------------|----------------------|
| Plus 200 basis points | \$7,306 | \$42.04 |
| Current Rate | \$7,321 | \$42.13 |
| Minus 100 basis points | \$6,257 | \$36.00 |

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 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 September 30, 2005 the Company had in excess of \$15.1 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 2005, 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, 2005, short-term borrowings aggregated \$703.2 million and had an average rate of 3.89%, as compared to \$661.2 million at an average rate of 2.30% at December 31, 2004.

Interest Earning Assets

The Company's cash flow from deposit growth and repayments from its investment portfolio totaled approximately \$9.7 billion for the first nine months of 2005. This significant cash flow provides the Company with ongoing reinvestment opportunities as interest rates change. For the nine month period ended September 30, 2005, interest earning assets increased \$5.3 billion from \$28.2 billion to \$33.5 billion. This increase was primarily in investment securities and the loan portfolio as described below.

Loans

During the first nine months of 2005, loans increased \$1.8 billion from \$9.5 billion to \$11.3 billion. All segments of the loan portfolio experienced growth in the first nine months of 2005.

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

| | September 30, 2005 | December 31, 2004 |
|------------------------------------|-----------------------------------|----------------------------------|
| | (in thousands) | |
| Commercial: | | |
| Term | \$ 1,629,366 | \$ 1,283,476 |
| Line of credit | 1,345,536 | 1,168,542 |
| | 2,974,902 | 2,452,018 |
| Owner-occupied | 2,313,175 | 1,998,203 |
| | 5,288,077 | 4,450,221 |
| Consumer: | | |
| Mortgages (1-4 family residential) | 1,621,419 | 1,340,009 |
| Installment | 203,055 | 132,646 |
| Home equity | 2,177,317 | 1,799,841 |
| Credit lines | 86,256 | 69,079 |
| | 4,088,047 | 3,341,575 |
| Commercial real estate: | | |
| Investor developer | 1,657,101 | 1,455,891 |
| Construction | 256,198 | 206,924 |
| | 1,913,299 | 1,662,815 |
| Total loans | \$ 11,289,423 | \$ 9,454,611 |

Investments

In total, for the first nine months of 2005, securities increased \$3.4 billion from \$18.7 billion to \$22.1 billion. The available for sale portfolio increased \$921.0 million to \$9.0 billion at September 30, 2005 from \$8.0 billion at December 31, 2004, and the held to maturity portfolio increased \$2.5 billion to \$13.0 billion at September 30, 2005 from \$10.5 billion at year-end 2004. The portfolio of trading securities decreased \$18.3 million from year-end 2004 to \$150.8 million at September 30, 2005.

Detailed below is information regarding the composition and characteristics of the Company's investment portfolio, excluding trading securities, as of September 30, 2005.

| Product Description | Available For Sale | Held to Maturity (in millions) | Total |
|--|---------------------------|--|------------------|
| Mortgage-backed Securities: Federal Agencies Pass Through Certificates (AAA Rated) | \$ 1,217 | \$ 2,378 | \$ 3,595 |
| Collateralized Mortgage Obligations (AAA Rated) | 6,991 | 8,847 | 15,838 |
| U.S. Government agencies/Other | 757 | 1,737 | 2,494 |
| Total | \$ 8,965 | \$ 12,962 | \$ 21,927 |
| Duration (in years) | 3.55 | 4.10 | 3.88 |
| Average Life (in years) | 4.29 | 5.11 | 4.78 |
| Quarterly Average Yield | 4.83% | 4.79% | 4.81% |

At September 30, 2005, the after tax depreciation of the Company's available for sale portfolio was \$35.1 million.

The Company's mortgage-backed securities (MBS) portfolio comprises 88% 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.

A summary of the amortized cost and market value of securities available for sale and securities held to maturity (in thousands) at September 30, 2005 and December 31, 2004 follows:

| | At September 30, 2005 | | | |
|--|------------------------------|-------------------------------|--------------------------------|---------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value |
| U.S. Government agency and mortgage-backed obligations | \$ 8,932,661 | \$ 1,263 | \$ (72,622) | \$ 8,861,302 |
| Obligations of state and political subdivisions | 60,078 | 78 | (449) | 59,707 |
| Equity securities | 9,679 | 15,647 | | 25,326 |
| Other | 18,581 | 205 | | 18,786 |
| Securities available for sale | \$ 9,020,999 | \$17,193 | \$ (73,071) | \$ 8,965,121 |
| U.S. Government agency and mortgage-backed obligations | \$12,398,722 | \$10,295 | \$(158,199) | \$12,250,818 |
| | 452,249 | 1,373 | (631) | 452,991 |

Obligations of state and political
subdivisions

| | | | | |
|-----------------------------|--------------|----------|-------------|--------------|
| Other | 110,929 | | | 110,929 |
| Securities held to maturity | \$12,961,900 | \$11,668 | \$(158,830) | \$12,814,738 |

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| | At December 31, 2004 | | | |
|--|-----------------------------|---------------------------------------|--|-------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value |
| U.S. Government agency and mortgage-backed obligations | \$ 7,884,113 | \$40,141 | \$(21,438) | \$ 7,902,816 |
| Obligations of state and political subdivisions | 87,605 | 305 | | 87,910 |
| Equity securities | 10,129 | 13,174 | | 23,303 |
| Other | 29,312 | 809 | | 30,121 |
| Securities available for sale | \$ 8,011,159 | \$54,429 | \$(21,438) | \$ 8,044,150 |
| U.S. Government agency and mortgage-backed obligations | \$ 9,967,041 | \$43,982 | \$(81,028) | \$ 9,929,995 |
| Obligations of state and political subdivisions | 398,963 | 3,867 | (28) | 402,802 |
| Other | 97,654 | | | 97,654 |
| Securities held to maturity | \$10,463,658 | \$47,849 | \$(81,056) | \$10,430,451 |

Gross gains and losses on securities sold during the third quarter of 2005 were \$5.8 million and \$80 thousand, respectively. For the first nine months of 2005, gross gains and losses on securities sold amounted to \$12.5 million and \$979 thousand, respectively.

During the third quarter of 2005, no securities were sold which had unrealized losses at December 31, 2004. During the first nine months of 2005, \$262.7 million of securities were sold which had unrealized losses at December 31, 2004. Gross gains and losses on these securities sold were \$246 thousand and \$416 thousand, respectively.

Net Income

Net income for the third quarter of 2005 was \$79.5 million, an increase of \$9.4 million or 13% over the \$70.1 million recorded for the third quarter of 2004. Net income for the first nine months of 2005 totaled \$236.0 million, an increase of \$37.7 million or 19% from \$198.3 million in the first nine months of 2004. On a per share basis, diluted net income for the third quarter and first nine months of 2005 was \$0.45 and \$1.36 per common share compared to \$0.42 and \$1.19 per common share for the same periods in 2004, respectively.

Return on average assets (ROA) and return on average equity (ROE) for the third quarter of 2005 were 0.92% and 16.62%, respectively, compared to 1.02% and 18.97%, respectively, for the same 2004 period. ROA and ROE for the first nine months of 2005 were 0.96% and 17.40%, respectively, compared to 1.03% and 18.90%, respectively, for the same 2004 period. The decrease in ROA was primarily due to average asset growth of 26% exceeding net income growth, which was impacted by net interest margin compression due to the flattening yield curve.

Net Interest Income

Net interest income totaled \$287.4 million for the third quarter of 2005, an increase of \$23.0 million or 9% from \$264.4 million in the third quarter of 2004. Net interest income for the first nine months of 2005 was \$854.7 million, up \$115.4 million or 16% from \$739.3 million for the first nine months of 2004. The increases in net interest income for the third quarter and first nine months of 2005 were due to the Company's continued ability to grow deposits as well as its loan and investment portfolios, offset by rate changes due to the existing interest rate environment.

On a tax equivalent basis, the Company recorded \$292.5 million in net interest income in the third quarter of 2005, an increase of \$23.6 million or 9% over the third quarter of 2004. For the first nine months of 2005, net interest income on a tax equivalent basis was \$868.6 million, an increase of \$116.1 million or 15% over the first nine months of 2004. The increase in net interest income on a tax equivalent basis is shown below (in thousands).

| | September 2005 vs. 2004 | Volume Increase | Net Interest Income | | |
|--------------------------|------------------------------------|----------------------------|----------------------------|---------------------------|-----------------------|
| | | | Rate Change | Total Increase | % Increase |
| Quarter | | \$ 66,471 | \$(42,874) | \$23,597 | 9% |
| First Nine Months | | \$204,086 | \$(88,017) | \$116,069 | 15% |

The net interest margin for the third quarter of 2005 was 3.67% down 62 basis points from the 4.29% margin for the third quarter of 2004 and down 26 basis points from the margin for the second quarter of 2005. The decrease in the net interest margin was primarily due to the flattening yield curve.

The following table sets forth balance sheet items on a daily average basis for the three months ended September 30, 2005, June 30, 2005 and September 30, 2004 and presents the daily average interest earned on assets and paid on liabilities for such periods.

Average Balances and Net Interest Income

| <i>(dollars in thousands)</i> | September 2005 | | | June 2005 | | | September 2004 | | |
|---|----------------|-----------|---------|--------------|-----------|---------|----------------|-----------|---------|
| | Average | | Average | Average | | Average | Average | | Average |
| | Balance | Interest | Rate | Balance | Interest | Rate | Balance | Interest | Rate |
| Earning Assets | | | | | | | | | |
| Investment securities | | | | | | | | | |
| | | \$ | | | \$ | | | | |
| Taxable | \$19,732,946 | 239,481 | 4.81% | \$18,821,647 | 231,275 | 4.93% | \$15,741,541 | \$191,627 | 4.84% |
| Tax-exempt | 397,351 | 4,366 | 4.36 | 374,448 | 3,257 | 3.49 | 385,814 | 5,126 | 5.29 |
| Trading | 96,344 | 1,335 | 5.50 | 178,037 | 2,427 | 5.47 | 159,954 | 1,552 | 3.86 |
| Total investment securities | 20,226,641 | 245,182 | 4.81 | 19,374,132 | 236,959 | 4.91 | 16,287,309 | 198,305 | 4.84 |
| Federal funds sold | 198,260 | 1,774 | 3.55 | 117,491 | 889 | 3.03 | 40,413 | 148 | 1.46 |
| Loans | | | | | | | | | |
| Commercial mortgages | 3,865,284 | 63,300 | 6.50 | 3,707,963 | 59,684 | 6.46 | 3,189,126 | 48,881 | 6.10 |
| Commercial | 2,760,625 | 47,117 | 6.77 | 2,569,001 | 41,417 | 6.47 | 2,069,986 | 28,552 | 5.49 |
| Consumer | 4,087,665 | 62,720 | 6.09 | 3,720,529 | 55,819 | 6.02 | 3,024,776 | 43,287 | 5.69 |
| Tax-exempt | 498,211 | 8,831 | 7.03 | 426,032 | 7,568 | 7.12 | 337,374 | 6,121 | 7.22 |
| Total loans | 11,211,785 | 181,968 | 6.44 | 10,423,525 | 164,488 | 6.33 | 8,621,262 | 126,841 | 5.85 |
| | | \$ | | | \$ | | | | |
| Total earning assets | \$31,636,686 | 428,924 | 5.38% | \$29,915,148 | 402,336 | 5.39% | \$24,948,984 | \$325,294 | 5.19% |
| Sources of Funds | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Savings | \$ 8,127,451 | \$ 35,215 | 1.72% | \$ 7,082,969 | \$ 23,258 | 1.32% | \$ 5,715,755 | \$ 12,408 | 0.86% |
| Interest bearing demand | 12,638,411 | 68,100 | 2.14 | 12,094,680 | 53,755 | 1.78 | 10,270,059 | 24,539 | 0.95 |
| Time deposits | 2,734,408 | 18,760 | 2.72 | 2,668,791 | 16,085 | 2.42 | 2,409,160 | 11,046 | 1.82 |
| Public funds | 842,894 | 7,354 | 3.46 | 828,305 | 6,196 | 3.00 | 800,579 | 3,164 | 1.57 |
| Total deposits | 24,343,164 | 129,429 | 2.11 | 22,674,745 | 99,294 | 1.76 | 19,195,553 | 51,157 | 1.06 |
| Other borrowed money | 541,119 | 4,697 | 3.44 | 845,462 | 6,917 | 3.28 | 614,282 | 2,255 | 1.46 |
| Long-term debt | 163,043 | 2,339 | 5.69 | 200,000 | 3,020 | 6.06 | 200,000 | 3,020 | 6.01 |
| Total deposits and interest-bearing liabilities | 25,047,326 | 136,465 | 2.16 | 23,720,207 | 109,231 | 1.85 | 20,009,835 | 56,432 | 1.12 |
| Noninterest-bearing funds (net) | 6,589,360 | | | 6,194,941 | | | 4,939,149 | | |
| Total sources to fund earning assets | \$31,636,686 | 136,465 | 1.71 | \$29,915,148 | 109,231 | 1.46 | 24,948,984 | 56,432 | 0.90 |

| | | | | | | |
|---|--------------|-------|--------------|-------|--------------|-------|
| Net interest income and margin tax-equivalent basis | \$ | | \$ | | | |
| | 292,459 | 3.67% | 293,105 | 3.93% | \$268,862 | 4.29% |
| Other Balances | | | | | | |
| Cash and due from banks | \$ 1,306,848 | | \$ 1,241,372 | | \$ 1,145,324 | |
| Other assets | 1,845,602 | | 1,749,133 | | 1,430,576 | |
| Total assets | 34,644,396 | | 32,763,128 | | 27,393,847 | |
| Total deposits | 31,788,250 | | 29,661,511 | | 24,852,938 | |
| Demand deposits (noninterest-bearing) | 7,445,086 | | 6,986,766 | | 5,657,385 | |
| Other liabilities | 240,177 | | 259,873 | | 248,878 | |
| Stockholders' equity | 1,911,807 | | 1,796,282 | | 1,477,749 | |

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.

Noninterest Income

Noninterest income totaled \$124.8 million for the third quarter of 2005, an increase of \$24.7 million or 25% from \$100.1 million in the third quarter of 2004. Noninterest income for the first nine months of 2005 increased to \$344.1 million from \$278.6 million in the first nine months of 2004, a 24% increase. Deposit charges and service fees increased \$15.2 million, or 27%, and \$45.8 million, or 29%, during the third quarter and first nine months of 2005, respectively, as compared to the same periods in 2004, primarily due to the Company's growth in deposits. Other operating income, which includes the Company's insurance and capital markets divisions, increased \$4.7 million, or 11% and \$10.2 million, or 8%, during the third quarter and first nine months of 2005, respectively, as compared to the same periods in 2004. The increase in other operating income is more fully depicted in the following chart (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|---|-------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Other operating income: | | | | |
| Insurance | \$19,539 | \$19,178 | \$58,079 | \$56,084 |
| Capital Markets | 5,268 | 8,268 | 18,956 | 24,617 |
| Loan Brokerage Fees | 7,378 | 3,027 | 13,086 | 9,805 |
| Other | 14,578 | 11,616 | 41,411 | 30,833 |
| Total other | \$46,763 | \$42,089 | \$131,532 | \$121,339 |

Commerce Capital Markets, Inc. (CCMI) revenues decreased \$5.7 million, or 23%, during the first nine months of 2005, as compared to the same period in 2004, which was related in part to the Company's decision to exit the underwriting of negotiated government public finance offerings during the third quarter of 2004. All other operating income increased \$3.0 million, or 25%, and \$10.6 million, or 34%, during the third quarter and first nine months of 2005, respectively, which was primarily due to increased gains on sale of SBA loans, letter of credit fees and revenues generated by the Company's leasing division.

Noninterest Expense

For the third quarter of 2005, noninterest expense totaled \$288.6 million, an increase of \$41.4 million, or 17%, over the same period in 2004. For the first nine months of 2005, noninterest expense totaled \$825.5 million, an increase of \$139.8 million or 20% over \$685.7 million for the first nine months of 2004. Contributing to this increase was new store activity over the past twelve months, with the number of stores increasing from 297 at September 30, 2004 to 342 at September 30, 2005. With the addition of these new offices, staff, facilities, and related expenses rose accordingly.

Other noninterest expense remained consistent at \$52.9 million for the three months ended September 30, 2005 and 2004 primarily due to decreased legal costs, offset by increases in other noninterest expense categories. For the first nine months of 2005, other noninterest expense increased \$25.5 million, or 18%, over the same 2004 period. The components of other noninterest expense are depicted in the following chart (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 |

Other noninterest expense:

| | | | | |
|---|----------|----------|-----------|-----------|
| Business development costs | \$ 8,589 | \$ 7,289 | \$ 29,359 | \$ 21,530 |
| Bank-card related service charges | 11,601 | 9,741 | 34,825 | 25,686 |
| Professional services/Insurance | 5,805 | 11,708 | 24,663 | 28,838 |
| Provision for non-credit-related losses | 6,378 | 5,438 | 20,693 | 15,334 |
| Other | 20,485 | 18,767 | 58,935 | 51,557 |
| Total other | \$52,858 | \$52,943 | \$168,475 | \$142,945 |

The growth in business development costs, bank-card related service charges and non-credit-related losses, which includes fraud and forgery losses on deposit and other non-credit related items, was due to the Company's growth in new stores and customer accounts.

The Company's operating efficiency ratio (noninterest expenses, less other real estate expense, divided by net interest income plus noninterest income excluding non-recurring gains) was 69.5% for the first nine months of 2005 as compared to 67.6% for the same 2004 period. The increase in operating efficiency ratio is primarily due to the impact of the flattening yield curve on the Company's net interest income. 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, 2005 were \$34.3 million, or 0.09% of total assets compared to \$33.5 million or 0.11% of total assets at December 31, 2004 and \$38.3 million or 0.13% of total assets at September 30, 2004.

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, 2005 were \$34.0 million or 0.30% of total loans compared to \$32.8 million or 0.35% of total loans at December 31, 2004 and \$37.3 million or 0.42% of total loans at September 30, 2004. At September 30, 2005, loans past due 90 days or more and still accruing interest amounted to \$177 thousand compared to \$602 thousand at December 31, 2004 and \$614 thousand at September 30, 2004. Additional loans considered as potential problem loans by the Company's credit review process (\$55.7 million at September 30, 2005, compared to \$37.7 million at December 31, 2004 and \$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 potential problem loans at September 30, 2005 was primarily due to one credit that was added during the second quarter.

Total non-performing loans increased slightly at September 30, 2005 as compared to December 31, 2004, which was primarily due to an increase in real estate non-accrual loans offset by slight decreases in both commercial and consumer non-accrual loans. 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, remained strong.

The following summary presents information regarding non-performing loans and assets as of September 30, 2005 and the preceding four quarters (dollar amounts in thousands).

| | September 30, 2005 | June 30, 2005 | March 31, 2005 | December 31, 2004 | September 30, 2004 |
|--|-----------------------------------|--------------------------|---------------------------|----------------------------------|-----------------------------------|
| Non-accrual loans: | | | | | |
| Commercial | \$16,926 | \$20,467 | \$18,376 | \$17,874 | \$22,647 |
| Consumer | 8,559 | 8,641 | 8,723 | 10,138 | 9,784 |
| Real estate: | | | | | |
| Construction | 1,882 | 178 | 178 | | |
| Mortgage | 3,353 | 3,086 | 1,290 | 1,317 | 1,251 |
| Total non-accrual loans | 30,720 | 32,372 | 28,567 | 29,329 | 33,682 |
| Restructured loans: | | | | | |
| Commercial | 3,230 | 3,326 | 3,422 | 3,518 | 3,614 |
| Total restructured loans | 3,230 | 3,326 | 3,422 | 3,518 | 3,614 |
| Total non-performing loans | 33,950 | 35,698 | 31,989 | 32,847 | 37,296 |
| Other real estate | 310 | 349 | 777 | 626 | 972 |
| Total non-performing assets | 34,260 | 36,047 | 32,766 | 33,473 | 38,268 |
| Loans past due 90 days or more and still accruing | 177 | 165 | 233 | 602 | 614 |
| Total non-performing assets and loans past due 90 days or more | \$34,437 | \$36,212 | \$32,999 | \$34,075 | \$38,882 |
| Total non-performing loans as a percentage of total period-end loans | 0.30% | 0.33% | 0.32% | 0.35% | 0.42% |
| Total non-performing assets as a percentage of total period-end assets | 0.09% | 0.11% | 0.10% | 0.11% | 0.13% |
| Total non-performing assets and loans past due 90 days or more as a percentage of total period-end assets | 0.09% | 0.11% | 0.10% | 0.11% | 0.14% |
| Allowance for loan losses as a percentage of total non-performing loans | 409% | 396% | 435% | 413% | 353% |
| Allowance for loan losses as a percentage of total period-end loans | 1.23% | 1.32% | 1.40% | 1.43% | 1.48% |

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%

2%

2%

21

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 | | Year Ended |
|--|--------------------|-----------|-------------------|-----------|--------------|
| | September 30, | | September 30, | | December 31, |
| | 2005 | 2004 | 2005 | 2004 | 2004 |
| Balance at beginning of period | \$141,325 | \$124,688 | \$135,620 | \$112,057 | \$112,057 |
| Provisions charged to operating expenses | 3,000 | 10,750 | 13,750 | 30,998 | 39,238 |
| | 144,325 | 135,438 | 149,370 | 143,055 | 151,295 |
| Recoveries on loans previously charged-off: | | | | | |
| Commercial | 930 | 435 | 1,920 | 695 | 1,000 |
| Consumer | 245 | 265 | 1,332 | 636 | 1,123 |
| Commercial real estate | 30 | 4 | 80 | 52 | 52 |
| Total recoveries | 1,205 | 704 | 3,332 | 1,383 | 2,175 |
| Loans charged-off: | | | | | |
| Commercial | (5,287) | (1,651) | (9,102) | (6,649) | (9,416) |
| Consumer | (1,318) | (2,951) | (3,720) | (4,627) | (6,733) |
| Commercial real estate | (22) | (11) | (977) | (1,633) | (1,701) |
| Total charge-offs | (6,627) | (4,613) | (13,799) | (12,909) | (17,850) |
| Net charge-offs | (5,422) | (3,909) | (10,467) | (11,526) | (15,675) |
| Balance at end of period | \$138,903 | \$131,529 | \$138,903 | \$131,529 | \$135,620 |
| Net charge-offs as a percentage of average loans outstanding | 0.20% | 0.18% | 0.13% | 0.19% | 0.19% |
| Net Reserve (Reductions) Additions | \$(2,422) | \$6,841 | \$3,283 | \$19,472 | \$23,563 |

During the first nine months of 2005, net charge-offs as a percentage of average loans outstanding decreased to 0.13%, as compared to 0.19% for the same period in 2004. This decrease was attributable to an increase in total recoveries of loans previously charged-off of \$1.9 million, offset by a slight increase in total charge-offs of \$890 thousand. The net reserve reduction for the third quarter is a result of overall credit quality of the Company's loan portfolio, as demonstrated by the allowance for loan losses as a percentage of total non-performing loans remaining within the range of the previous four quarters. The net reserve additions for the first nine months of 2005 were also reflective of the overall credit quality of the Company's loan portfolio.

The Company considers the allowance for loan losses of \$138.9 million adequate to cover probable losses inherent in the loan portfolio at September 30, 2005. The allowance for loan losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. The level of the allowance is based on an evaluation of individual large classified loans and nonaccrual loans, the Company's historical loss experience and the risk characteristics included in the loan portfolio. While the allowance for loan losses is maintained at a level considered to be adequate by management for estimated losses in the loan portfolio, determination of the allowance is inherently subjective, as it requires estimates that 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 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; the ability to maintain the growth and further development of the Company’s community-based retail branching network; unanticipated regulatory or judicial proceedings; changes in consumer spending and saving habits; and the 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 cautions that any such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the Company’s actual results, performance or achievements to differ materially from the future results, performance or achievements the Company has anticipated in such forward-looking statements. You should note that many factors, some of which are discussed in this Form 10-Q could affect the Company’s future financial results and could cause those results to differ materially from those expressed or implied in the Company’s forward-looking statements contained or incorporated by reference in this document. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

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

During the quarter ended September 30, 2005, 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 were consolidated in the United States District Court for the District of New Jersey, Camden Division. As a result of the consolidation, a single consolidated complaint was filed. It alleged that the defendants violated federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Act of 1934 and Rule 10b-5 of the Securities and Exchange Commission. The plaintiffs sought unspecified damages on behalf of a purported class of purchasers of the Company's securities during various periods. The Company believed these class action complaints were without merit and moved to dismiss the complaints. The motion to dismiss was granted on November 7, 2005.

Other than routine litigation arising in the normal course of business, the Company and its subsidiaries are not parties to any other material litigation.

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 7, 2005
(Date)

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