COMMERCE BANCORP INC /NJ/
Form 10-K
March 16, 2005

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

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 #1-12609

Commerce Bancorp, Inc
[GRAPHIC OMITTED]
(Exact name of registrant as specified in its charter)

| New Jersey | 22-2433468 |
|---|---|
| (State of other jurisdiction of incorporation or organization) | (I.R.S. Employee Identification Number) |

| Commerce Atrium<br>1701 Route 70 East<br>Cherry Hill, New Jersey | 08034-5400 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $3,611,075,918.(1)

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

| Common Stock $1.00 Par Value | 161,188,028 |
|---|---|
| Title of Class | No. of Shares Outstanding as of 3/8/05 |

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2005 Annual Meeting of Shareholders.

(1) The aggregate dollar amount of the voting stock set forth equals the number of shares of the Registrant's Common Stock outstanding reduced by the number of shares of Common Stock held by officers, directors, and shareholders owning 10% or more of the Registrant's Common Stock, multiplied by $27.22 (as adjusted for the two-for-one stock split effective March 7, 2005), the last sale price for the Registrant's Common Stock on June 30, 2004 the last business day of the Registrant's most recently completed second fiscal quarter. The information provided shall in no way be construed as an admission that any person whose holdings are excluded from this figure is an affiliate of the Registrant or that such person is the beneficial owner of the shares reported as being held by him, and any such inference is hereby disclaimed. The information provided herein is included solely for the recordkeeping purposes of the Securities and Exchange Commission.

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PART I

Item 1. Business

Forward-Looking Statements

Commerce Bancorp, Inc. (the "Company") may from time to time make various written or oral "forward looking statements" including statements contained in the Company's filings with the Securities and Exchange Commission ("SEC") (including this Annual Report on Form 10-K and the exhibits hereto), in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company pursuant to 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 that are sometimes beyond the Company's control. You will generally be able to recognize a forward-looking statement because it contains the words "anticipate," "believe," "estimate," "expect," "project," "objective," "may," "could," "should," "would," "intend," "forecast," "plan" or similar expressions to identify it as a forward-looking statement.

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 and world economies in general and the strength of the local economies in which the Company conducts its 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; inflation; interest rates, market and monetary fluctuations; the Company's timely development of competitive new products and services 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 Company's success at managing the risks involved in the foregoing. The Company cautions that the foregoing list of important factors is not exclusive.

The Company cautions you 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 Annual Report on Form 10-K 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.

General

The Company is a New Jersey business corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("Holding Company Act"). The Company was incorporated on December 9, 1982 and became an active bank holding company on June 30, 1983 through the acquisition of Commerce Bank, N.A., referred to as Commerce NJ.

As of December 31, 2004, the Company had total assets of $30.5 billion, total loans of $9.5 billion, and total deposits of $27.7 billion. The address of the Company's principal executive office is Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey, 08034-5400 and the telephone number is (856) 751-9000. The Company operates:

- three nationally chartered bank subsidiaries:
    - Commerce Bank, N.A., Cherry Hill, New Jersey;
    - Commerce Bank/Pennsylvania, N.A., Devon, Pennsylvania;
    - Commerce Bank/Delaware, N.A., Wilmington, Delaware; and
- one New Jersey state chartered bank subsidiary:
    - Commerce Bank/North, Ramsey, New Jersey.



These four bank subsidiaries, referred to collectively as the banks, as of December 31, 2004 had 319 full service retail stores located in the states of New Jersey, Pennsylvania, Delaware and New York. These banks provide a full range of retail and commercial banking services for consumers and small and mid-sized companies. Lending services are focused on commercial real estate and commercial and consumer loans to local borrowers. These banks' lending and investment activities are funded principally by retail deposits gathered through each bank's retail store network.

Stock Split

On February 15, 2005, the Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend distributed on March 7, 2005 to stockholders of record on February 25, 2005. Per share data and other appropriate share information for all periods presented have been restated to reflect the stock split.

Acquisitions

The Company's primary growth strategy is the opening of new full service stores of which 49 opened in 2004 and 46 opened in 2003. The Company expects to open an additional 55 - 60 full service stores in 2005, including its first stores in the Metro Washington, D.C. market. The Company has also developed its full service office network through certain acquisitions including:

- on January 2, 1987, the Company acquired all of the outstanding shares of Commerce Bank/Pennsylvania, N.A., referred to as Commerce PA;

- on December 31, 1988 the Company acquired all of the outstanding shares of Citizens State Bank of New Jersey, Forked River, which was subsequently converted to a national charter and renamed Commerce Bank/Shore, N.A., referred to as Commerce Shore. Commerce Shore was merged with and into Commerce NJ in 2004;

- on January 21, 1997, the Company acquired Independence Bancorp, Inc., a bank holding company headquartered in Bergen County, New Jersey. Independence Bancorp, Inc.'s wholly-owned state-chartered bank subsidiary, Independence Bank of New Jersey, was subsequently renamed Commerce Bank/North, referred to as Commerce North; and

- on January 15, 1999, the Company acquired Prestige Financial Corp., referred to as PFC, a one-bank holding company headquartered in Flemington, New Jersey. PFC's wholly-owned state-chartered bank subsidiary, Prestige State Bank, was subsequently re-chartered as a national bank and renamed Commerce Bank/Central, N.A. Commerce Central was merged with and into Commerce NJ in 2001.

In 1998, the Company received regulatory approvals to open Commerce Bank/Delaware, N.A., referred to as Commerce Delaware. Commerce Delaware's first store opened in New Castle County, Delaware, on December 18, 1999.

Commerce NJ operates a non-bank subsidiary, Commerce Capital Markets, Inc. (CCMI), Philadelphia, Pennsylvania, referred to as Commerce Capital Markets, which engages in various securities, investment banking and brokerage activities.

In addition, the Company, through Commerce Insurance Services, Inc., a non-bank subsidiary of Commerce Bank/North, referred to as Commerce Insurance, operates an insurance brokerage agency concentrating on commercial property, casualty and surety as well as personal lines of insurance and employee benefits for clients in multiple states, primarily Delaware, New Jersey, New York and Pennsylvania. Since 1996, Commerce Insurance has completed several strategic acquisitions of insurance brokerage agencies.

Dividends

As a legal entity separate and distinct from its bank and non-bank subsidiaries, the Company's principal sources of revenues are dividends and fees from its bank and non-bank subsidiaries. The subsidiaries that operate in the banking, insurance and securities business can pay dividends only if they are in compliance with the applicable regulatory requirements imposed on them by federal and state regulatory authorities.

The Banks

As of December 31, 2004, Commerce NJ had total assets of $21.4 billion, total deposits of $19.1 billion, and total shareholders' equity of $1.3 billion; Commerce PA had total assets of $5.7 billion, total deposits of $5.3 billion and total shareholders' equity of $340.4 million; Commerce North had total assets of $3.2 billion, total deposits of $2.9 billion, and total shareholders' equity of $203.3 million; and Commerce Delaware had total assets of $381.0 million, total deposits of $356.7 million, and total shareholders' equity of $23.0 million.

Service Areas

The Company's primary service areas include New Jersey, Metropolitan Philadelphia and New York, and Northern Delaware. The Company has attempted to locate its stores in the fastest growing communities within its service areas. Retail deposits gathered through these focused branching activities are used to support lending throughout the Company.



Commerce NJ provides retail and commercial banking services through 208 retail stores in Central and Southern New Jersey, and Metropolitan New York.; Commerce PA provides retail and commercial banking services through 68 retail stores in Philadelphia, Bucks, Chester, Delaware and Montgomery Counties in Southeastern Pennsylvania; Commerce North provides retail and commercial banking services through 35 retail stores in Bergen, Essex, Hudson and Passaic Counties, New Jersey; and Commerce Delaware provides retail and commercial banking services through 8 retail stores in New Castle and Kent Counties, Delaware.

Retail Banking Services and Products

Each bank provides a broad range of retail banking services and products, including free checking accounts, subject to minimum balances, savings programs, money market accounts, negotiable orders of withdrawal accounts, certificates of deposit, safe deposit facilities, free coin counting, consumer loan programs, including installment loans for home improvement and the purchase of consumer goods and automobiles, home equity and revolving lines of credit, overdraft checking and automated teller facilities. Each bank also offers construction loans and permanent mortgages for houses.

Trust Services

Commerce NJ, Commerce PA and Commerce Delaware each offer trust services primarily focusing on corporate trust services, particularly as bond trustee, paying agent, and registrar for municipal bond offerings.

Commercial Banking Services and Products

Each bank offers a broad range of commercial banking services, including free checking accounts, subject to minimum balance, night depository facilities, money market accounts, certificates of deposit, short-term loans for seasonal or working capital purposes, term loans for fixed assets and expansion purposes, revolving credit plans and other commercial loans and leases to fit the needs of its customers. Each bank also finances the construction of business properties and makes real estate mortgage loans on completed buildings. Where the needs of a customer exceed a bank's legal lending limit for any one customer, such bank may participate with other banks, including the other banks owned by the Company, in making a loan.

Additional information pertaining to the Company's segments is set forth in Note 18 - Segment Reporting of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

Commerce Insurance

Commerce Insurance operates one of the nation's largest regional insurance brokerage firms concentrating on commercial property, casualty and surety as well as personal lines. In addition, Commerce Insurance offers a line of employee benefit programs including group as well as individual medical, life, disability, pension, and risk management services. Commerce Insurance currently operates out of 12 locations in New Jersey, 2 locations in Pennsylvania, and 3 locations in Delaware. Commerce Insurance places insurance for clients in multiple states, primarily New Jersey, Pennsylvania, New York, and Delaware.

Commerce Capital Markets

Commerce Capital Markets engages in various securities, investment management and brokerage activities. Commerce Capital Markets' principal place of business is Philadelphia, Pennsylvania, with locations in Cherry Hill, South Plainfield, Ramsey and Mount Laurel, New Jersey and New York, New York.

Commerce Capital Trust II

Commerce Capital Trust II is a statutory business trust created under Delaware law. On March 11, 2002 the Company issued $200.0 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II.

Other Activities

NA Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ that purchases, holds and sells investments of Commerce NJ. Commerce Mortgage Acceptance Corp., a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ that is utilized in the securitization of residential mortgage loans. North Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce North that purchases, holds, and sells investments of Commerce North. Delaware Asset Management, a New Jersey corporation, is a wholly-owned subsidiary of Commerce Delaware that purchases, holds, and sells investments of Commerce Delaware. Commerce Commercial Leasing LLC, a New Jersey Limited Liability Company, is a wholly-owned subsidiary of Commerce NJ that provides business leasing services.

The Company has an investment in Pennsylvania Commerce Bancorp, Inc., Camp Hill, Pennsylvania (15.50% beneficial ownership assuming the exercise of all outstanding warrants held by the Company). The Company and its subsidiaries provide marketing support and technical support services to Pennsylvania Commerce Bancorp, Inc. and its wholly-owned subsidiary, Commerce Bank/Harrisburg.



Risk Factors

The Company is subject to a number of risk factors including, among others, business and economic conditions, monetary and other governmental policies, and competition. These factors, and others, could impact the Company's business, financial condition and results of operations. In the normal course of business,

the Company assumes various types of risk, which include, among others, credit risk, interest rate risk, liquidity risk and risk associated with trading activities. The Company has risk management processes designed to provide for risk identification, measurement and monitoring. Additional information pertaining to the Company's risk factors is set forth in the Forward-Looking Statements, which appear on page 3.

Competition

The Company's service area is characterized by intense competition in all aspects and areas of its business from commercial banks, savings and loan associations, mutual savings banks and other financial institutions. The Company's competitors, including credit unions, consumer finance companies, factors, insurance companies and money market mutual funds, compete with lending and deposit gathering services offered by the Company. Many competitors have substantially greater financial resources with larger lending limits and larger branch systems than the Company.

In commercial transactions, Commerce NJ's, Commerce PA's, Commerce North's, and Commerce Delaware's legal lending limit to a single borrower (approximately $204.0 million, $53.3 million, $31.7 million, and $3.7 million, respectively, as of December 31, 2004) enables the banks to compete effectively for the business of smaller and mid-sized businesses. The combined legal lending limit of the Company is $292.7 million. These legal lending limits are lower than that of various competing institutions and may act as a constraint on the bank's effectiveness in competing to provide financing in excess of these limits.

The Company believes that it is able to compete on a substantially equal basis with larger financial institutions because its banks offer longer hours of operation than those offered by most of the Company's competitors, free checking accounts for customers maintaining minimum balances and competitive interest rates on savings and time accounts with low minimum deposit requirements.

The Company seeks to provide personalized services through management's knowledge and awareness of its market area, customers and borrowers. The Company believes this knowledge and awareness provides a business advantage in serving the retail depositors and the small and mid-sized commercial borrowers that comprise the Company's customer base.

Supervision and Regulation

THE FOLLOWING DISCUSSION SETS FORTH CERTAIN OF THE MATERIAL ELEMENTS OF THE REGULATORY FRAMEWORK APPLICABLE TO BANK HOLDING COMPANIES AND THEIR SUBSIDIARIES AND PROVIDES CERTAIN SPECIFIC INFORMATION RELEVANT TO THE COMPANY AND ITS SUBSIDIARIES. THE REGULATORY FRAMEWORK IS INTENDED PRIMARILY FOR THE PROTECTION OF DEPOSITORS, OTHER CUSTOMERS AND THE FEDERAL DEPOSIT INSURANCE FUNDS AND NOT FOR THE PROTECTION OF SECURITY HOLDERS. TO THE EXTENT THAT THE FOLLOWING INFORMATION DESCRIBES STATUTORY AND REGULATORY PROVISIONS, IT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PARTICULAR STATUTORY AND REGULATORY PROVISIONS. A CHANGE IN APPLICABLE STATUTES, REGULATIONS OR REGULATORY POLICY MAY HAVE A MATERIAL EFFECT ON THE BUSINESS OF THE COMPANY.

The Company

The Company is registered as a bank holding company under the Holding Company Act, and is therefore subject to supervision and regulation by the Federal Reserve Board ("FRB"). The Company is also regulated by the New Jersey Department of Banking and Insurance (the "Department").

Under the Holding Company Act, the Company is required to secure the prior approval of the FRB before it can merge or consolidate with any other bank holding company or acquire all or substantially all of the assets of any bank or

acquire direct or indirect ownership or control of any voting shares of any bank that is not already majority owned by it, if after such acquisition it would directly or indirectly own or control more than 5% of the voting shares of such bank.

The Company is generally prohibited under the Holding Company Act from engaging in, or acquiring direct or indirect ownership or control or more than 5% of the voting shares of any company engaged in non-banking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making such a determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public which outweigh the possible adverse effects.

Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act, as amended ("CRA") ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions and open branches. Under the CRA, Commerce NJ, Commerce Delaware and Commerce North are currently rated "outstanding", while Commerce Pennsylvania is currently rated "satisfactory".

In addition, under the Holding Company Act, the Company is required to file periodic reports of its operations with, and is subject to examination by, the FRB.



The Company is under the jurisdiction of the SEC and various state securities commissions for matters relating to the offering and sale of its securities and is subject to the SEC's rules and regulations relating to periodic reporting, reporting to shareholders, proxy solicitation and insider trading.

There are various legal restrictions on the extent to which the Company and its non-bank subsidiaries can borrow or otherwise obtain credit from its banking subsidiaries. In general, these restrictions require that any such extensions of credit must be secured by designated amounts of specified collateral and are limited, as to any one of the Company or such non-bank subsidiaries, to ten percent of the lending bank's capital stock and surplus, and as to the Company and all such non-bank subsidiaries in the aggregate, to 20% of such lending bank's capital stock and surplus. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

The Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA") contains a "cross-guarantee" provision that could result in any insured depository institution owned by the Company being assessed for losses incurred by the FDIC in connection with assistance provided to, or the failure of, any other depository institution owned by the Company. Also, under FRB policy, the Company is expected to act as a source of financial strength to each of its banking subsidiaries and to commit resources to support each such bank in circumstances where such bank might not be in a financial position to support itself. Consistent with the "source of strength" policy for subsidiary banks, the FRB has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the

corporation's capital needs, asset quality and overall financial condition.

A discussion of capital guidelines and capital is included in the section entitled "Stockholders' Equity and Dividends" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

Commerce NJ, Commerce PA, Commerce North, and Commerce Delaware

Commerce NJ, Commerce PA, and Commerce Delaware, as national banks, are subject to the National Bank Act. Each is also subject to the supervision of, and is regularly examined by, the Office of the Comptroller of the Currency ("OCC") and is required to furnish quarterly reports to the OCC. The approval of the OCC is required for the establishment of additional stores by any national bank, subject to applicable state law restrictions.

Commerce North, as a New Jersey state-chartered bank, is subject to the New Jersey Banking Act. Commerce North is also subject to the supervision of, and is regularly examined by, the Department and the FDIC, and is required to furnish quarterly reports to each agency. The approval of the Department and the FDIC is necessary for the establishment of any additional stores by any New Jersey state-chartered bank, subject to applicable state law restrictions.

Under present New Jersey law, Commerce NJ, and Commerce North are permitted to operate stores at any location in New Jersey, subject to prior regulatory approval. Under present New York law, Commerce NJ is permitted to operate stores at any location in New York, subject to certain home office protection rules and subject to regulatory approval. Under present Pennsylvania law, Commerce PA is permitted to operate stores within any county in Pennsylvania, subject to prior regulatory approval. Under present Delaware law, Commerce Delaware is permitted to operate stores at any location in Delaware at which deposits are received, checks are paid, or money is lent, subject to prior regulatory approval.

Under the CRA, a bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with CRA. CRA requires that the applicable regulatory agency assess an institution's record of meeting the credit needs of its community. The CRA requires public disclosure of an institution's CRA rating and requires that the applicable regulatory agency provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. An institution's CRA rating is considered in determining whether to grant charters, stores and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. For their most recent examinations, Commerce NJ, Commerce Delaware and Commerce North each received an "outstanding" rating while Commerce PA received a "satisfactory" rating.

Commerce NJ, Commerce PA, Commerce North, and Commerce Delaware are also members of the FDIC and, except for Commerce North, members of the FRB and, therefore, are subject to additional regulation by these agencies. Some of the aspects of the lending and deposit business of Commerce NJ, Commerce PA, Commerce North, and Commerce Delaware which are regulated by these agencies include personal lending, mortgage lending and reserve requirements. The operation of Commerce NJ, Commerce PA, Commerce North, and Commerce Delaware is also subject to numerous federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to interest rates on loans, the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions.

Commerce NJ, Commerce PA, Commerce North, and Commerce Delaware are subject to certain limitations on the amount of cash dividends that they can pay. See Note 17 - Condensed Financial Statements of the Parent Company and Other Matters of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

A discussion of capital guidelines and capital is included in the section entitled "Stockholders' Equity and Dividends" contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

The OCC has authority under the Financial Institutions Supervisory Act to prohibit national banks from engaging in any activity which, in the OCC's opinion, constitutes an unsafe or unsound practice in conducting their businesses. The FRB has similar authority with respect to the Company and the Company's non-bank subsidiaries. The FDIC has similar authority with respect to Commerce North.

All of the deposits of the banking subsidiaries are insured up to applicable limits by the FDIC and are subject to deposit insurance assessments. The insurance assessments are based upon a matrix that takes into account a bank's capital level and supervisory rating. Effective January 1, 1996, the FDIC reduced the insurance premiums it charged on bank deposits to the statutory minimum of $2,000 annually for "well capitalized" banks. At December 31, 2004 the Company's consolidated capital levels and each of the Company's banking subsidiaries meet the regulatory definition of a "well capitalized" financial institution.

Commerce Insurance/ Commerce Capital Markets

Commerce Insurance, a non-bank subsidiary of Commerce North, is currently subject to supervision, regulation and examination by the Department, as well as other state insurance departments where it operates. Commerce Capital Markets, a non-bank subsidiary of Commerce NJ, engages in certain permitted securities and brokerage activities and is regulated by the SEC. Commerce Capital Markets is also subject to rules and regulations promulgated by the National Association of Securities Dealers, Inc., the Securities Investors Protection Corporation and various state securities commissions and with respect to municipal securities activities the Municipal Securities Rulemaking Board.

Both Commerce Insurance and Commerce Capital Markets are also subject to various state laws and regulations in which they do business. These laws and regulations are primarily intended to benefit clients and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws and regulations. In such event, the possible sanctions which may be imposed include the suspension of individual employees, limitations on engaging in business for specific periods, censures and fines.

Gramm-Leach-Bliley Act

On November 12, 1999 the Gramm-Leach-Bliley Act (the "Act") became law, repealing the 1933 Glass-Steagall Act's separation of the commercial and investment banking industries. The Act expanded the range of non-banking activities a bank holding company may engage in, while preserving existing authority for bank holding companies to engage in activities that are closely

related to banking. The Act created a category of holding company called a "Financial Holding Company," a subset of bank holding companies that satisfy the following criteria: (1) all of the depository institution subsidiaries must be well capitalized and well managed; and (2) the holding company must have made an effective election with the FRB that it elects to be a financial holding company to engage in activities that would not have been permissible before the Act. In order for the election to be effective, all of the depository institution subsidiaries must have a CRA rating of "satisfactory" or better as of its most recent examination. The Company has not elected to be a financial holding company. Financial holding companies may engage in any activity that (i) is financial in nature or incidental to such financial activity or (ii) is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Act specifies certain activities that are financial in nature. These activities include acting as principal, agent or broker for insurance; underwriting, dealing in or making a market in securities; and providing financial and investment advice. The FRB and the Secretary of the Treasury have authority to decide whether other activities are also financial in nature or incidental to financial activity, taking into account changes in technology, changes in the banking marketplace, competition for banking services and so on.

These financial activities authorized by the Act may also be engaged in by a "financial subsidiary" of a national or state bank, except for annuity underwriting, insurance company portfolio investments, real estate investment and development, and merchant banking, which must be conducted in a financial holding company. In order for the new financial activities to be engaged in by a financial subsidiary of a national or state bank, the Act requires each of the parent bank (and its sister-bank affiliates) to be well capitalized and well managed; the aggregate consolidated assets of all of that bank's financial subsidiaries may not exceed the lesser of 45% of its consolidated total assets or $50.0 billion; the bank must have at least a satisfactory CRA rating; and, if that bank is one of the 100 largest national banks, it must meet certain financial rating or other comparable requirements.

The Act establishes a system of functional regulation, under which the federal banking agencies will regulate the banking activities of financial holding companies and banks' financial subsidiaries, the SEC will regulate their securities activities and state insurance regulators will regulate their insurance activities. The Act also provides new protections against the transfer and use by financial institutions of consumers' nonpublic, personal information.

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The foregoing discussion is qualified in its entirety by reference to the statutory provisions of the Act and the implementing regulations, which are adopted by various government agencies pursuant to the Act.

THE RULES GOVERNING THE REGULATION OF FINANCIAL SERVICES INSTITUTIONS AND THEIR HOLDING COMPANIES ARE VERY DETAILED AND TECHNICAL. ACCORDINGLY, THE ABOVE DISCUSSION IS GENERAL IN NATURE AND DOES NOT PURPORT TO BE COMPLETE OR TO DESCRIBE ALL OF THE LAWS AND REGULATIONS THAT APPLY TO THE COMPANY AND ITS SUBSIDIARIES.

National Monetary Policy

In addition to being affected by general economic conditions, the Company's earnings and growth are affected by the policies of regulatory authorities, including the OCC, the FRB and the FDIC. An important function of the FRB, is to

regulate the money supply and credit conditions. Among the instruments used to implement these objectives are open market operations in U.S. Government securities, setting the discount rate, and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the FRB have had significant effects on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of these policies upon the Company's future business, earnings and growth cannot be predicted.

Employees

As of December 31, 2004 the Company had in excess of 9,800 full-time equivalent employees.

Available Information

The Company's internet address is www.commerceonline.com. The Company makes available free of charge on www.commerceonline.com its annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. In addition, the Company makes available free of charge on www.commerceonline.com its Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and the charters of its Audit, Compensation and Nominating and Governance Committees.

In addition, the Company will provide, at no cost, paper or electronic copies of its reports and other filings (excluding exhibits) made with the SEC and its Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and the charters of its Audit, Compensation and Nominating and Governance Committees. Requests should be directed to:

Commerce Bancorp, Inc.
Commerce Atrium
1701 Route 70 East
Cherry Hill, NJ 08034-5400
Attn: C. Edward Jordan, Jr.
Executive Vice President

The information on the website listed above, is not, and should not, be considered part of this annual report on Form 10-K and is not incorporated by reference in this document. This website is and is only intended to be an inactive textual reference.

Item 2. Properties

The executive and administrative offices of the Company and Commerce NJ are located at 1701 Route 70 East, Cherry Hill, New Jersey. This six-story structure is owned by the Company.The Company and its subsidiaries own or lease numerous other premises for use in conducting business activities. The facilities owned or occupied under lease by the Company's subsidiaries are considered by management to be adequate.

Additional information pertaining to the Company's properties is set forth in Note 6 - Bank Premises, Equipment, and Leases of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

## Item 3. 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. As a result of the consolidation, a single consolidated complaint has been filed. It alleges 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 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.

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 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders in the fourth quarter of 2004.

# Part II

## Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; Stockholders' Equity and Dividends and Capital Resources, which appear elsewhere herein.

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, which appears elsewhere herein, for disclosure regarding the Company's Equity Compensation Plans.

### Dividend Policy

It is the present intention of the Company's Board of Directors to pay quarterly cash dividends on the Company's common stock. However, the declaration and payment of future dividends will be subject to determination and declaration by the Board of Directors, which will consider the Company's earnings, financial condition and capital needs and applicable regulatory requirements. See Note 17 - Condensed Financial Statements of the Parent Company and Other Matters of the Notes to Consolidated Financial Statements, which appears elsewhere herein.

## Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and accompanying notes included elsewhere herein. Per share data and other appropriate share information for all periods presented have been restated for

the two-for-one stock split in the form of a 100% stock dividend effective March 7, 2005. In addition, prior year diluted net income per share amounts have been restated to reflect the impact of the Company's 5.95% Convertible Trust Capital Securities. Refer to Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements, which appears elsewhere herein, under Recent Accounting Statements for further discussion of the required restatement.



| | Year Ended December | | |
|---|---|---|---|
| (dollars in thousands, except per share data) | 2004 | 2003 | 2002 |
| Income Statement Data: | | | |
| Net interest income | $ 1,017,785 | $ 755,866 | $ 572,755 |
| Provision for loan losses | 39,238 | 31,850 | 33,150 |
| Noninterest income | 375,071 | 332,478 | 257,466 |
| Noninterest expense | 938,778 | 763,392 | 579,168 |
| Income before income taxes | 414,840 | 293,102 | 217,903 |
| Net income | 273,418 | 194,287 | 144,815 |
| Balance Sheet Data: | | | |
| Total assets | $30,501,645 | $22,712,180 | $16,403,981 |
| Loans (net) | 9,318,991 | 7,328,519 | 5,731,856 |
| Securities available for sale | 8,044,150 | 10,650,655 | 7,806,779 |
| Securities held to maturity | 10,463,658 | 2,490,484 | 763,026 |
| Trading securities | 169,103 | 170,458 | 326,479 |
| Deposits | 27,658,885 | 20,701,400 | 14,548,841 |
| Long-term debt | 200,000 | 200,000 | 200,000 |
| Stockholders' equity | 1,665,705 | 1,277,288 | 918,010 |
| Per Share Data: | | | |
| Net income-basic | $ 1.74 | $ 1.36 | $ 1.08 |
| Net income-diluted | 1.63 | 1.29 | 1.01 |
| Dividends declared | 0.40 | 0.34 | 0.31 |
| Book value | 10.42 | 8.35 | 6.77 |
| Average shares outstanding: | | | |
| Basic | 156,625 | 142,169 | 133,590 |
| Diluted | 172,603 | 156,507 | 149,389 |
| Selected Ratios: | | | |
| Performance | | | |
| Return on average assets | 1.03 % | 0.99 % | 1.05 |
| Return on average equity | 18.78 | 18.81 | 18.50 |
| Net interest margin | 4.28 | 4.36 | 4.69 |
| Liquidity and Capital | | | |
| Average loans to average deposits | 34.49 % | 36.93 % | 42.48 |
| Dividend payout-basic | 22.99 | 25.00 | 28.70 |
| Stockholders' equity to total assets | 5.46 | 5.62 | 5.60 |
| Risk-based capital: | | | |
| Tier 1 | 12.30 | 12.66 | 11.47 |
| Total | 13.25 | 13.62 | 12.51 |
| Leverage ratio | 6.19 | 6.61 | 6.37 |

| Asset Quality | | | |
|---|---|---|---|
| Non-performing assets to total year-end assets | 0.11 % | 0.10 % | 0.11 |
| Net charge-offs to average loans outstanding | 0.19 | 0.16 | 0.18 |
| Non-performing loans to total year-end loans | 0.35 | 0.29 | 0.24 |
| Allowance for loan losses to total end of year loans | 1.43 | 1.51 | 1.56 |
| Allowance for loan losses to non-performing loans | 412.88 | 515.39 | 640.18 |



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

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

### Executive Summary

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

During 2004, the Company's total assets grew 34%. The interest rate environment was difficult for the Company's growth model, with overall low interest rates and the flattening of the yield curve during the second half of the year. The flattening curve contributed to the compression of the Company's net interest margin to 4.28%, the lowest level in over 10 years. Despite this, the Company's continued low cost deposit growth significantly outpaced the current year margin compression and enabled the Company to grow revenue 28%, net income 41%, and diluted net income per share by 26%.

The Company's financial performance for 2004 and projected performance for 2005 are further discussed below.

The 2004 financial highlights are summarized below.

- Net income increased 41% and earnings per share increased 26%.
- Total deposits grew 34% and total (net) loans grew 27%.
- Total revenues (net interest income plus noninterest income) increased 28%.

| | 2004 | 2003 | Increase |
|---|---|---|---|

| | | | |
|---|---|---|---|
| (amounts in billions) | | | |
| Total Assets | $ 30.5 | $ 22.7 | 34% |
| Total Loans (net) | 9.3 | 7.3 | 27% |
| Total Investments | 18.7 | 13.3 | 41% |
| Total Deposits | 27.7 | 20.7 | 34% |
| (amounts in millions) | | | |
| Total Revenues | $ 1,392.9 | $ 1,088.3 | 28% |
| Net Income | 273.4 | 194.3 | 41% |
| Net Income per Share Diluted | 1.63 | 1.29 | 26% |

The Company's 26% increase in diluted net income per share includes a full year impact of the additional 5,000,000 shares resulting from the Company's common stock offering during September 2003.

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

The continued ability to grow deposits has resulted in significant earning asset growth. This growth resulted in $1.0 billion of net interest income on a tax equivalent basis in 2004, an increase of $264.7 million or 34% over 2003. As more fully depicted in the chart below, the increase in net interest income in both 2004 and 2003 was due to volume increases in the Company's earning assets.

Net Interest Income
(dollars in millions)

| | Volume Increase | Rate Change | Total | Increase |
|---|---|---|---|---|
| 2004 | $285.0 | ($20.3) | $264.7 | 34% |
| 2003 | $227.1 | ($41.5) | $185.6 | 32% |

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

| | Growth Target | Actual 2004 Growth |
|---|---|---|
| Total Deposits | 25% | 34% |
| Comp Store Deposits | 18% | 24% |
| Total Revenue | 25% | 28% |
| Net Income | 25% | 41% |
| Earnings Per Share | 20% | 26% |

The Company opened 49 stores in 2004 and plans to open 55 - 60 more during 2005, including its first stores in the Metro Washington, D.C. market. The Company plans to open approximately 35 stores in 2005 in the metro New York market. This market has seen the highest deposit growth per store and management expects these stores to continue to lead the deposit growth of the Company.

Per share data and other appropriate share information for all periods presented have been restated for the two-for-one stock split in the form of a 100% stock dividend effective March 7, 2005. In addition, prior year net income per share amounts have been restated to reflect the impact of the Company's 5.95%

Convertible Trust Capital Securities. Refer to Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements, which appears elsewhere herein, under Recent Accounting Statements for further discussion of the required restatement.



Application of Critical Accounting Policies

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

The Company's accounting policies are fundamental to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company has identified the policy related to the allowance for loan losses as being critical. The Company, in consultation with the Audit Committee, has reviewed and approved this critical accounting policy (further described in Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements, which appears elsewhere herein.)

Allowance for loan losses. The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio of the Company. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements describes the methodology used to determine the allowance for loan losses, and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in the Allowance for Loan Losses discussion within this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Segment Reporting

The Company operates one reportable segment of business, Community Banks, as more fully described in Note 18 - Segment Reporting of the Notes to Consolidated Financial Statements, which appears elsewhere herein. The following table summarizes net income by segment for each of the last three years (amounts in thousands):

| | Net Income | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |

| | | | |
|---|---|---|---|
| Community Banks | $267,466 | $183,068 | $139,560 |
| Parent/Other | 5,952 | 11,219 | 5,255 |
| Consolidated Total | $273,418 | $194,287 | $144,815 |

Average Balances and Net Interest Income

The table on page 15 sets forth balance sheet items on a daily average basis for the years ended December 31, 2004, 2003 and 2002 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2004, average interest earning assets totaled $24.2 billion, an increase of $6.5 billion, or 37% over 2003. This increase resulted primarily from the increase in the average balance of investments, which rose $4.6 billion, and the average balance of loans, which rose $1.8 billion during 2004. The growth in the average balance of interest earning assets was funded primarily by an increase in the average balance of deposits (including noninterest-bearing demand deposits) of $6.6 billion.

Net Interest Margin and Net Interest Income

Net interest margin on a tax equivalent basis was 4.28% for 2004, a decrease of 8 basis points from 2003. The decrease was due to the overall low interest rate environment in 2004 and the flattening yield curve in the second half of the year. During the third and fourth quarters of 2004, short-term interest rates increased by 125 basis points, increasing the Company's overall cost of funds by approximately 30 basis points. With no significant change in long-term interest rates over the same time periods, the Company did not experience a similar increase in its interest earning assets. While the Company's continuing ability to grow core deposits produces net interest income growth despite rate compression, management does not expect net interest margin expansion until long term rates increase and/or the yield curve steepens. The net interest margin is calculated by dividing net interest income by average earning assets.

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

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



Net interest income on a tax-equivalent basis (which adjusts for the tax-exempt status of income earned on certain loans and investments to express such income as if it were taxable) for 2004 was $1.0 billion, an increase of $264.7 million, or 34%, over 2003. Interest income on a tax-equivalent basis increased to $1.3 billion from $931.3 million, or 35%. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2004 increased $60.7 million to $220.5 million from $159.8 million in 2003. This increase was primarily related to increases in the Company's average deposit

balances.

The tax-equivalent yield on interest earning assets during 2004 was 5.19%, a decrease of 7 basis points from 5.26% in 2003. The cost of interest-bearing liabilities increased 2 basis points in 2004 to 1.13% from 1.11% in 2003. The cost of total funding sources increased slightly to 0.91% in 2004 from 0.90% in 2003.

The following table presents the major factors that contributed to the changes in net interest income on a tax equivalent basis for the years ended December 31, 2004 and 2003 as compared to the respective previous periods.

| | 2004 vs. 2003 Increase (Decrease) Due to Changes in (1) | | | 2003 vs. 2002 Increase (Decrease) Due to Changes in (1) | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| | (dollars in thousands) | | | | | |
| Interest on Investments: | | | | | | |
| Taxable | $ 216,828 | $ 10,630 | $ 227,458 | $ 186,070 | ($65,123) | $ 120,947 |
| Tax-exempt | 8,015 | (2,772) | 5,243 | 6,277 | 706 | 6,983 |
| Trading | (1,225) | 180 | (1,045) | (1,029) | (1,527) | (2,556) |
| Federal Funds sold | 633 | 15 | 648 | (356) | (254) | (610) |
| Interest on loans: | | | | | | |
| Commercial mortgages | 41,216 | (4,115) | 37,101 | 24,352 | (10,574) | 13,778 |
| Commercial | 22,840 | (206) | 22,634 | 21,154 | (6,710) | 14,444 |
| Consumer | 39,258 | (9,545) | 29,713 | 24,965 | (17,970) | 6,995 |
| Tax-exempt | 5,163 | (1,507) | 3,656 | 4,515 | (1,701) | 2,814 |
| Total interest income | 332,728 | (7,320) | 325,408 | 265,948 | (103,153) | 162,795 |
| Interest expense: | | | | | | |
| Savings | 15,174 | 3,910 | 19,084 | 9,453 | (12,089) | (2,636) |
| Interest bearing demand | 29,354 | 15,188 | 44,542 | 17,665 | (22,367) | (4,702) |
| Time deposits | 2,253 | (9,792) | (7,539) | 10,405 | (18,077) | (7,672) |
| Public funds | 404 | 828 | 1,232 | (1,069) | (6,711) | (7,780) |
| Other borrowed money | 598 | 2,824 | 3,422 | 2,349 | (924) | 1,425 |
| Long-term debt | | | | 32 | (1,517) | (1,485) |
| Total interest | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| expense | 47,783 | 12,958 | 60,741 | 38,835 | (61,685) | (22,850) |
| Net change | $ 284,945 | ($20,278) | $ 264,667 | $ 227,113 | ($41,468) | $ 185,645 |

(1) Changes due to both volume and rate have been allocated to volume or rate changes in proportion to the absolute dollar amounts of the change in each.



Commerce Bancorp, Inc. and Subsidiaries Average Balances

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| (dollars in thousands)<br>Earning Assets | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Investment securities | | | | | | |
| Taxable | $15,276,797 | $736,216 | 4.82 % | $10,777,538 | $508,758 | 4.72 |
| Tax-exempt | 347,979 | 19,078 | 5.48 | 201,775 | 13,835 | 6.86 |
| Trading | 169,242 | 8,592 | 5.08 | 193,376 | 9,637 | 4.98 |
| Total investment securities | 15,794,018 | 763,886 | 4.84 | 11,172,689 | 532,230 | 4.76 |
| Federal funds sold | 75,269 | 903 | 1.20 | 22,530 | 255 | 1.13 |
| Loans | | | | | | |
| Commercial mortgages | 3,091,350 | 189,743 | 6.14 | 2,419,855 | 152,642 | 6.31 |
| Commercial | 2,024,648 | 110,416 | 5.45 | 1,605,845 | 87,782 | 5.47 |
| Consumer | 2,908,561 | 166,851 | 5.74 | 2,224,197 | 137,138 | 6.17 |
| Tax-exempt | 340,172 | 24,886 | 7.32 | 269,592 | 21,230 | 7.87 |
| Total loans | 8,364,731 | 491,896 | 5.88 | 6,519,489 | 398,792 | 6.12 |
| Total earning assets | $24,234,018 | $1,256,685 | 5.19 % | $17,714,708 | $931,277 | 5.26 |
| Sources of Funds | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Savings | $5,446,713 | $46,680 | 0.86 % | $3,676,147 | $27,596 | 0.75 |
| Interest-bearing demand | 10,066,187 | 95,253 | 0.95 | 6,964,158 | 50,711 | 0.73 |
| Time deposits | 2,454,910 | 46,182 | 1.88 | 2,335,124 | 53,721 | 2.30 |
| Public funds | 878,310 | 13,626 | 1.55 | 852,319 | 12,394 | 1.45 |
| Total deposits | 18,846,120 | 201,741 | 1.07 | 13,827,748 | 144,422 | 1.04 |
| Other borrowed money | 465,137 | 6,685 | 1.44 | 423,538 | 3,263 | 0.77 |
| Long-term debt | 200,000 | 12,080 | 6.04 | 200,000 | 12,080 | 6.04 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total deposits and interest-bearing liabilities | 19,511,257 | 220,506 | 1.13 | 14,451,286 | 159,765 | 1.11 |
| Noninterest-bearing funds (net) | 4,722,761 | | | 3,263,422 | | |
| Total sources to fund earning assets | $24,234,018 | $220,506 | 0.91 | $17,714,708 | $159,765 | 0.90 |
| Net interest income and margin tax-equivalent basis | | $1,036,179 | 4.28 | | $771,512 | 4.36 |
| Tax-exempt adjustment | | 18,394 | | | 15,646 | |
| Net interest income and margin | | $1,017,785 | 4.20 % | | $755,866 | 4.27 |
| Other Balances | | | | | | |
| Cash and due from banks | $1,134,991 | | | $922,188 | | |
| Other assets | 1,376,006 | | | 1,053,283 | | |
| Total assets | 26,618,555 | | | 19,590,319 | | |
| Demand deposits (noninterest-bearing) | 5,408,094 | | | 3,826,885 | | |
| Other liabilities | 243,284 | | | 279,203 | | |
| Stockholders' equity | 1,455,920 | | | 1,032,945 | | |

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

For 2004, noninterest income totaled $375.1 million, an increase of $42.6 million or 13% from 2003. Deposit charges and service fees increased $57.4 million, or 36%. Other operating income, which includes the Company's insurance and capital markets divisions, decreased by $13.6 million, or 8%. The decrease in other operating income is more fully depicted in the following chart.

| | 2004 | 2003 |
|---|---|---|
| Other Operating Income: | | |
| Insurance | $ 72,479 | $ 66,482 |
| Capital Markets | 28,053 | 42,518 |
| Loan Brokerage Fees | 13,189 | 27,169 |
| Other | 40,585 | 31,780 |
| Total Other | $154,306 | $167,949 |

Commerce Insurance, the Company's insurance brokerage subsidiary, recorded

increased revenues of $6.0 million, or 9%, while Commerce Capital Markets recorded decreased revenues of $14.5 million, or 34%. The decrease in revenues for Commerce Capital Markets was primarily attributable to the exit from the government public finance business and lower municipal trading results.

The decrease in loan brokerage fees resulted primarily from the reduced volume of mortgage refinancing activity in 2004, as compared to the record levels in 2003 as well as the Company's decision to hold certain loans in its portfolio. Other increased by $8.8 million, or 28%, primarily due to increased letter of credit fees and revenues generated by the Company's leasing division. Included in other noninterest income are gains on sale of SBA loans of $9.1 million and $11.7 million during 2004 and 2003, respectively.

Noninterest Expenses

Noninterest expenses totaled $938.8 million for 2004, an increase of $175.4 million, or 23% over 2003. Contributing to this increase was the opening of 49 new stores during 2004. With the addition of these new stores, staff, facilities, marketing, and related expenses rose accordingly.

Other noninterest expense increased by $44.8 million, or 30%. The increase in other noninterest expenses is depicted in the following chart.

| | 2004 | 2003 |
|---|---|---|
| Other Noninterest Expenses: | | |
| Business Development Costs | $ 29,516 | $ 24,937 |
| Bank-Card Related Service Charges | 35,728 | 25,382 |
| Professional Services/Insurance | 40,515 | 24,597 |
| Provisions for Non-Credit-Related Losses | 22,243 | 15,546 |
| Other | 66,919 | 59,623 |
| Total Other | $194,921 | $150,085 |

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 growth in professional services and insurance expense was primarily attributable to increased consulting and insurance costs related to the Company's growth as well as increased legal fees.

The Company experienced positive operating leverage in 2004, as revenue growth of 28% exceeded noninterest expense growth of 23%. One important factor influencing the growth in noninterest expense 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 noninterest expenses in these markets declined in 2004. A key industry productivity measure is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses (excluding other real estate expenses) to net interest income plus noninterest income (excluding non-recurring gains). This ratio equaled 67.62%, 70.38%, and 69.73%, in 2004, 2003, and 2002, respectively. Management believes the Company's aggressive growth activities will keep its efficiency ratio above its peer group.

Income Taxes

The provision for federal and state income taxes for 2004 was $141.4 million compared to $98.8 million in 2003 and $73.1 million in 2002. The effective tax rate was 34.1%, 33.7% and 33.5% in 2004, 2003, and 2002, respectively. The increase in the effective income tax rate for 2004 was primarily due to the reduced impact of tax free interest income.

Net Income

Net income for 2004 was $273.4 million, an increase of $79.1 million, or 41% over the $194.3 million recorded for 2003.

Diluted net income per share of common stock for 2004 was $1.63 compared to $1.29 per common share for 2003.

Return on Average Equity and Average Assets

Two industry measures of performance by a banking institution are its return on average assets and return on average equity. Return on average assets ("ROA") measures net income in relation to total average assets and indicates a company's ability to employ its resources profitably. The Company's ROA was 1.03%, 0.99%, and 1.05% for 2004, 2003, and 2002, respectively. The increase in the Company's 2004 ROA as compared to the 2003 ROA was the result of the Company's positive operating leverage for 2004, which contributed to net income growth of 41%. Prior year ROA's were impacted in part by the significant start-up expenses related to the New York City and Long Island markets.

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Return on average equity ("ROE") is determined by dividing annual net income by average stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its stockholders. The Company's ROE was 18.78%, 18.81%, and 18.50% for 2004, 2003, and 2002, respectively.

Loan Portfolio

The following table summarizes the loan portfolio of the Company by type of loan as of December 31, for each of the years 2000 through 2004.

| | December 31, | | | |
|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 20 |
| (dollars in thousands) | | | | |
| Commercial: | | | | |
| Term | $1,283,476 | $1,027,526 | 842,869 | 6 |
| Line of credit | 1,168,542 | 959,158 | 683,640 | 5 |
| Demand | | 1,077 | 317 | |
| | 2,452,018 | 1,987,761 | 1,526,826 | 1,1 |
| Owner-occupied | 1,998,203 | 1,619,079 | 1,345,306 | 1,0 |
| Consumer: | | | | |
| Mortgages | | | | |

| | | | | |
|---|---|---|---|---|
| (1-4 family residential) | 1,340,009 | 918,686 | 626,652 | 4 |
| Installment | 132,646 | 138,437 | 140,493 | 1 |
| Home equity | 1,799,841 | 1,405,795 | 1,139,589 | 8 |
| Credit lines | 69,079 | 60,579 | 56,367 | |
| | 3,341,575 | 2,523,497 | 1,963,101 | 1,5 |
| Commercial real estate: | | | | |
| Investor developer | 1,455,891 | 1,167,672 | 885,276 | 7 |
| Construction | 206,924 | 142,567 | 102,080 | |
| | 1,662,815 | 1,310,239 | 987,356 | 8 |
| Total loans | $9,454,611 | $7,440,576 | $5,822,589 | $4,5 |

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

The contractual maturity ranges of the loan portfolio and the amount of loans with predetermined interest rates and floating rates in each maturity range, as of December 31, 2004, are summarized in the following table.

| | December 31, 2004 | | | |
|---|---|---|---|---|
| | Due in One Year or Less | Due in One to Five Years | Due in Over Five Years | Total |
| (dollars in thousands) | | | | |
| Commercial: | | | | |
| Term | $ 378,421 | $ 802,481 | $ 102,574 | $1,283,476 |
| Line of credit | 1,112,853 | 55,689 | | 1,168,542 |
| | 1,491,274 | 858,170 | 102,574 | 2,452,018 |
| Owner-occupied | 375,001 | 1,059,003 | 564,199 | 1,998,203 |
| Consumer: | | | | |
| Mortgages (1-4 family residential) | 40,654 | 152,452 | 1,146,903 | 1,340,009 |
| Installment | 45,045 | 51,421 | 36,180 | 132,646 |
| Home equity | 137,615 | 503,920 | 1,158,306 | 1,799,841 |

| | | | | |
|---|---|---|---|---|
| Credit lines | 23,737 | 45,342 | | 69,079 |
| | 247,051 | 753,135 | 2,341,389 | 3,341,575 |
| Commercial real estate: | | | | |
| Investor developer | 392,612 | 813,982 | 249,297 | 1,455,891 |
| Construction | 119,535 | 87,389 | | 206,924 |
| | 512,147 | 901,371 | 249,297 | 1,662,815 |
| Total loans | $2,625,473 | $3,571,679 | $3,257,459 | $9,454,611 |
| Interest rates: | | | | |
| Predetermined | $ 721,526 | $2,421,222 | $2,205,961 | $5,348,709 |
| Floating | 1,903,947 | 1,150,457 | 1,051,498 | 4,105,902 |
| Total loans | $2,625,473 | $3,571,679 | $3,257,459 | $9,454,611 |

During 2004, loans increased $2.0 billion, or 27% from $7.4 billion to $9.4 billion. At December 31, 2004, loans represented 34% of total deposits and 31% of total assets. All segments of the loan portfolio experienced growth in 2004. Geographically, the metro Philadelphia market contributed 48% of the total growth in the loan portfolio while the northern New Jersey and metro New York markets contributed 25% and 27%, respectively. During 2004, the metro New York market continued to mature and its loan portfolio grew by almost 100%. The loan portfolios in metro Philadelphia and northern New Jersey grew by 21% and 23%, respectively.

The Company has traditionally been an active provider of real estate loans to creditworthy local borrowers, with such loans secured by properties within the Company's primary trade area. During 2004, commercial real estate lending increased $352.6 million or 27%, which was consistent with the overall growth in the loan portfolio. Loans to finance owner-occupied properties grew $379.1 million or 23%. Commercial loan growth of $464.3 million or 23% was led by activity in the middle market and healthcare sectors. Growth in consumer loans of $818.1 million, or 32%, was primarily in mortgage lending. The residential mortgage portfolio increased $421.3 million, or 46%, during 2004, due to the Company's decision to hold jumbo mortgage loans in its portfolio as opposed to selling them in the secondary market. The Company's home equity portfolio grew $394.0 million or 28%, which was consistent with the overall growth in the loan portfolio.

Non-Performing Loans and Assets

Non-performing assets (non-performing loans and other real estate, excluding loans past due 90 days or more and still accruing interest) at December 31, 2004 were $33.5 million or .11% of total assets, as compared to $23.6 million or .10% of total assets at December 31, 2003.



Total non-performing loans (non-accrual loans, and restructured loans, excluding loans past due 90 days or more and still accruing interest) at December 31, 2004 were $32.8 million as compared to $21.7 million a year ago. The Company generally places a loan on non-accrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory. During 2004, commercial non-accrual loans increased $6.9 million or 63%. The increase in commercial

non-accrual loans was primarily due to one large credit of approximately $9.3 million that was placed on non-accrual status during the third quarter of 2004. This increase was offset by a commercial credit of $3.5 million that was restructured and reclassified as a restructured loan during 2004. Generally loans past due 90 days are placed on non-accrual status, unless the loan is both well secured and in the process of collection. At December 31, 2004, loans past due 90 days or more and still accruing interest amounted to $602 thousand, compared to $538 thousand at December 31, 2003. Additional loans considered by the Company's internal loan review department as potential problem loans of $37.7 million at December 31, 2004, compared to $47.7 million at December 31, 2003, have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) totaled $626 thousand at December 31, 2004 as compared to $1.8 million at December 31, 2003. These properties have been written down to the lower of cost or fair value less disposition costs.

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

The following summary presents information regarding non-performing loans and assets as of December 31, 2000 through 2004.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| (dollars in thousands) | | | | | |
| Non-accrual loans (1): | | | | | |
| Commercial | $17,874 | $10,972 | $ 6,829 | $ 9,104 | $ 7,468 |
| Consumer | 10,138 | 9,242 | 6,326 | 4,390 | 3,467 |
| Real estate | | | | | |
| Construction | | 138 | 131 | 1,590 | 1,459 |
| Mortgage | 1,317 | 1,389 | 882 | 1,749 | 1,155 |
| Total non-accrual Loans | 29,329 | 21,741 | 14,168 | 16,833 | 13,549 |
| Restructured loans (1): | | | | | |
| Commercial | 3,518 | 1 | 5 | 8 | 11 |
| Real estate mortgage | | | | | 82 |
| Total restructured loans | 3,518 | 1 | 5 | 8 | 93 |
| Total non-performing loans | 32,847 | 21,742 | 14,173 | 16,841 | 13,642 |
| Other real estate | 626 | 1,831 | 3,589 | 1,549 | 2,959 |
| Total non-performing assets(1): | $33,473 | $23,573 | $17,762 | $18,390 | $16,601 |
| Non-performing | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| assets as a percent of total assets | 0.11% | 0.10% | 0.11% | 0.16% | 0.20% |
| Loans past due 90 days or more and still accruing interest | $ 602 | $ 538 | $ 620 | $ 519 | $ 489 |

(1) Interest income of approximately $2,906,000, $1,908,000, $1,352,000, $2,092,000, and $1,731,000 would have been recorded in 2004, 2003, 2002, 2001, and 2000 respectively, on non-performing loans in accordance with their original terms. Actual interest recorded on these loans amounted to $1,070,000 in 2004, $418,000 in 2003, $275,000 in 2002, $237,000 in 2001, and $525,000 in 2000.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb losses inherent in the loan portfolio. In conjunction with an internal loan review function that operates independently of the lending function, management monitors the loan portfolio to identify risks on a timely basis so that an appropriate allowance can be maintained. Based on an evaluation of the loan portfolio, management presents a quarterly review of the loan loss reserve to the Board of Directors, indicating any changes in the reserve since the last review and any recommendations as to adjustments in the reserve. In making its evaluation, in addition to the factors discussed below, management considers the results of regulatory examinations, which typically include a review of the allowance for loan losses as an integral part of the examination process.

In establishing the allowance, management evaluates individual large classified loans and nonaccrual loans, and determines an aggregate reserve for those loans based on that review. At December 31, 2004, approximately 26.4% of the allowance was attributed to individually evaluated loans. An allowance for the remainder of the loan portfolio is also determined based on historical loss experience within the components of the portfolio. These allocations may be modified if current conditions indicate that loan losses may differ from historical experience, based on economic factors and changes in portfolio mix and volume. At December 31, 2004, approximately 58.5% of the allowance was attributed to historical loss experience.



In addition, a portion of the allowance is established for losses inherent in the loan portfolio which have not been identified by the more quantitative processes described above. This determination inherently involves a higher degree of subjectivity, and considers risk factors that may not have yet manifested themselves in the Company's historical loss experience. Those factors include changes in levels and trends of charge-offs, delinquencies, and nonaccrual loans, trends in volume and terms of loans, changes in underwriting standards and practices, portfolio mix, tenure of loan officers and management, entrance into new geographic markets, changes in credit concentrations, and national and local economic trends and conditions. At December 31, 2004, approximately 15.1% of the allowance was attributed to these qualitative factors.

While the allowance for loan losses is maintained at a level believed to be adequate by management for estimated losses in the loan portfolio, determination of the allowance is inherently subjective, as it requires estimates, all of which may be susceptible to significant change. Changes in these estimates may impact the provisions charged to expense in future periods.

The allowance for loan losses is increased by provisions charged to expense and reduced by loan charge-offs net of recoveries. Charge-offs occur when loans are deemed to be uncollectible. During 2004, net charge-offs amounted to $15.7 million, or .19% of average loans outstanding for the year, compared to $10.5 million, or .16% of average loans outstanding for 2003. Total charge-offs increased $6.1 million or 51% during 2004. The commercial and commercial real estate categories experienced increases of $3.8 million or 68% and $1.5 million or 612%, respectively. Both categories were impacted by a few large credits, relative to each portfolio, that were charged-off during the year. During 2004, the Company recorded provisions of $39.2 million to the allowance for loan losses compared to $31.9 million for 2003. The Company continued to proactively manage its exposure to credit risk in 2004. Based upon the application of the Company's reserve methodology, allowance levels increased by $23.6 million to $135.6 million at December 31, 2004, but decreased as a percentage of the total loans due to growth in the portfolio (1.43% at December 31, 2004 versus 1.51% at December 31, 2003).

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| (dollars in thousands) | | | | | |
| Balance at beginning of period | $112,057 | $90,733 | $66,981 | $48,680 | $38,382 |
| Provisions charged to operating expenses | 39,238 | 31,850 | 33,150 | 26,384 | 13,931 |
| | 151,295 | 122,583 | 100,131 | 75,064 | 52,313 |
| Recoveries of loans previously charged-off: | | | | | |
| Commercial | 1,000 | 669 | 815 | 552 | 313 |
| Consumer | 1,123 | 584 | 339 | 288 | 249 |
| Commercial real estate | 52 | 11 | 176 | 134 | 14 |
| Total recoveries | 2,175 | 1,264 | 1,330 | 974 | 576 |
| Loans charged-off: | | | | | |
| Commercial | (9,416) | (5,601) | (7,181) | (5,862) | (2,936) |
| Consumer | (6,733) | (5,950) | (3,514) | (2,784) | (1,220) |
| Commercial real estate | (1,701) | (239) | (33) | (411) | (53) |
| Total charged-off | (17,850) | (11,790) | (10,728) | (9,057) | (4,209) |
| Net charge-offs | (15,675) | (10,526) | (9,398) | (8,083) | (3,633) |

| | | | | | |
|---|---|---|---|---|---|
| Balance at end of period | $135,620 | $112,057 | $90,733 | $66,981 | $48,680 |
| Net charge-offs as a percentage of average loans outstanding | 0.19% | 0.16% | 0.18% | 0.19% | 0.11% |
| Allowance for loan losses as a percentage of year-end loans | 1.43% | 1.51% | 1.56% | 1.46% | 1.32% |

Allocation of the Allowance for Loan Losses

The following table details the allocation of the allowance for loan losses to the various loan categories. The current year evaluation of the Company's allowance for loan losses by loan category has been expanded to include analyses under multiple economic and portfolio assumptions. The allocation is made for analytical purposes and it is not necessarily indicative of the categories in which future loan losses may occur. The total allowance is available to absorb losses from any segment of loans.

| | Allowance for Loan Losses at December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2002 | | 2001 | |
| | Amount | % Gross Loans | Amount | % Gross Loans | Amount | % Gross Loans | Amount | % Gros Loans |
| (dollars in thousands) | | | | | | | | |
| Commercial | $ 47,230 | 26% | $ 50,400 | 27% | $33,708 | 26% | $24,110 | 2 |
| Owner-occupied | 29,488 | 21 | 26,862 | 22 | 24,539 | 23 | 18,060 | 2 |
| Consumer | 38,100 | 35 | 13,082 | 34 | 14,497 | 34 | 9,915 | 3 |
| Commercial real estate | 20,802 | 18 | 21,713 | 17 | 17,989 | 17 | 14,896 | 1 |
| | $135,620 | 100% | $112,057 | 100% | $90,733 | 100% | $66,981 | 10 |



Investment Securities

The following table summarizes the Company's securities available for sale and

securities held to maturity as of the dates shown.

| | December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| (dollars in thousands) | | | |
| U.S. Government agency and mortgage-backed obligations | $ 7,902,816 | $10,511,545 | $ 7,659,737 |
| Obligations of state and political subdivisions | 87,910 | 30,927 | 23,185 |
| Equity securities | 23,303 | 16,588 | 24,054 |
| Other | 30,121 | 91,595 | 99,803 |
| Securities available for sale | $ 8,044,150 | $10,650,655 | $ 7,806,779 |
| U.S. Government agency and mortgage-backed obligations | $ 9,967,041 | $ 2,193,577 | $ 624,688 |
| Obligations of state and political subdivisions | 398,963 | 227,199 | 91,204 |
| Other | 97,654 | 69,708 | 47,134 |
| Securities held to maturity | $10,463,658 | $ 2,490,484 | $ 763,026 |

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

In total, investment securities increased $5.4 billion from $13.3 billion to $18.7 billion at December 31, 2004. Deposit growth and other funding sources were used to increase the Company's investment portfolio. The available for sale portfolio decreased $2.6 billion to $8.0 billion, and the securities held to maturity portfolio increased $8.0 billion to $10.5 billion at year-end 2004. The portfolio of trading securities decreased to $169.1 million at year-end 2004 from $170.5 million at year-end 2003. During the fourth quarter of 2004, the Company transferred $5.9 billion of securities classified as available for sale to the held to maturity classification based on the Company's anticipated liquidity needs and expected annual cash flow from deposit growth and bond and loan prepayments. The aggregate market value of the securities transferred equaled their book value, with no effect on stockholders' equity, regulatory capital or results of operations. During the fourth quarter of 2004, the Company sold $126.0 million of securities from its held to maturity portfolio. These securities experienced a deterioration in creditworthiness which meets the

specific exception provided for a sale of a security classified as held to maturity. Gross gains of $768 thousand and gross losses of $1.2 million were realized on the sale of these securities.

At December 31, 2004, the average life and duration of the investment portfolio were approximately 3.8 years and 3.2 years, respectively, as compared to 4.9 years and 3.9 years, respectively, at December 31, 2003. The Company's significant cash flow provides reinvestment opportunities as interest rates change. In addition, management continually reviews and repositions the investment portfolio to adjust for current and anticipated interest rate and yield curve levels.

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations. These securities have little, if any, credit risk since they are either backed by the full faith and credit of the U.S. Government, or are guaranteed by an agency of the U.S. Government, or are AAA rated. These investment securities carry fixed coupons whose rate does not change over the life of the securities. Certain securities are purchased at premiums or discounts. Their yield will change depending on any change in the estimated rate of prepayments. The Company amortizes premiums and accretes discounts over the estimated life of the securities in the investment portfolio. Changes in the estimated life of the securities in the investment portfolio will lengthen or shorten the period in which the premium or discount must be amortized or accreted, thus affecting the Company's investment yields. For the year ended December 31, 2004, the yield on the investment portfolio was 4.84%, an increase of 8 basis points from 4.76% in fiscal year 2003.

At December 31, 2004, the net unrealized appreciation in securities available for sale included in stockholders' equity totaled $21.0 million, net of tax, compared to net unrealized depreciation of $3.7 million, net of tax, at December 31, 2003.

The contractual maturity distribution and weighted average yield of the Company's investment portfolio (excluding equity and trading securities) at December 31, 2004, are summarized in the following table. Weighted average yield is calculated by dividing income within each maturity range by the outstanding amortized cost amount of the related investment and has been tax effected, assuming a federal tax rate of 35%, on tax-exempt obligations.



| | December 31, 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Due Under 1 Year | | Due 1-5 Years | | Due 5-10 Years | | Due Over 10 | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Y |
| (dollars in thousands) | | | | | | | | |
| Securities available for sale: | | | | | | | | |
| U.S. Government agency and | | | | | | | | |
| mortgage-backed obligations | $61,927 | 1.44% | | | $428,928 | 4.87% | $7,411,961 | |
| Obligations of state and | | | | | | | | |
| political subdivisions | 3,395 | 7.12 | $4,663 | 6.72% | 3,038 | 3.22 | 76,814 | |
| Other securities | 2,289 | 0.99 | 275 | 4.00 | 2,180 | 5.97 | 25,377 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | $67,611 | 1.71% | $4,983 | 6.57% | $434,146 | 4.87% | $7,514,152 |
| Securities held to maturity: | | | | | | | |
| U.S. Government agency and mortgage-backed obligations | | | $ 366 | 8.46% | $472,758 | 4.18% | $9,493,917 |
| Obligations of state and political subdivisions | $272,404 | 1.49% | 4,326 | 3.23 | 1,303 | 3.55 | 120,930 |
| Other securities | 97,654 | 2.36 | | | | | |
| | $370,058 | 1.72% | $4,692 | 3.64% | $474,061 | 4.18% | $9,614,847 |

Deposits

Total deposits at December 31, 2004 were $27.7 billion, an increase of $7.0 billion or 34% above total deposits of $20.7 billion at December 31, 2003. The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for sound growth and profitability. The Company regards core deposits as all deposits other than public certificates of deposit. Deposits in the various core categories increased $6.9 billion from year-end 2003 to year-end 2004. Core deposits by type of customer is as follows (in millions):

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Consumer | $12,227 | $ 9,760 |
| Commercial | 9,138 | 6,599 |
| Government | 5,292 | 3,420 |
| Total | $26,657 | $19,779 |

Total deposits averaged $24.3 billion for 2004, an increase of $6.6 billion or 37% above the 2003 average. The average balance of noninterest-bearing demand deposits in 2004 was $5.4 billion, a $1.6 billion or 41% increase over the average balance for 2003. The average total balance of passbook and statement savings accounts increased $1.8 billion, or 48% compared to the prior year. The average balance of interest-bearing demand accounts for 2004 was $10.1 billion, a $3.1 billion or 44% increase over the average balance for the prior year. The average balance of time deposits and public funds for 2004 was $3.3 billion, a $145.8 million or 4% increase over the average balance for 2003. For 2004, the cost of total deposits was 0.83% as compared to 0.82% in 2003.

The Company believes that its record of sustaining core deposit growth is reflective of the Company's retail approach to banking which emphasizes a combination of superior customer service, convenient store locations, extended hours of operation, free checking accounts (subject to small minimum balance requirements) and active marketing. This approach is especially reflected in the Company's comparable store deposit growth. The Company's comparable store deposit growth is measured as the year over year percentage increase in core deposits at the balance sheet date. At December 31, 2004, the comparable store deposit growth for the Company's 224 stores open two years or more was 24% and for the Company's 270 stores open one year or more was 32%.

The average balances and weighted average rates of deposits for each of the years 2004, 2003, and 2002 are presented below.

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Average Balance | Average Rate | Average Balance | Average Rate |
| (dollars in thousands) | | | | |
| Demand deposits: | | | | |
| Noninterest-bearing | $ 5,408,094 | | $ 3,826,885 | |
| Interest-bearing (money market and N.O.W. accounts) | 10,066,187 | 0.95% | 6,964,158 | 0.73% |
| Savings deposits | 5,446,713 | 0.86 | 3,676,147 | 0.75 |
| Time deposits/public funds | 3,333,220 | 1.79 | 3,187,443 | 2.07 |
| Total deposits | $ 24,254,214 | | $ 17,654,633 | |



The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 2004, 2003 and 2002 is presented below:

| Maturity | 2004 | 2003 | 2002 |
|---|---|---|---|
| (dollars in thousands) | | | |
| 3 months or less | $ 983,909 | $1,076,960 | $ 983,698 |
| 3 to 6 months | 182,573 | 357,810 | 164,568 |
| 6 to 12 months | 206,326 | 322,204 | 266,779 |
| Over 12 months | 457,489 | 253,477 | 189,587 |
| Total | $ 1,830,297 | $2,010,451 | $1,604,632 |

Interest Rate Sensitivity and Liquidity

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

An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with

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

The following table illustrates the GAP position of the Company as of December 31, 2004.

Interest Rate Sensitivity Gaps
31-Dec-04

| | Jan-90 Days | 91-180 Days | 181-365 Days | 5-Jan Years | Beyond 5 Years | Total |
|---|---|---|---|---|---|---|
| (dollars in millions) | | | | | | |
| Rate sensitive: | | | | | | |
| Interest-earning assets | | | | | | |
| Loans | $4,762.6 | $120.8 | $238.7 | $2,154.9 | $2,189.0 | $9,466.0 |
| Investment securities | 1,049.0 | 993.0 | 1,829.5 | 9,158.1 | 5,647.3 | 18,676.9 |
| Total interest-earning assets | 5,811.6 | 1,113.8 | 2,068.2 | 11,313.0 | 7,836.3 | 28,142.9 |
| Interest-bearing liabilities | | | | | | |
| Transaction accounts | 5,674.9 | | | | 12,419.4 | 18,094.3 |
| Time deposits | 1,456.4 | 456.9 | 504.0 | 740.7 | | 3,158.0 |
| Other borrowed money | 661.2 | | | | | 661.2 |
| Long-term debt | | | | | 200.0 | 200.0 |
| Total interest-bearing liabilities | 7,792.5 | 456.9 | 504.0 | 740.7 | 12,619.4 | 22,113.5 |
| Period gap | (1,980.9) | 656.9 | 1,564.2 | 10,572.3 | (4,783.1) | $6,029.4 |
| Cumulative gap | ($1,980.9) | ($1,324.0) | $240.2 | $10,812.5 | $6,029.4 | |
| Cumulative gap as a percentage of total interest-earning assets | (7.0%) | (4.7%) | 0.9% | 38.4% | 21.4% | |

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

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



The Company's ALCO policy has established that interest income sensitivity will be considered acceptable if net income in the above interest rate scenario is within 10% of net income in the flat rate scenario in the first year and within 15% over the two year time frame. Net income in the flat rate scenario is projected to increase by approximately 25% per year. The following table illustrates the impact on projected net income at December 31, 2004 and 2003 of a plus 200 and minus 100 basis point change in interest rates.

| | Basis Point Change: | |
|---|---|---|
| | Plus 200 | Minus 100 |
| December 31, 2004: | | |
| Twelve Months | 4.3% | (4.2)% |
| Twenty Four Months | 9.0% | (9.6)% |
| December 31, 2003: | | |
| Twelve Months | 1.6% | (2.3)% |
| Twenty Four Months | 6.8% | (2.3)% |

All of these forecasts are within an acceptable level of interest rate risk per the policies established by ALCO. In the event the model indicates an unacceptable level of risk, the Company could undertake a number of actions that would reduce this risk, including the sale of a portion of its available for sale investment portfolio, the use of risk management strategies such as interest rate swaps and caps, or 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. In general, a flattening yield curve would result in reduced net interest income compared to the current flat rate scenario and proportionate rate shift assumptions. 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 or minus 100 basis point change would result in the loss of 45% or more of the excess of market value over book value in the current rate scenario. At December 31, 2004, the market value of equity indicates an acceptable level of interest rate risk.

The market value of equity model reflects certain estimates and assumptions regarding the impact on the market value of the Company's assets and liabilities given an immediate plus 200 or minus 100 basis point change in interest rates. One of the key assumptions is the market value assigned to the Company's core deposits, or the core deposit premium. Utilizing an independent consultant, the Company has completed and updated comprehensive core deposit studies in order to assign its own core deposit premiums. The studies have consistently confirmed management's assertion that the Company's core deposits have stable balances over long periods of time, are generally insensitive to changes in interest rates and have significantly longer average lives and durations than the Company's loans and investment securities. Thus, these core deposit balances provide an internal hedge to market value fluctuations in the Company's fixed rate assets. Management believes the core deposit premiums produced by its core deposit study and utilized in its market value of equity model at December 31, 2004 provide an accurate assessment of the Company's interest rate risk. The following table depicts the average lives of the Company's loans, investments and deposits at December 31, 2004:

| | Average Life (in years) |
|---|---|
| Loans | 3.5 |
| Investments | 3.8 |
| Deposits | 14.9 |

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 December 31, 2004 (in millions, except for per share amounts):

| | Market Value of Equity | Per Share |
|---|---|---|
| Plus 200 basis point | $6,138 | $38.21 |
| Current Rate | $5,932 | $36.93 |
| Minus 100 basis point | $5,004 | $31.15 |

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 December 31, 2004 the Company had in excess of $13.0 billion in immediately available liquidity which includes securities that could be sold or used for collateralized borrowings, cash on hand, and borrowing capacities under existing lines of credit. During 2004, deposit growth and short-term borrowings were used to fund growth in the loan portfolio and purchase additional investment securities.



Other Borrowed Money

Other borrowed money, or short-term borrowings, which consist primarily of securities sold under agreement to repurchase, federal funds purchased, and lines of credit, were used in 2004 to meet short-term liquidity needs. For 2004, short-term borrowings averaged $465.1 million as compared to $423.5 million in 2003. The average rate on the Company's short-term borrowings was 1.44% and 0.77% during 2004 and 2003, respectively. At December 31, 2004, short-term borrowings included $586.2 million of securities sold under agreements to repurchase at an average rate of 2.28%, compared to $311.5 million at an average rate of 1.10% as of December 31, 2003.

Long-Term Debt

On March 11, 2002 the Company issued $200 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a Delaware business trust. The equity in the business trust is netted against the long-term debt on the Consolidated Balance Sheets. The Convertible Trust Capital Securities mature in 2032. The net proceeds of this offering were used for general corporate purposes, including the redemption of the Company's $57.5 million of 8.75% Trust Capital Securities on July 1, 2002 and the repayment of the Company's $23.0 million of 8 3/8% subordinated notes on May 20, 2002. On April 1, 2004, the Convertible Trust Capital Securities became convertible at the option of the holder. The holders of the Convertible Trust Capital Securities may convert each security into 1.8956 shares of Company common stock.

The Company may call the Convertible Trust Capital Securities on or after March 11, 2005, provided various terms and conditions are met, primarily related to the market price of the Company's common stock. In summary, the Company's common stock must trade at a price of $31.65 or higher for 20 trading days in a period of 30 consecutive trading days in order for the Company to force conversion.

As discussed in Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements, which appears elsewhere herein, 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 (7.6 million common shares) have been added to the denominator. Refer to Note 13 - Earnings Per Share of the Notes to Consolidated Financial Statements, which appears elsewhere herein, for illustration of the if-converted method.

Stockholders' Equity and Dividends

At December 31, 2004, stockholders' equity totaled $1.7 billion, up $388.4 million or 30% over stockholders' equity of $1.3 billion at December 31, 2003. This increase was due to the Company's increase in net income for the year, as

well as shares issued under the Company's dividend reinvestment and employee compensation and benefit plans. Stockholders' equity as a percent of total assets was 5.5% at December 31, 2004 and 5.6% at December 31, 2003.

Capital Resources

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

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

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

| | December 31, | | Minimum Regulatory Requirements | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Risk based capital ratios: | | | | |
| Tier 1 | 12.30% | 12.66% | 4.00% | 4.00% |
| Total capital | 13.25 | 13.62 | 8.00 | 8.00 |
| Leverage ratio | 6.19 | 6.61 | 4.00 | 4.00 |



The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which became law in December of 1991, required each federal banking agency including the Board of Governors of the FRB, to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of non-traditional activities, as well as reflect the actual performance and expected risk of loss on multi-family mortgages. This law also requires each federal banking agency,

including the FRB, to specify, by regulation, the levels at which an insured institution would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized."

At December 31, 2004 the Company's consolidated capital levels and each of the Company's banking subsidiaries met the regulatory definition of a "well capitalized" financial institution, i.e., a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6%, and a total risk-based capital ratio exceeding 10%.

The Company's common stock is listed for trading on the New York Stock Exchange under the symbol CBH. The quarterly market price ranges and dividends declared per common share (as adjusted for the two-for-one stock split effective March 7, 2005) for each of the last two years are shown in the table below. As of January 27, 2005, there were approximately 58,000 holders of record of the Company's common stock.

Common Share Data

| | Market Prices | | Dividends Declared |
|---|---|---|---|
| | High | Low | Per Share |
| 2004 Quarter Ended | | | |
| December 31 | $32.20 | $28.16 | $0.1100 |
| September 30 | 28.18 | 24.12 | 0.0950 |
| June 30 | 33.39 | 27.51 | 0.0950 |
| March 31 | 32.94 | 26.58 | 0.0950 |
| 2003 Quarter Ended | | | |
| December 31 | $26.65 | $23.67 | $0.0950 |
| September 30 | 23.96 | 18.65 | 0.0825 |
| June 30 | 20.34 | 18.19 | 0.0825 |
| March 31 | 22.80 | 18.87 | 0.0825 |

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

Contractual Obligations and Commitments

As disclosed in the Notes to Consolidated Financial Statements, which appears elsewhere herein, the Company has certain obligations and commitments to make future payments under contracts. At December 31, 2004, the aggregate contractual obligations and commitments are shown in the following table.

| Contractual Obligations | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | One Year or Less | One to Three Years | Three to Five Years | Beyond Five Years | Total |

| | | | | | |
|---|---|---|---|---|---|
| (dollars in millions) | | | | | |
| Deposits without a stated maturity | $ 7,596.9 | | | $16,904.0 | $24,500.9 |
| Time deposits | 2,417.3 | $399.4 | $341.30 | | 3,158.0 |
| Other borrowed money | 661.2 | | | | 661.2 |
| Long-term debt | | | | 200.0 | 200.0 |
| Operating leases | 36.2 | 72.7 | 72.6 | 372.9 | 554.4 |
| Total | $10,711.6 | $472.1 | $413.9 | $17,476.9 | $29,074.5 |

| Commitments | Expiration by Period | | | | |
|---|---|---|---|---|---|
| | One Year or Less | One to Three Years | Three to Five Years | Beyond Five Years | Total |
| (dollars in millions) | | | | | |
| Standby letters of credit | $ 366.4 | $ 188.2 | $221.0 | $ 11.8 | $ 787.4 |
| Lines of credit | 1,636.1 | 164.4 | 65.0 | 18.6 | 1,884.1 |
| Commitments to extend credit: | | | | | |
| Construction | 209.7 | 341.8 | 2.0 | 4.7 | 558.2 |
| Home equity | 66.2 | 132.4 | 132.4 | 662.1 | 993.1 |
| Other | 420.7 | 188.1 | | | 608.8 |
| Total | $2,699.1 | $1,014.9 | $420.4 | $697.2 | $4,831.6 |

Related Parties

The Company engaged in certain activities with entities that would be considered related parties. Management believes disbursements made to related parties were substantially equivalent to those that would have been paid to unaffiliated companies for similar goods and services (further discussed in Note 3 - Loans and Note 6 - Bank Premises, Equipment, and Leases of the Notes to Consolidated Financial Statements, which appear elsewhere herein).

Recent Accounting Statements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123 (revised 2004), "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 95). 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 earnings per share. FAS 123R must be adopted no later than July 1, 2005. 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 cannot be predicted, had the Company adopted FAS 123R in prior periods, the impact would have approximated the impact of FAS 123 as disclosed in Note 1 - Significant Accounting Policies of the Notes to Consolidated Financial Statements, which appears

elsewhere herein. The Company plans to adopt FAS 123R on July 1, 2005.

Results of Operations - 2003 versus 2002

Net income for 2003 was $194.3 million compared to $144.8 million in 2002. Diluted net income per common share was $1.29 compared to $1.01 per common share for the prior year.

Net interest income on a tax-equivalent basis for 2003 amounted to $771.5 million, an increase of $185.6 million, or 32% over 2002.

Interest income on a tax-equivalent basis increased $162.8 million or 21% to $931.3 million in 2003. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2003 decreased $22.8 million to $159.8 million from $182.6 million in 2002. This decrease was primarily related to decreases in the rates paid on the Company's deposits and other borrowed money.

During 2003, the Company recorded provisions of $31.9 million to the allowance for loan losses compared to $33.2 million for 2002. At December 31, 2003, the allowance aggregated $112.1 million or 1.51% of total loans. Despite the $21.3 million or 24% increase in the allowance level during 2003, the allowance as a percentage of total loans decreased 3%, which was primarily due to significant growth in the loan portfolio of 28% during the same period. For 2003, noninterest income totaled $332.5 million, an increase of $75.0 million or 29% from 2002.

The growth in noninterest income was primarily reflected in increased deposit and service fees and other operating income, including the Company's insurance and capital markets divisions. Deposit charges and service fees increased $29.6 million, or 23%, over 2002 due primarily to higher transaction volumes. Commerce Insurance recorded an increase of $10.6 million in revenues to $66.5 million from $55.9 million in 2002. Commerce Capital Markets generated noninterest revenues of $42.5 million in 2003, an increase of $7.4 million from revenues of $35.1 million in 2002. Loan brokerage fees increased by $8.5 million in 2003.

Noninterest expenses totaled $763.4 million for 2003, an increase of $184.2 million, or 32% over 2002. Contributing to this increase was the addition of 46 new stores. With the addition of these new stores, staff, facilities, marketing, and related expenses rose accordingly. Salaries and benefits had the largest increase of $78.0 million during 2003. Other noninterest expenses rose $26.0 million to $150.1 million in 2003. This increase included increased bank-card related service charges of $3.5 million, increased business development expenses of $3.3 million and increased professional services/insurance expenses of $5.5 million.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; Interest Rate Sensitivity and Liquidity included elsewhere herein.

Commerce Bancorp, Inc.
Report on Management's Assessment of Internal Control Over Financial Reporting

Commerce Bancorp, Inc. is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of Commerce Bancorp, Inc., are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are only being made in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Company's system of internal control over financial reporting as of December 31, 2004, in relation to criteria for effective internal control over financial reporting as described in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2004, its system of internal control over financial reporting is effective and meets the criteria of the Internal Control - Integrated Framework. Ernst & Young LLP, independent registered public accounting firm, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

/s/ Vernon W. Hill, II

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Vernon W. Hill, II
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Douglas J. Pauls

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

March 15, 2005



Commerce Bancorp, Inc.
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on Effectiveness of Internal Control Over Financial Reporting

Audit Committee of the Board of Directors and the Stockholders of Commerce Bancorp, Inc.

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting, that Commerce Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Commerce Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Commerce Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Commerce Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Commerce Bancorp, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 of Commerce Bancorp, Inc. and our report dated March 15, 2005, expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
March 15, 2005



Commerce Bancorp, Inc.
Report Ernst & Young LLP, Independent Registreed Public Accounting Firm, on Consolidated Financial Statements

Audit Committee of the Board of Directors and the Stockholders of Commerce Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Commerce Bancorp, Inc. as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Bancorp, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting

principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Commerce Bancorp, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Philadelphia, Pennsylvania
March 15, 2005

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Item 8. Financial Statements and Supplementary Data

Consolidated Balance Sheets

| | (dollars in thousands) | 2004 |
|---|---|---|
| Assets | Cash and due from banks | $ 1,050, |
| | Loans held for sale | 44, |
| | Trading securities | 169, |
| | Securities available for sale | 8,044, |
| | Securities held to maturity | 10,463, |
| | (market value 2004 -$10,430,451; 2003- $2,467,192) | |
| | Loans | 9,454, |
| | Less allowance for loan losses | 135, |
| | | 9,318, |
| | Bank premises and equipment, net | 1,059, |
| | Other assets | 351, |
| | Total assets | $30,501, |
| Liabilities | Deposits: | |
| | Demand: | |
| | Noninterest-bearing | $6,406, |
| | Interest-bearing | 11,604, |
| | Savings | 6,490, |
| | Time | 3,157, |
| | Total deposits | 27,658, |
| | Other borrowed money | 661, |
| | Other liabilities | 315, |
| | Long-term debt | 200, |

| | | |
|---|---|---|
| | | 28,835, |
| Stockholders' Equity | Common stock, 160,635,618 shares issued (153,738,830 shares in 2003) | 160, |
| | Capital in excess of par value | 951, |
| | Retained earnings | 543, |
| | Accumulated other comprehensive income (loss) | 20, |
| | | 1,677, |
| | Less treasury stock, at cost, 795,610 shares (726,152 shares in 2003) | 11, |
| | Total stockholders' equity | 1,665, |
| | Total liabilities and stockholders' equity | $30,501, |

See accompanying notes.



Consolidated Statements of Income

| | | Year |
|---|---|---|
| | (dollars in thousands, except per share amounts) | 2004 |
| Interest Income | Interest and fees on loans | $483,186 |
| | Interest on investment securities | 754,202 |
| | Other interest | 903 |
| | Total interest income | 1,238,291 |
| Interest Expense | Interest on deposits: | |
| | Demand | 95,253 |
| | Savings | 46,680 |
| | Time | 59,808 |
| | Total interest on deposits | 201,741 |
| | Interest on other borrowed money | 6,685 |
| | Interest on long-term debt | 12,080 |
| | Total interest expense | 220,506 |
| | Net interest income | 1,017,785 |
| | Provision for loan losses | 39,238 |

| | | |
|---|---|---|
| | Net interest income after provision for loan losses | 978,547 |
| Noninterest Income | Deposit charges and service fees | 218,126 |
| | Other operating income | 154,306 |
| | Net investment securities gains | 2,639 |
| | Total noninterest income | 375,071 |
| Noninterest Expense | Salaries and benefits | 431,144 |
| | Occupancy | 121,210 |
| | Furniture and equipment | 109,242 |
| | Office | 46,025 |
| | Marketing | 36,236 |
| | Other | 194,921 |
| | Total noninterest expenses | 938,778 |
| | Income before income taxes | 414,840 |
| | Provision for federal and state income taxes | 141,422 |
| | Net income | $273,418 |
| | Net income per common and common equivalent share: | |
| | Basic | $ 1.74 |
| | Diluted | $ 1.63 |
| | Average common and common equivalent shares outstanding: | |
| | Basic | 156,625 |
| | Diluted | 172,603 |
| | Dividends declared, common stock | $ 0.40 |

See accompanying notes.

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Consolidated Statements of Cash Flows

| | | Year E |
|---|---|---|
| | (dollars in thousands) | 2004 |
| Operating Activities | Net income | $ 273,418 |
| | Adjustments to reconcile net income to net cash provided by operating activities: | |
| | Provision for loan losses | 39,238 |
| | Provision for depreciation, amortization | |

| | | |
|---|---|---|
| | and accretion | 133,535 |
| | Gains on sales of securities | (2,639) |
| | Proceeds from sales of loans held for sale | 750,854 |
| | Originations of loans held for sale | (752,157) |
| | Net decrease (increase) in trading securities | 1,355 |
| | Increase in other assets | (58,429) |
| | Increase (decrease) in other liabilities | 82,851 |
| | Deferred income tax expense | 16,005 |
| | Net cash provided by operating activities | 484,031 |
| Investing Activities | Proceeds from the sales of securities available for sale | 2,119,230 |
| | Proceeds from the sales of securities held to maturity | 125,580 |
| | Proceeds from the maturity of securities available for sale | 3,876,918 |
| | Proceeds from the maturity of securities held to maturity | 1,019,449 |
| | Purchase of securities available for sale | (9,304,341) |
| | Purchase of securities held to maturity | (3,203,025) |
| | Net increase in loans | (2,029,710) |
| | Capital expenditures | (339,956) |
| | Net cash used by investing activities | (7,735,855) |
| Financing Activities | Net increase in demand and savings deposits | 7,129,650 |
| | Net (decrease) increase in time deposits | (172,165) |
| | Net increase (decrease) in other borrowed money | 349,685 |
| | Dividends paid | (59,205) |
| | Issuance of common stock | |
| | Issuance of long-term debt | |
| | Redemption of long-term debt | |
| | Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 146,057 |
| | Other | (1,484) |
| | Net cash provided by financing activities | 7,392,538 |
| | Increase in cash and cash equivalents | 140,714 |
| | Cash and cash equivalents at beginning of year | 910,092 |
| | Cash and cash equivalents at end of year | $1,050,806 |
| | Supplemental disclosures of cash flow information: Cash paid during the year for: | |
| | Interest | $ 218,986 |
| | Income taxes | 127,538 |
| | Other noncash activities: | |
| | Transfer of securities to securities held to maturity | 5,919,301 |

See accompanying notes.

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Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2004, 2003 and 2002

| (in thousands, except per share amounts) | Common Stock | Capital in Excess of Par Value | Retained Earnings | Treasury Stock | Accu Oth Compr Inc (Lo |
|---|---|---|---|---|---|
| Balances at December 31, 2001 | $131,665 | $396,065 | $94,698 | $(1,622) | $15, |
| Net income | | | 144,815 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gain on securities (pre-tax $153,397) | | | | | 97, |
| Reclassification adjustment (pre-tax $0) | | | | | |
| Other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Cash dividends | | | (39,911) | | |
| Shares issued under dividend reinvestment and compensation and benefit plans (4,196 shares) | 4,196 | 62,613 | | | |
| Acquisition of insurance brokerage agency (226 shares) | 226 | 4,520 | | | |
| Other | (1) | 7,554 | 2 | (424) | |
| Balances at December 31, 2002 | $136,086 | $470,752 | $199,604 | $(2,046) | $113, |
| Net income | | | 194,287 | | |
| Other comprehensive loss, net of tax | | | | | |
| Unrealized loss on securities (pre-tax $146,701) | | | | | (93, |
| Reclassification adjustment (pre-tax $36,988) | | | | | (24, |
| Other comprehensive loss | | | | | |
| Total comprehensive income | | | | | |
| Cash dividends | | | (46,525) | | |
| Shares issued under dividend reinvestment and compensation and benefit plans (7,564 shares) | 7,564 | 109,344 | | | |
| Common stock issued (10,000 shares) | 10,000 | 198,825 | | | |
| Acquisition of insurance brokerage agency (88 shares) | 88 | 1,804 | | | |
| Other | 1 | 8,500 | (1) | (7,293) | |
| Balances at December 31, 2003 | $153,739 | $789,225 | $347,365 | $(9,339) | $(3, |
| Net income | | | 273,418 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gain on securities (pre-tax $3,222) | | | | | 1, |
| Reclassification adjustment (pre-tax $35,677) | | | | | 23, |
| Other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Cash dividends | | | (62,258) | | |
| Shares issued under dividend reinvestment and compensation and benefit plans (6,898 shares) | 6,898 | 139,159 | | | |
| Other | (1) | 23,092 | (14,547) | (1,999) | |
| Balances at December 31, 2004 | $160,636 | $951,476 | $543,978 | $(11,338) | $20, |

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

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

The Company is a multi-bank holding company headquartered in Cherry Hill, New Jersey, operating primarily in the metropolitan Philadelphia and metropolitan New York markets. Through its subsidiaries, the Company provides retail and commercial banking services, corporate trust services, insurance brokerage services, and certain securities services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Investment Securities
Investment securities are classified as held to maturity when the Company has the intent and ability to hold those securities to maturity. Securities held to maturity are stated at cost and adjusted for accretion of discounts and amortization of premiums.

Those securities that might be sold in response to changes in market interest rates, prepayment risk, the Company's income tax position, the need to increase regulatory capital, or similar other factors are classified as available for sale. Available for sale securities are carried at fair value, with unrealized gains and losses, net of tax, reported as a component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for accretion of discounts and amortization of premiums. Realized gains and losses are determined on the specific identification method and are included in noninterest income.

Commerce Capital Markets, Inc. (CCMI) maintains a portfolio of trading account securities, which are carried at market. Gains and losses, both realized and unrealized, are included in other operating income. Trading gains of $4.4 million, $13.0 million, and $11.5 million were recorded in 2004, 2003, and 2002, respectively, including unrealized losses of $85,000 and $192,000 at December 31, 2004 and 2003, respectively.

Loans
Loans are stated at principal amounts outstanding, net of deferred loan

origination fees and costs. Interest income on loans is accrued and credited to interest income monthly as earned. Loans held for sale are valued on an aggregate basis at the lower of cost or fair value. Net deferred loan origination fees and costs are amortized over the estimated lives of the related loans as an adjustment to the yield.

Loans are placed on a non-accrual status and cease accruing interest when loan payment performance is deemed unsatisfactory. However, all loans past due 90 days are placed on non-accrual status, unless the loan is both well secured and in the process of collection.

Allowance for Loan Losses

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.

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Notes to Consolidated Financial Statements

Transfers of Financial Assets

The Company accounts for the transfers of financial assets, including sales of loans, as sales when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase before their maturity.

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation and amortization are determined on the straight-line method over the estimated useful lives of the assets for financial reporting purposes, and accelerated methods for income tax purposes. The estimated useful lives range from 15 to 40 years for buildings, 3 to 5 years for furniture, fixtures and equipment and the shorter of the lease terms or the estimated useful lives of leasehold improvements. 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.

Other Real Estate (ORE)

Real estate acquired in satisfaction of a loan is reported in other assets at the lower of cost or fair value less disposition costs. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to ORE and recorded at the lower of cost or fair value less disposition costs based on their appraised value at the date actually or constructively received. Losses arising from the acquisition of such property are charged against the allowance for loan losses. Subsequent adjustments to the carrying values of ORE properties are charged to operating expense. Included in other noninterest expense is $916,000,

$357,000, and $923,000 related to ORE expenses for 2004, 2003, and 2002, respectively.

Other Investments

The Company makes investments directly in low-income housing tax credit (LIHTC) operating partnerships, private venture capital funds and Small Business Investment Companies (SBIC). At December 31, 2004 and 2003, the Company's investment in these entities totaled $46.8 million and $30.1 million, respectively. The majority of these investments are accounted for under the equity method of accounting.

Intangible Assets

Goodwill and certain other intangible assets, which do not possess finite useful lives, are not amortized into net income but rather are tested at least annually for impairment. Intangible assets determined to have finite lives, $3.8 million and $4.4 million at December 31, 2004 and 2003, respectively, are amortized over their estimated useful lives, generally 10-15 years, and also continue to be subject to impairment testing. The excess of cost over fair value of net assets acquired (goodwill) is included in other assets and amounted to $5.5 million at December 31, 2004 and 2003.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The provision for income taxes is based on current taxable income. Deferred income taxes are provided on temporary differences between amounts reported for financial statement and tax purposes.

Restriction on Cash and Due From Banks

The Banks are required to maintain reserve balances with the Federal Reserve Bank. The weighted average amount of the reserve balances for 2004 and 2003 were approximately $110.8 million and $62.8 million, respectively.





Derivative Financial Instruments

As part of CCMI's broker-dealer activities, CCMI maintains a trading securities portfolio for distribution to customers in order to meet those customers' needs. Derivative instruments, primarily interest rate futures and options, are used in order to reduce the exposure to interest rate risk relating to the trading portfolio. These contracts are carried at fair value with changes in fair value included in other operating income and recorded in the same period as changes in fair value of the trading portfolio. As an accommodation to its loan customers, the Company enters into interest rate swap agreements. The Company minimizes its risk by matching these positions with a counterparty. These swaps are carried at fair value with changes in fair value included in noninterest income.

Recent Accounting Statements

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. The Company adopted Issue 04-8 during the fourth quarter of 2004. Prior period diluted EPS calculations have been restated using the if-converted method for the periods since March 2002, which is when the Convertible Trust Capital Securities were issued. The adoption of Issue 04-8 decreased previously reported diluted EPS by $0.02 and $0.01 per share for the years ended 2003 and 2002, respectively.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123 (revised 2004), "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 95). 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 earnings per share. FAS 123R must be adopted no later than July 1, 2005 and permits public companies to adopt its requirements using one of two methods: 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 awards granted prior to the effective date, but that remain unvested on the effective date. A modified retrospective method includes the requirements of the modified prospective method but also permits entities to restate prior period presentations. The Company plans to adopt FAS 123R on July 1, 2005 but has yet to decide on a method of adoption.

The Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and therefore does not typically 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 in prior periods, 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 below.

As stated above, the Company continued to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations to account for its stock-based compensation plans during 2004. 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):



Notes to Consolidated Financial Statements

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 20 |
| Reported net income | $273,418 | $194,287 | $144 |
| Less: Stock option compensation expense | | | |

| | | | |
|---|---|---|---|
| determined under fair value method, net of tax | (11,849) | (10,048) | (8 |
| Pro forma net income, basic | 261,569 | 184,239 | 136 |
| Add: Interest expense on Convertible Trust Capital Securities, net of tax | 7,852 | 7,852 | 6 |
| Pro forma net income, diluted | $269,421 | $192,091 | $142 |
| Reported net income per share: | | | |
| Basic | $ 1.74 | $ 1.36 | $ |
| Diluted | 1.63 | 1.29 | |
| Pro forma net income per share: | | | |
| Basic | $ 1.67 | $ 1.30 | $ |
| Diluted | 1.56 | 1.23 | |

The fair value of options granted in 2004, 2003, and 2002 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.00% to 4.41%, dividend yields of 1.33% to 2.50%, volatility factors of the expected market price of the Company's common stock of .255 to .304, and weighted average expected lives of the options of 4.75 to 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.

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 monitor the status of Issue 03-1 but does not expect it to have a material impact on the results of operations of the Company.



Notes to Consolidated Financial Statements

2. Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity (in thousands) at December 31, 2004 and 2003 follows:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Market Value | Amortized Cost | Gr Unreal Ga |
| U.S. Government agency and mortgage backed obligations | $7,884,113 | $40,141 | ($21,438) | $7,902,816 | $10,528,396 | $ |
| Obligations of state and political subdivisions | 87,605 | 305 | | 87,910 | 30,223 | |
| Equity securities | 10,129 | 13,174 | | 23,303 | 8,571 | |
| Other | 29,312 | 809 | | 30,121 | 89,372 | |
| Securities available for sale | $8,011,159 | $54,429 | ($21,438) | $8,044,150 | $10,656,562 | $ |
| U.S. Government agency and mortgage backed obligations | $9,967,041 | $43,982 | ($81,028) | $9,929,995 | $2,193,577 | $ |
| Obligations of state and political subdivisions | 398,963 | 3,867 | (28) | 402,802 | 227,199 | |
| Other | 97,654 | | | 97,654 | 69,708 | |
| Securities held to maturity | $10,463,658 | $47,849 | ($81,056) | $10,430,451 | $2,490,484 | $ |

The Company's investment portfolio consists primarily of U.S. Government agency and mortgage-backed obligations. These securities have little, if any, credit risk since they are either backed by the full faith and credit of the U.S. Government, or are guaranteed by an agency of the U.S. Government, or are AAA rated.

During the fourth quarter of 2004, the Company transferred $5.9 billion of securities classified as available for sale to the held to maturity classification based on the Company's anticipated liquidity needs and expected annual cash flow from deposit growth and bond and loan prepayments. The aggregate market value of the securities transferred equaled their book value, with no effect on stockholders' equity, regulatory capital or results of operations.

The amortized cost and estimated market value of investment securities (in thousands) at December 31, 2004, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because obligors have the right to repay obligations without prepayment penalties.

| | Available for Sale | | Held to Maturi | |
|---|---|---|---|---|
| | Amortized Cost | Market Value | Amortized Cost | M V |
| Due in one year or less | $ 67,554 | $ 67,611 | $ 370,058 | $ |
| Due after one year through five years | 414,301 | 413,011 | 4,326 | |
| Due after five years through ten years | 24,294 | 23,964 | 437,565 | |
| Due after ten years | 101,433 | 102,193 | 150,929 | |
| Mortgage backed securities | 7,393,448 | 7,414,068 | 9,500,780 | 9, |
| Equity securities | 10,129 | 23,303 | | |
| | $ 8,011,159 | $ 8,044,150 | $10,463,658 | $10, |

Proceeds from sales of securities available for sale during 2004, 2003 and 2002 were $2.1 billion, $4.9 billion and $1.5 billion, respectively. Gross gains of $16.7 million, $32.6 million and $6.8 million were realized on the sales in 2004, 2003, and 2002, respectively, and gross losses of $14.1 million, $28.8 million and $6.8 million were realized in 2004, 2003 and 2002, respectively.

At December 31, 2004 and 2003, investment securities with a carrying value of $6.2 billion and $5.0 billion, respectively, were pledged to secure deposits of public funds.

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Notes to Consolidated Financial Statements

The unrealized losses and related fair value of investments with unrealized losses less than 12 months and those with unrealized losses 12 months or longer (in thousands) as of December 31, 2004 are shown below.

| | Less than 12 months | | 12 months or more | | Totals | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Un |
| Available for sale: | | | | | | |
| U.S. Government agency and mortgage-backed obligations | $3,536,608 | $19,935 | $ 258,250 | $ 1,503 | $3,794,858 | |
| Securities available for sale | $3,536,608 | $19,935 | $ 258,250 | $ 1,503 | $3,794,858 | |

| | | | | | |
|---|---|---|---|---|---|
| Held to maturity: | | | | | |
| U.S. Government agency and mortgage-backed obligations | $2,955,299 | $33,930 | $2,678,126 | $ 47,098 | $5,633,425 |
| Obligations of state and political subdivisions | 2,469 | 22 | 810 | 6 | 3,279 |
| Securities held to maturity | $2,957,768 | $33,952 | $2,678,936 | $ 47,104 | $5,636,704 |

Management does not believe any individual unrealized loss as of December 31, 2004 represents an other-than-temporary impairment. The unrealized losses on these securities are caused by the changes in general market interest rates. The Company believes it will collect all amounts contractually due on these securities as it has the ability to hold these securities until the fair value is at least equal to the carrying value. The duration and average life of securities with unrealized losses at December 31, 2004 was 3.43 years and 4.09 years, respectively.

During 2004, $1.4 billion of securities were sold which had unrealized losses at December 31, 2003. Gross gains and losses on these securities were $2.5 million and $14.0 million, respectively.

3. Loans

The following is a summary of loans outstanding (in thousands) at December 31, 2004 and 2003:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Commercial: | | |
| Term | $1,283,476 | $1,027,526 |
| Line of credit | 1,168,542 | 959,158 |
| Demand | | 1,077 |
| | 2,452,018 | 1,987,761 |
| Owner-occupied | 1,998,203 | 1,619,079 |
| Consumer: | | |
| Mortgages (1-4 family residential) | 1,340,009 | 918,686 |
| Installment | 132,646 | 138,437 |
| Home equity | 1,799,841 | 1,405,795 |
| Credit lines | 69,079 | 60,579 |
| | 3,341,575 | 2,523,497 |
| Commercial real estate: | | |
| Investor developer | 1,455,891 | 1,167,672 |
| Construction | 206,924 | 142,567 |
| | 1,662,815 | 1,310,239 |

| | | |
|---|---|---|
| | $9,454,611 | $7,440,576 |



Notes to Consolidated Financial Statements

Loans to executive officers and directors of the Company and its subsidiaries, and companies with which they are associated, are made in the ordinary course of business and on substantially the same terms as comparable unrelated transactions. The following table summarizes the Company's related party loans (in millions) at December 31, 2004 and 2003:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Executive officers | $ 1.6 | $ 1.4 |
| Bancorp directors | 6.4 | 22.6 |
| | $ 8.0 | $ 24.0 |

In addition, the Company had loans to directors of its subsidiary banks totaling $89.8 million and $121.7 million at December 31, 2004 and 2003, respectively.

In addition to the services referenced in Note 6 - Bank Premises, Equipment, and Leases, the Company purchased goods and services, including legal services, from related parties. Such disbursements aggregated $1.9 million, $1.2 million, and $5.9 million, in 2004, 2003, and 2002, respectively. Management believes disbursements made to related parties were substantially equivalent to those that would have been paid to unaffiliated companies for similar goods and services.

4. Allowance for Loan Losses

The following is an analysis of changes in the allowance for loan losses (in thousands) for 2004, 2003 and 2002:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Balance, January 1 | $112,057 | $ 90,733 | $66,981 |
| Provision charged to operating expense | 39,238 | 31,850 | 33,150 |
| Recoveries of loans previously charged off | 2,175 | 1,264 | 1,330 |
| Loan charge-offs | (17,850) | (11,790) | (10,728) |
| Balance, December 31 | $135,620 | $112,057 | $90,733 |

5. Non-Performing Loans and Other Real Estate

Total non-performing loans (non-accrual and restructured loans) were $32.8 million and $21.7 million at December 31, 2004 and 2003, respectively. Non-performing loans of $2.0 million and $0.9 million were transferred to other real estate during 2004 and 2003, respectively. Other real estate ($0.6 million and $1.8 million at December 31, 2004 and 2003, respectively) is included in other assets.

At December 31, 2004 and 2003, the recorded investment in loans considered to be impaired under FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" totaled $13.4 million and $15.6 million, respectively, all of which are included in non-performing loans. The reserve for loan losses related to impaired loans totaled approximately $4.1 million and $3.5 million at December 31, 2004 and 2003, respectively. As permitted, all homogenous smaller balance consumer and residential mortgage loans are excluded from individual review for impairment. The majority of impaired loans were measured using the fair market value of collateral. Impaired loans averaged approximately $14.5 million and $12.3 million during 2004 and 2003, respectively. Interest income of approximately $2.9 million, $1.9 million, and $1.4 million would have been recorded on non-performing loans (including impaired loans) in accordance with their original terms in 2004, 2003, and 2002, respectively. Actual interest income recorded on these loans amounted to $1.1 million, $418 thousand, and $275 thousand during 2004, 2003, and 2002, respectively.



Notes to Consolidated Financial Statements

6. Bank Premises, Equipment, and Leases

A summary of bank premises and equipment (in thousands) is as follows:

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Land | $ 239,639 | $180,324 |
| Buildings | 444,152 | 323,810 |
| Leasehold improvements | 161,220 | 128,261 |
| Furniture, fixtures and equipment | 433,581 | 335,579 |
| Leased property under capital leases | 124 | 124 |
| | 1,278,716 | 968,098 |
| Accumulated depreciation and amortization | (328,831) | (243,809) |
| | 949,885 | 724,289 |
| Premises and equipment in progress | 109,634 | 87,162 |
| | $1,059,519 | $811,451 |

At December 31, 2004, the Company leased from various related parties under separate operating lease agreements the land on which it has constructed 18 stores. Rents paid under these agreements represent market rates, are supported by independent appraisals and approved by the independent members of the Board of Directors. The aggregate annual rental under these leases was approximately $1.7 million, $1.9 million, and $1.6 million in 2004, 2003, and 2002,

respectively. These leases expire periodically beginning in 2005 but are renewable through 2042.

Total rent expense charged to operations under operating leases was approximately $40.1 million in 2004, $33.7 million in 2003, and $21.8 million in 2002. Total depreciation expense charged to operations was $91.9 million, $69.7 million and $52.7 million in 2004, 2003 and 2002, respectively.

The future minimum rental commitments, by year, under the non-cancelable leases, including escalation clauses, are as follows (in thousands) at December 31, 2004:

| | Operating |
|---|---|
| 2005 | $ 36,159 |
| 2006 | 36,813 |
| 2007 | 35,937 |
| 2008 | 36,396 |
| 2009 | 36,206 |
| Later years | 372,917 |
| Net minimum lease payments | $ 554,428 |

The Company has obtained architectural design and facilities management services for over 25 years from a business owned by the spouse of the Chairman of the Board of the Company. The Company spent $6.5 million, $6.4 million, and $4.6 million in 2004, 2003, and 2002, respectively, for such services and related costs. Additionally, the business received additional revenues for project management of approximately $0.1 million, $3.8 million, and $3.5 million in 2004, 2003, and 2002, respectively, on furniture and facility purchases made directly by the Company. In 2003, the Board approved the transfer, without cost, into the Company of the project management services, which was completed during 2004. The business will continue to provide architectural and design services to the Company. Management believes these disbursements were substantially equivalent to those that would have been paid to unaffiliated companies for similar services. The Board of Directors believes this arrangement has been an important factor in the success of the Commerce brand.

7. Deposits

The aggregate amount of time certificates of deposits in denominations of $100,000 or more was $1.8 billion and $2.0 billion at December 31, 2004 and 2003, respectively.





8. Other Borrowed Money

Other borrowed money consists primarily of securities sold under agreements to repurchase, federal funds purchased, and lines of credit. The following table represents information for other borrowed money (in thousands) at December 31, 2004 and 2003:

| | December 31, |
|---|---|

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Amount | Average Rate | Amount | Average Rate |
| Securities sold under agreements to repurchase | $586,195 | 2.28% | $ 311,510 | 1.10% |
| Federal funds purchased | 75,000 | 2.46% | | |
| Total | $661,195 | 2.30% | $ 311,510 | 1.10% |
| Average amount outstanding | $465,137 | 1.44% | $ 423,538 | 0.77% |
| Maximum month-end balance | 944,040 | | 1,114,482 | |

As of December 31, 2004, the Company had a line of credit of $1.1 billion from the Federal Home Loan Bank of New York, a line of credit of $361.1 million from the Federal Home Loan Bank of Pittsburgh, and a $80.0 million line of credit from a group of other banks, all of which was available.

9. Long-Term Debt

On March 11, 2002 the Company issued $200.0 million of 5.95% Convertible Trust Capital Securities through Commerce Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. The equity in the business trust is netted against the long-term debt on the Consolidated Balance Sheets. The Convertible Trust Capital Securities mature in 2032. All $200.0 million of the Convertible Trust Capital Securities qualify as Tier 1 capital for regulatory capital purposes. The net proceeds of this offering were used for general corporate purposes.

On April 1, 2004, the Convertible Trust Capital Securities became convertible at the option of the holder. Holders of the Convertible Trust Capital Securities may convert each security into 1.8956 shares of Company common stock.

The Company may call the Convertible Trust Capital Securities on or after March 11, 2005, provided various terms and conditions are met, primarily related to the market price of the Company's common stock. In summary, the Company's common stock must trade at a price of $31.65 or higher for 20 trading days in a period of 30 consecutive trading days in order for the Company to force conversion.

As previously discussed in Note 1 - Significant Accounting Policies, 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 (7.6 million common shares) have been added to the denominator. Refer to Note 13 - Earnings Per Share for illustration of the if-converted method.

10. Income Taxes

The provision for income taxes consists of the following (in thousands):

| | December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |

| | | | |
|---|---|---|---|
| Current: | | | |
| Federal | $118,301 | $77,437 | $62,660 |
| State | 7,116 | 5,961 | 4,069 |
| Deferred: | | | |
| Federal | 16,005 | 15,417 | 6,359 |
| | $141,422 | $98,815 | $73,088 |

The above provision includes income taxes of $900,000, $1.3 million, and $0 for 2004, 2003, and 2002, respectively, related to securities gains.

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Notes to Consolidated Financial Statements

The provision for income taxes differs from the expected statutory provision as follows:

| | December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Expected provision at statutory rate: | 35.0% | 35.0% | 35.0% |
| Difference resulting from: | | | |
| Tax-exempt interest on loans | (1.2) | (1.5) | (1.7) |
| Tax-exempt interest on securities | (1.4) | (1.7) | (1.8) |
| State income taxes (net of federal benefit) | 1.1 | 1.3 | 1.2 |
| Other | 0.6 | 0.6 | 0.8 |
| | 34.1% | 33.7% | 33.5% |

The amount payable for federal income taxes during 2004 was reduced by approximately $22.6 million, which related to the exercise of stock options.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The significant components of the Company's deferred tax liabilities and assets as of December 31, 2004 and 2003 are as follows (in thousands):

| | December 31, | |
|---|---|---|
| | 2004 | 2003 |
| Deferred tax assets: | | |
| Loan loss reserves | $ 47,069 | $38,623 |
| Intangibles | 1,913 | 2,172 |
| Other reserves | 7,742 | 3,951 |
| Fair value adjustment, available for sale securities | | 2,206 |
| Total deferred tax assets | 56,724 | 46,952 |

| | | |
|---|---|---|
| Deferred tax liabilities: | | |
| Depreciation | (64,503) | (37,661) |
| Fair value adjustment, available for sale securities | (12,038) | |
| Other | (5,901) | (4,760) |
| Total deferred tax liabilities | (82,442) | (42,421) |
| Net deferred (liabilities) assets | $(25,718) | $ 4,531 |

No valuation allowance was recognized for the deferred tax assets at December 31, 2004 or 2003.

11. Commitments, Letters of Credit and Guarantees

In the normal course of business, there are various outstanding commitments to extend credit, such as letters of credit, which are not reflected in the accompanying consolidated financial statements. These arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company's normal credit policies. Collateral is obtained based on management's credit assessment of the borrower. At December 31, 2004, the Company had outstanding standby letters of credit in the amount of $787.4 million. 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 December 31, 2004.

In addition, the Company is committed as of December 31, 2004 to advance $558.2 million on construction loans, $993.1 million on home equity lines of credit and $1.9 billion on other lines of credit. All other commitments total approximately $608.8 million. The Company anticipates no material losses as a result of these transactions.

The Company has commitments to fund LIHTC partnerships, private venture capital funds and SBICs that total approximately $20.6 million at December 31, 2004.



Notes to Consolidated Financial Statements

12. Common Stock

At December 31, 2004, the Company's common stock had a par value of $1.00. The Company is authorized to issue 500,000,000 shares as of this date.

On December 21, 2004, the Board of Directors declared a cash dividend of $0.11 for each share of common stock outstanding payable January 20, 2005 to stockholders of record on January 6, 2005.

On February 15, 2005, the Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend distributed on March 7, 2005 to stockholders of record on February 25, 2005.

13. Earnings Per Share

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Basic: | | | |
| Net income applicable to common stock | $273,418 | $194,287 | $144,815 |
| Average common shares outstanding | 156,625 | 142,169 | 133,590 |
| Net income per common share | $ 1.74 | $ 1.36 | $ 1.08 |
| Diluted: | | | |
| Net income applicable to common stock on a diluted basis | $273,418 | $194,287 | $144,815 |
| Add: Interest expense on Convertible Trust Capital Securities | 7,852 | 7,852 | 6,544 |
| | $281,270 | $202,139 | $151,359 |
| Average common shares outstanding | 156,625 | 142,169 | 133,590 |
| Additional shares considered in diluted computation assuming: | | | |
| Exercise of stock options | 8,396 | 6,756 | 8,217 |
| Conversion of trust capital securities | 7,582 | 7,582 | 7,582 |
| Average common and common equivalent shares outstanding | 172,603 | 156,507 | 149,389 |
| Net income per common and common equivalent share | $ 1.63 | $ 1.29 | $ 1.01 |

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Notes to Consolidated Financial Statements

14. Benefit Plans

Stock Option Plans

In 2004, the Board of Directors adopted and Company shareholders approved the 2004 Employee Stock Option Plan (the 2004 Plan) for the officers and employees of the Company and its subsidiaries. The 2004 Plan authorizes the issuance of up to 30,000,000 shares of common stock (as adjusted for all stock splits and stock dividends) upon the exercise of options. As of December 31, 2004, options to purchase 200,628 shares of common stock have been issued under the 2004 Plan. In addition to the 2004 Plan, the Company has the 1997 Employee Stock Option Plan (the 1997 Plan) for the officers and employees of the Company and its subsidiaries as well as a plan for its non-employee directors. The 1997 Plan authorizes the issuance of up to 34,470,308 shares of common stock (as adjusted

for all stock splits and stock dividends) upon the exercise of options. As of December 31, 2004, options to purchase 34,470,108 shares of common stock have been issued under the 1997 Plan. The option price for options issued under the 1997 and 2004 Plans must be at least equal to 100% of the fair market value of the Company's common stock as of the date the option is granted. All options granted will vest evenly over four years from the date of grant. The options expire not later than 10 years from the date of grant. In addition, there are options outstanding from prior stock option plans of the Company, which were granted under similar terms. No additional options may be issued under these prior plans.

Information concerning option activity for the periods indicated is as follows:

| | Shares Under Option | Weighted Average Exercise Price |
|---|---|---|
| Balance at January 1, 2002 | 20,365,380 | $ 9.92 |
| Options granted | 4,177,488 | 20.20 |
| Options exercised | 1,948,290 | 9.30 |
| Options canceled | 497,472 | 14.85 |
| Balance at December 31, 2002 | 22,097,106 | 11.86 |
| Options granted | 5,349,920 | 21.24 |
| Options exercised | 3,144,440 | 7.65 |
| Options canceled | 387,382 | 18.78 |
| Balance at December 31, 2003 | 23,915,204 | 14.38 |
| Options granted | 6,112,444 | 29.37 |
| Options exercised | 3,064,024 | 12.39 |
| Options canceled | 439,488 | 24.92 |
| Balance at December 31, 2004 | 26,524,136 | 17.89 |

Additional information concerning options outstanding as of December 31, 2004 is as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise prices | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Exercisable as of 12/31/2004 | Weighted Average Exercise Pric |
| $2.48 to $5.00 | 1,657,938 | 1.4 | $ 4.15 | 1,657,938 | $ 4.15 |
| $5.01 to $10.00 | 3,909,602 | 4.1 | 8.95 | 3,909,602 | 8.95 |
| $10.01 to $17.50 | 6,924,300 | 5.0 | 13.18 | 6,454,760 | 13.03 |
| $17.51 to $25.00 | 8,253,302 | 7.7 | 20.79 | 3,872,830 | 20.47 |
| $25.01 to $32.15 | 5,778,994 | 9.1 | 29.37 | | |

Notes to Consolidated Financial Statements

Employee 401(k) Plan

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code. The plan allows all eligible employees to defer a percentage of their income on a pretax basis through contributions to the plan. Under the provisions of the plan, the Company may match a percentage of the employees' contributions subject to a maximum limit. The charge to operations for Company matching contributions was $3.3 million, $3.4 million and $2.8 million for 2004, 2003 and 2002, respectively. As part of the 401(k) plan, the Company maintains an Employee Stock Ownership Plan (ESOP) component for all eligible employees. As of December 31, 2004, the ESOP held 2,895,960 shares of the Company's common stock, all of which were allocated to participant accounts. Employer contributions are determined at the discretion of the Board of Directors. No contribution expense was recorded for the ESOP in 2004 or 2003.

Supplemental Executive Retirement Plan

Effective January 1, 2004, the Company's Board of Directors formalized a Supplemental Executive Retirement Plan (SERP), which was previously approved January 1, 1992, for certain designated executives in order to provide supplemental retirement income. The SERP is a defined contribution plan, is unfunded, and contributions will be made at the Company's discretion. For the year ended December 31, 2004, the Company expensed $7.2 million for the SERP.

Post-employment or Post-retirement Benefits

The Company offers no post-employment or post-retirement benefits.

15. Fair Value of Financial Instruments

FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments" (FAS 107), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

FAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following table represents the carrying amounts and fair values of the Company's financial instruments at December 31, 2004 and 2003:

| | December 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Carrying Amount | Fair Value | Carrying Amount | F Va |

| | | | | |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and cash equivalents | $ 1,050,806 | $ 1,050,806 | $ 910,092 | $ 9 |
| Loans held for sale | 44,072 | 44,072 | 42,769 | |
| Trading securities | 169,103 | 169,103 | 170,458 | 1 |
| Investment securities | 18,507,808 | 18,474,601 | 13,141,139 | 13,1 |
| Loans (net) | 9,318,991 | 9,422,638 | 7,328,519 | 7,4 |
| Financial liabilities: | | | | |
| Deposits | 27,658,885 | 27,662,167 | 20,701,400 | 20,7 |
| Other borrowed money | 661,195 | 661,195 | 311,510 | 3 |
| Long-term debt | 200,000 | 255,000 | 200,000 | 2 |
| Off-balance sheet instruments: | | | | |
| Standby letters of credit | $ 2,163 | $ 2,163 | $ 1,802 | $ |
| Commitments to extend credit | | 2,163 | | |

Refer to Note 19 - Derivative Financial Instruments for fair value information on derivative financial instruments.



Notes to Consolidated Financial Statements

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents, loans held for sale and trading securities: The carrying amounts reported approximate those assets' fair value.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans receivable were estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loans with significant collectibility concerns were fair valued on a loan-by-loan basis utilizing a discounted cash flow method.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest-bearing and noninterest-bearing checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits.

Other borrowed money: The carrying amounts reported approximate fair value.

Long-term debt: Current quoted market prices were used to estimate fair value.

Off-balance sheet liabilities: Off-balance sheet liabilities of the Company

consist of letters of credit, loan commitments and unfunded lines of credit. Fair values for the Company's off-balance sheet liabilities are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.



Notes to Consolidated Financial Statements

16. Quarterly Financial Data (unaudited)

The following represents summarized unaudited quarterly financial data of the Company which, in the opinion of management, reflects adjustments (comprising only normal recurring accruals) necessary for fair presentation.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | March |
| | (dollars in thousands) | | | |
| 2004 | | | | |
| Interest income | $353,395 | $320,814 | $292,030 | $272 |
| Interest expense | 74,953 | 56,432 | 47,281 | 41 |
| Net interest income | 278,442 | 264,382 | 244,749 | 230 |
| Provision for loan losses | 8,240 | 10,750 | 10,748 | 9 |
| Provision for federal and state | | | | |
| Income taxes | 38,424 | 36,493 | 33,786 | 32 |
| Net income | 75,118 | 70,090 | 66,235 | 61 |
| Net income per common share: | | | | |
| Basic | $ 0.47 | $ 0.45 | $ 0.42 | $ |
| Diluted | 0.44 | 0.42 | 0.40 | |
| 2003 | | | | |
| Interest income | $256,125 | $233,901 | $218,744 | $206 |
| Interest expense | 41,001 | 39,792 | 39,440 | 39 |
| Net interest income | 215,124 | 194,109 | 179,304 | 167 |
| Provision for loan losses | 10,800 | 7,250 | 6,900 | 6 |
| Provision for federal and state | | | | |
| income taxes | 29,321 | 25,231 | 22,779 | 21 |
| Net income | 56,606 | 49,474 | 45,317 | 42 |
| Net income per common share: | | | | |
| Basic | $ 0.37 | $ 0.35 | $ 0.33 | $ |
| Diluted | 0.35 | 0.33 | 0.31 | |

Notes to Consolidated Financial Statements

17. Condensed Financial Statements of the Parent Company and Other Matters

Balance Sheets

| | December 31, | |
|---|---|---|
| (dollars in thousands) | 2004 | 2003 |
| Assets | | |
| Cash | $ 5,524 | $ 2,667 |
| Securities available for sale | 63,310 | 101,589 |
| Investment in subsidiaries | 1,828,492 | 1,375,806 |
| Other assets | 21,896 | 8,843 |
| | $ 1,919,222 | $ 1,488,905 |
| Liabilities | | |
| Other liabilities | $ 53,517 | $ 11,617 |
| Long-term debt | 200,000 | 200,000 |
| | 253,517 | 211,617 |
| Stockholders' equity | | |
| Common stock | 160,636 | 153,739 |
| Capital in excess of par value | 951,476 | 789,225 |
| Retained earnings | 543,978 | 347,365 |
| Accumulated other comprehensive income (loss) | 20,953 | (3,702) |
| | 1,677,043 | 1,286,627 |
| Less treasury stock | 11,338 | 9,339 |
| Total stockholders' equity | 1,665,705 | 1,277,288 |
| | $ 1,919,222 | $ 1,488,905 |

Statements of Income

| | Year Ended December 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2004 | 2003 | 2002 |
| Income: | | | |
| Dividends from subsidiaries | $ 20,000 | $ 44,500 | $ 9,600 |
| Interest income | 499 | 476 | 552 |
| Other | 8,028 | 1,711 | 2,826 |
| | 28,527 | 46,687 | 12,978 |
| Expenses: | | | |
| Interest expense | 12,448 | 12,448 | 15,554 |

| | | | |
|---|---|---|---|
| Operating expenses | 10,370 | 3,877 | 4,460 |
| | 22,818 | 16,325 | 20,014 |
| Income (loss) before income taxes and equity in undistributed income of subsidiaries | 5,709 | 30,362 | (7,036) |
| Income tax benefit | (5,025) | (4,971) | (5,757) |
| | 10,734 | 35,333 | (1,279) |
| Equity in undistributed income of subsidiaries | 262,684 | 158,954 | 146,094 |
| Net income | $ 273,418 | $ 194,287 | $144,815 |

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Notes to Consolidated Financial Statements

Statements of Cash Flows

| | Year Ended December 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2004 | 2003 | |
| Operating activities: | | | |
| Net income | $273,418 | $ 194,287 | $ |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | |
| Provision for depreciation, amortization and accretion | 189 | 212 | |
| Undistributed income of subsidiaries | (262,684) | (158,954) | ( |
| (Increase) decrease increase in other assets | (13,278) | 384 | |
| Increase (decrease) in other liabilities | 45,072 | 5,946 | |
| Net cash provided (used) by operating activities | 42,717 | 41,875 | |
| Investing activities: | | | |
| Investments in subsidiaries | (168,700) | (239,500) | ( |
| Proceeds from sale of securities available for sale | | | |
| Proceeds from the maturity of securities available for sale | 198,000 | 144,327 | |
| Purchase of securities available for sale | (154,528) | (218,984) | |
| Net cash used by investing activities | (125,228) | (314,157) | ( |
| Financing activities: | | | |
| Proceeds from issuance of common stock under dividend reinvestment and other stock plans | 146,057 | 116,908 | |
| Dividends paid | (59,205) | (46,525) | |
| Issuance of common stock | | 208,825 | |
| Issuance of long-term debt | | | |
| Redemption of long-term debt | | | |
| Other | (1,484) | (7,293) | |

| | | | |
|---|---|---|---|
| Net cash provided by financing activities | 85,368 | 271,915 | |
| Increase (decrease) in cash and cash equivalents | 2,857 | (367) | |
| Cash and cash equivalents at beginning of year | 2,667 | 3,034 | |
| Cash and cash equivalents at end of year | $ 5,524 | $ 2,667 | $ |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | $ 12,268 | $ 12,268 | $ |
| Income taxes | 121,766 | 56,357 | |

Holders of common stock of the Company are entitled to receive dividends when declared by the Board of Directors out of funds legally available. Under the New Jersey Business Corporation Act, the Company may pay dividends only if it is solvent and would not be rendered insolvent by the dividend payment and only to the extent of surplus (the excess of the net assets of the Company over its stated capital).

The approval of the Comptroller of the Currency is required for a national bank to pay dividends if the total of all dividends declared in any calendar year exceeds net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. New Jersey state banks are subject to similar dividend restrictions. Commerce NJ, Commerce PA, Commerce North and Commerce Delaware can declare dividends in 2005 without additional approval of approximately $258.5 million, $91.3 million, $69.3 million and $5.2 million, respectively, plus an additional amount equal to each bank's net profit for 2005 up to the date of any such dividend declaration.

The Federal Reserve Act requires the extension of credit by any of the Company's banking subsidiaries to certain affiliates, including Commerce Bancorp, Inc. (parent), be secured by readily marketable securities, that extension of credit to any one affiliate be limited to 10% of the capital and capital in excess of par or stated value, as defined, and that extensions of credit to all such affiliates be limited to 20% of capital and capital in excess of par or stated value. At December 31, 2004 and 2003, the Company complied with these guidelines.



Notes to Consolidated Financial Statements

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 2004 and 2003, the Company and each of its subsidiary banks were categorized as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2004 that management believes have changed any subsidiary bank's capital category.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its subsidiaries to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-based assets (as defined) and of Tier I capital to average assets (as defined), or leverage. Management believes, as of December 31, 2004, that the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

The following table presents the Company's and Commerce NJ's risk-based and leverage capital ratios at December 31, 2004 and 2003. The 2003 ratios for Commerce NJ have been adjusted to reflect the consolidation of Commerce Shore during 2004.

| | | | Per Regulatory Guidelines | | |
|---|---|---|---|---|---|
| | Actual | | Minimum | | "Well Capit |
| | Amount | Ratio | Amount | Ratio | Amount |
| December 31, 2004 | | | | | |
| Company | | | | | |
| Risk based capital ratios: | | | | | |
| Tier I | $1,835,484 | 12.30% | $596,834 | 4.00% | $895,251 |
| Total capital | 1,977,032 | 13.25 | 1,193,668 | 8.00 | 1,492,086 |
| Leverage ratio | 1,835,484 | 6.19 | 1,187,037 | 4.00 | 1,483,796 |
| Commerce NJ Risk based capital ratios: | | | | | |
| Tier 1 | $1,249,535 | 11.37% | $439,695 | 4.00% | $659,543 |
| Total capital | 1,354,466 | 12.32 | 879,390 | 8.00 | 1,099,238 |
| Leverage ratio | 1,249,535 | 6.01 | 831,711 | 4.00 | 1,039,638 |
| December 31, 2003 | | | | | |
| Company | | | | | |
| Risk based capital ratios: | | | | | |
| Tier I | $1,471,131 | 12.66% | $464,961 | 4.00% | $697,442 |
| Total capital | 1,583,188 | 13.62 | 929,922 | 8.00 | 1,162,403 |
| Leverage ratio | 1,471,131 | 6.61 | 890,390 | 4.00 | 1,112,987 |
| Commerce NJ Risk based capital ratios: | | | | | |
| Tier 1 | $ 931,981 | 11.07% | $336,641 | 4.00% | $504,962 |
| Total capital | 1,017,498 | 12.09 | 673,282 | 8.00 | 841,603 |
| Leverage ratio | 931,981 | 6.07 | 614,020 | 4.00 | 767,526 |



Notes to Consolidated Financial Statements

18. Segment Reporting

The Company operates one reportable segment of business, Community Banks, which includes Commerce NJ, Commerce PA, Commerce North, and Commerce Delaware. Through its Community Banks, the Company provides a broad range of retail and commercial banking services, and corporate trust services. Parent/Other includes the holding company, Commerce Insurance (whose revenues of $72.5 million, $66.5 million and $55.9 million in 2004, 2003, and 2002, respectively, were reported in other operating income), and CCMI (whose noninterest revenues of $28.1 million, $42.5 million, and $35.1 million in 2004, 2003, and 2002, respectively, were reported in other operating income).

Selected segment information for each of the three years ended December 31 is as follows (in thousands):

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Community Banks | Parent/ Other | Total | Community Banks | Parent/ Other | Total |
| Net interest income (expense) | $1,024,092 | ($6,307) | $1,017,785 | $ 761,530 | ($ 5,664) | $ 755,866 |
| Provision for loan losses | 39,238 | -- | 39,238 | 31,850 | -- | 31,850 |
| Net interest income after provision | 984,854 | (6,307) | 978,547 | 729,680 | (5,664) | 724,016 |
| Noninterest income | 267,912 | 107,159 | 375,071 | 222,967 | 109,511 | 332,478 |
| Noninterest expense | 846,421 | 92,357 | 938,778 | 676,265 | 87,127 | 763,392 |
| Income before income taxes | 406,345 | 8,495 | 414,840 | 276,382 | 16,720 | 293,102 |
| Income tax expense | 138,879 | 2,543 | 141,422 | 93,314 | 5,501 | 98,815 |
| Net income | $ 267,466 | $ 5,952 | $ 273,418 | $ 183,068 | $ 11,219 | $ 194,287 |
| Average assets (in millions) | $ 24,452 | $ 2,167 | $ 26,619 | $ 17,754 | $ 1,836 | $ 19,590 |

The financial information for each segment is reported on the basis used internally by the Company's management to evaluate performance. Measurement of the performance of each segment is based on the management structure of the Company and is not necessarily comparable with financial information from other entities. The information presented is not necessarily indicative of the segment's results of operations if each of the Community Banks were independent entities.

Notes to Consolidated Financial Statements

## 19. Derivative Financial Instruments

As part of CCMI's broker-dealer activities, CCMI maintains a trading securities portfolio for distribution to its customers in order to meet those customers' needs. In order to reduce the exposure to market risk relating to the inventory, CCMI buys and sells derivative financial instruments, primarily interest rate futures and option contracts. Market risk includes changes in interest rates or value fluctuations in the underlying financial instruments. Notional (contract) amounts are used to measure derivative activity. Notional amounts are not included on the balance sheet, as those amounts are not actually paid or received at settlement. The following table reflects the open commitments for futures and options and the associated unrealized gains (losses) (in thousands) at December 31, 2004 and 2003:

| | Notional Amount Long (Short) | | Net Unrealized Gain (Loss) | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Treasury bond futures | $ 28,800 | $ (3,000) | $ 28 | $ (68) |
| Treasury bond put options | 20,000 | (5,000) | (62) | 3 |
| Treasury bond call options | (123,500) | (97,500) | (525) | 343 |
| Total | $(74,700) | $(105,500) | $ (559) | $ 278 |

The average notional amount for futures and options contracts for the years ended December 31, 2004 and 2003 was $293.5 million and $240.9 million, respectively. Realized and unrealized gains and losses on derivative financial instruments are included in other operating income.

As an accommodation to its loan customers, the Company enters into interest rate swap agreements. The Company minimizes its risk by matching the positions with a counter party. These swaps are carried at fair value with changes in fair value included in other operating income.

The following table discloses the notional amounts and related fair value of the Company's interest rate swap positions (dollars in thousands) at December 31, 2004 and 2003:

| | Notional Amount | | Estimated Fair Value | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Interest Rate Swaps: | | | | |
| Assets | $179,744 | $155,635 | $7,363 | $9,487 |
| Liabilities | 179,744 | 155,635 | (6,537) | (8,659) |

| | | |
|---|---|---|
| | $ 826 | $ 828 |

As part of the Company's residential mortgage activities, the Company enters into interest rate lock commitments with its customers. The interest rate lock commitments on residential mortgage loans intended to be held for sale are considered free standing derivative instruments. The option to sell the mortgage loans at the time the commitments are made are also free standing derivative instruments. The change in fair value of these derivative instruments due to changes in interest rates tend to offset each other.



Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company, under supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (Exchange Act). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective as of December 31, 2004. There were no significant changes in the Company's disclosure controls and procedures during 2004. The Report on Management's Assessment of Internal Control Over Financial Reporting is provided on page 27. The attestation report of Ernst & Young LLP, the Company's independent registered public accounting firm, regarding the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 is provided on page 28.

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. 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 to enhance, where necessary its procedures and controls.

Part III

Item 10. Directors and Executive Officers of the Registrant

The information called for by this item is incorporated by reference from the Company's definitive proxy statement relating to its 2005 Annual Meeting of Shareholders, which will be filed with the SEC.

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to its principal executive officer, principal financial officer, principal accounting officer, controller and any other person performing similar

functions and a Code of Business Conduct and Ethics that applies to all of its directors and employees, including, without limitation, its principal executive officer, principal financial officer, principal accounting officer and all of its employees performing financial or accounting functions. The Company's Code of Ethics for Senior Financial Officers and Code of Business Conduct and Ethics are posted on its website, www.commerceonline.com. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its Code of Ethics for Senior Financial Officers by posting such information on its website at the location specified above.

Item 11. Executive Compensation

The information called for by this item is incorporated by reference from the Company's definitive proxy statement relating to its 2005 Annual Meeting of Shareholders, which will be filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by this item is incorporated by reference from the Company's definitive proxy statement relating to its 2005 Annual Meeting of Shareholders, which will be filed with the SEC.



The following table details information regarding the Company's existing equity compensation pla

| | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights |
|---|---|---|
| Equity compensation plans approved by security holders | 26,524,136 | $17.89 |
| Equity compensation plans not approved by security holders | N/A | N/A |
| Total | 26,524,136 | $17.89 |

Item 13. Certain Relationships and Related Transactions

The information called for by this item is incorporated by reference from the Company's definitive proxy statement relating to its 2005 Annual Meeting of Shareholders, which will be filed with the SEC.

Item 14. Principal Accountant Fees and Services

The information called for by this item is incorporated by reference from the Company's definitive proxy statement relating to its 2005 Annual Meeting of Shareholders, which will be filed with the SEC.

## Part IV

### Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following financial statements of Commerce Bancorp, Inc. filed as part of this Form 10-K in Item 8:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2004 and 2003
Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002
Notes to Consolidated Financial Statements

(a)(2) Schedules

All schedules have been omitted since the required information is included in the financial statements or the notes thereto, or is not applicable.

(a)(3) Exhibits

| Exhibit Number | Description of Exhibit | |
|---|---|---|
| 3.1 | Restated Certificate of Incorporation of the Company, as amended. | |
| 3.2 | By-laws of the Company, as amended. | Incorporated by re<br>Form 10-Q for the |
| 4.1 | Certificate of Trust of Commerce Capital Trust II, a Delaware statutory trust, filed March 4, 2002. | Incorporated by re<br>Registration State<br>(Registration No. |



Exhibits (continued)

| Exhibit Number | Description of Exhibit | |
|---|---|---|
| 4.2 | Declaration of Trust of Commerce Capital Trust II, dated as of March 4, 2002 among Commerce Bancorp, Inc., as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee and the Administrative Trustees named therein. | Incorporated by re<br>Registration State<br>(Registration No. |

| | | | |
|---|---|---|---|
| | 4.3 | Amended and Restated Declaration of Trust of Commerce Capital Trust II, dated as of March 11, 2002, among Commerce Bancorp, Inc., as Sponsor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, the Administrative Trustees, and the holders from time to time of unindividual beneficial interests in the assets of the Trust, including form of 5.95% Convertible Trust Preferred Security. | Incorporated by re Registration State (Registration No. |
| | 4.4 | Indenture, dated as of March 11, 2002, between Commerce Bancorp, Inc. and The Bank of New York as Debenture Trustee, including form of 5.95% Junior Subordinated Convertible Debenture due March 11, 2032. | Incorporated by re Registration State (Registration No. |
| | 4.5 | Registration Rights Agreement, dated March 11, 2002, among Commerce Bancorp, Inc., and Commerce Capital Trust II, as issuers, and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of itself and as representative of the other initial purchasers. | Incorporated by re Registration State (Registration No. |
| | 4.6 | Guarantee Agreement, dated as of March 11, 2002, between Commerce Bancorp, Inc. and The Bank of New York, as Guarantee Trustee. | Incorporated by re Registration State (Registration No. |
| | 10.1 | Ground lease, dated July 1, 1984, among Commerce NJ and Group Four Equities, relating to the store in Gloucester Township, New Jersey. | Incorporated by re Registration State Amendments Nos. 1 No. 2-94189) |
| | 10.2 | Ground lease, dated April 15, 1986, between Commerce NJ and Mount Holly Equities, relating to Commerce NJ's store in Mt. Holly, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| * | 10.4 | The Company's Employee Stock Ownership Plan. | Incorporated by re Annual Report on F December 31, 1989. |
| | 10.10 | Ground lease, dated February 15, 1988, between Commerce NJ and Holly Ravine Equities of New Jersey, relating to one of the Commerce NJ's stores in Cherry Hill, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| * | 10.11 | The Company's 1989 Stock Option Plan for Non-Employee Directors. | Incorporated by re Registration State Amendments Nos. 1 No. 33-31042) |
| * | 10.12 | A copy of employment contracts with Vernon W. Hill, II, C. Edward Jordan, Jr., and Peter Musumeci, Jr., dated January 2, 1992. | Incorporated by re Annual Report on F year ended Decembe |



Exhibits (continued)

| | | | |
|---|---|---|---|
| * | 10.13 | A copy of the Retirement Plan for Outside Directors of Commerce Bancorp, Inc. | Incorporated by re Annual Report on F year ended Decembe |
| * | 10.14 | The Company's 1994 Employee Stock Option Plan. | Incorporated by re Annual Report on F ended December 31, |
| * | 10.15 | The Company's 1997 Employee Stock Option Plan. | Incorporated by re Definitive Proxy S Annual Meeting of thereto. |
| * | 10.16 | A copy of employment contracts with Dennis M. DiFlorio and Robert D. Falese dated January 1, 1998. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.17 | Ground lease, dated June 1, 1994, between Commerce NJ and Absecon Associates, L.L.C., relating to Commerce NJ's branch office in Absecon, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.18 | Ground lease, dated September 11, 1995, between Commerce Shore (merged with and into Commerce NJ in 2004) and Whiting Equities, L.L.C., relating to Commerce Shore's stores in Manchester Township, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.19 | Ground lease, dated November 1, 1995, between Commerce NJ and Evesboro Associates, L.L.C., relating to Commerce NJ's stores in Evesham Township, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.20 | Ground lease, dated October 1, 1996, between Commerce NJ and Triad Equities, L.L.C., relating to one of Commerce NJ's stores in Gloucester Township, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.22 | Ground lease, dated January 16, 1998, between Commerce NJ and Ewing Equities, L.L.C., relating to Commerce NJ's store in Ewing, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| * | 10.23 | The Company's 1998 Stock Option Plan for Non-Employee Directors. | Incorporated by re Definitive Proxy S Annual Meeting of thereto. |
| | 10.25 | Ground lease, dated November 30, 1998, between Commerce Shore (merged with and into Commerce NJ in 2004) and Brick/Burnt Tavern Equities, L.L.C., relating to Commerce Shore's stores in Brick, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.26 | Ground lease, dated November 30, 1998, between Commerce Shore (merged with and into Commerce NJ in 2004) and Aberdeen Equities, L.L.C., relating to Commerce Shore's store in Aberdeen, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.27 | Ground lease, dated November 30, 1998, between Commerce NJ and Hamilton/Wash Properties, L.L.C., relating to Commerce NJ's store in Hamilton Township, New Jersey. | Incorporated by re Annual Report on F year ended Decembe |

Exhibits (continued)

| | | | |
|---|---|---|---|
| | 10.28 | Ground lease, dated April 2, 1999, between Commerce PA and Abington Equities, L.L.C., relating to Commerce PA's store in Abington Township, Pennsylvania. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.29 | Ground lease, dated October 1999, between Commerce PA and Bensalem Equities, L.L.C., relating to Commerce PA's store in Bensalem, Pennsylvania. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.32 | Ground lease, dated March 10, 2000, between Commerce PA and Chalfont Equities, L.L.C., relating to Commerce PA's store in New Britain Township, Pennsylvania. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.33 | Ground lease, dated January 4, 2001, between Commerce PA and Warminster Equities, L.L.C., relating to Commerce PA's store in Warminster Township, Pennsylvania. | Incorporated by re Annual Report on F year ended Decembe |
| | 10.34 | Ground lease dated January 1, 2001, between Commerce NJ and Willingboro Equities, L.L.C., relating to Commerce NJ's store in Willingboro, New Jersey. | Incorporated by re Form 10-Q for the |
| | 10.35 | Ground lease dated November 27, 2001, between Commerce PA and Warrington Equities, L.L.C., relating to Commerce PA's store in Warrington, Pennsylvania. | Incorporated by re Form 10-Q for the |
| * | 10.36 | The Company's Supplemental Executive Retirement Plan. | Incorporated by re Annual Report on F year ended Decembe |
| * | 10.37 | The Company's 2004 Employee Stock Option Plan. | Incorporated by re Form 10-Q for the |
| | 21.1 | Subsidiaries of the Company. | Incorporated by re 1. "BUSINESS" of t |
| | 23.1 | Consent of Ernst & Young LLP. | |
| | 31.1 | Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| | 31.2 | Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| | 32 | Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to | |

Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensation plan or arrangement.



(c) Exhibits and Financial Statement Schedules

All other exhibits and schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and, therefore, have been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Commerce Bancorp, Inc.

By /s/ Vernon W. Hill, II

Vernon W. Hill, II
Chairman of the Board and President
(Principal Executive Officer)

Date: March 16, 2005

By /s/ Douglas J. Pauls

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

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title |
| --- | --- |
| /s/ Vernon W. Hill, II<br>Vernon W. Hill, II | Chairman of the Board, President and Director (Principal Executive Officer) |
| /s/ Robert C. Beck | Director |

Robert C. Beck

| | | |
|---|---|---|
| /s/ | Jack R Bershad | Director |
| | Jack R Bershad | |
| /s/ | Joseph Buckelew | Director |
| | Joseph Buckelew | |
| /s/ | Donald T. DiFrancesco | Director |
| | Donald T. DiFrancesco | |
| /s/ | John K. Lloyd | Director |
| | John K. Lloyd | |
| /s/ | Morton N. Kerr | Director |
| | Morton N. Kerr | |
| /s/ | Steven M. Lewis | Director |
| | Steven M. Lewis | |
| /s/ | George E. Norcross, III | Director |
| | George E. Norcross, III | |
| | | Director |
| | Joseph J. Plumeri | |
| /s/ | Daniel J. Ragone | Director |
| | Daniel J. Ragone | |
| /s/ | William A. Schwartz Jr. | Director |
| | William A. Schwartz Jr. | |
| /s/ | Joseph T. Tarquini Jr. | Director |
| | Joseph T. Tarquini Jr. | |