COMMERCE BANCORP INC /NJ/
Form 10-K
March 15, 2006

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, 2005
OR
[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________________ to ________________.

Commission File #1-12609

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known season issuer, as defined in Rule 405 of the Securities Act. Yes X No _.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes _ No X.

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 (§ 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 a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer X Accelerated filer __ Non-accelerated filer __.

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes _ No X.

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the Registrant was approximately $3,174,673,310 based on the closing sale price as reported on the New York Stock Exchange.

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	181,809,928
Title of Class	**No. of Shares Outstanding as of 3/6/06**

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2006 Annual Meeting of Shareholders.

COMMERCE BANCORP, INC.
FORM 10-K CROSS-REFERENCE INDEX

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 ide 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 ("BHCA"). 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 N.A.

As of December 31, 2005, the Company had total assets of $38.5 billion, total loans of $12.7 billion, and total deposits of $34.7 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 one nationally chartered bank subsidiary (Commerce Bank N.A., Philadelphia, Pennsylvania) and one New Jersey state chartered bank subsidiary (Commerce Bank/North, Ramsey, New Jersey).

These two bank subsidiaries, referred to collectively as the banks, as of December 31, 2005 had 373 full service retail stores located in the states of New Jersey, Pennsylvania, Delaware, New York, Connecticut, Virginia, Florida and the District of Columbia. 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. Retail deposits gathered through each bank's retail store network principally fund the lending and investment activities of each bank.

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 47 were opened in 2005 and 49 were opened in 2004. The Company expects to open an additional 65 full service stores in 2006. The Company has also developed its full service office network through selected acquisitions including the December 5, 2005 acquisition of Palm Beach County Bank, a privately held bank with seven stores based in West Palm Beach, Florida. Palm Beach County Bank was merged with and into Commerce N.A.

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

Commerce North operates a non-bank subsidiary, Commerce Insurance Services, Inc., referred to as Commerce Insurance, which 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.

On December 30, 2005, the Company entered into an agreement to acquire eMoney Advisor, Inc., a leading provider of web enabled wealth and financial planning solutions based in Conshohocken, Pennsylvania. The acquisition closed on February 1, 2006.

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, 2005, Commerce N.A. had total assets of $34.7 billion, total deposits of $31.3 billion, and total shareholders' equity of $2.0 billion and Commerce North had total assets of $3.8 billion, total deposits of $3.4 billion, and total shareholders' equity of $231.0 million.

Service Areas

The Company's primary service areas include metropolitan Philadelphia, metropolitan New York, metropolitan Washington, D.C. and Southeastern Florida. 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 N.A. provides retail and commercial banking services through 333 retail stores in metropolitan New York, metropolitan Philadelphia, metropolitan Washington, D.C. and Southeastern Florida. Commerce North provides retail and commercial banking services through 40 retail stores in Bergen, Essex, Hudson and Passaic Counties, New Jersey.

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 N.A. offers 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 bank owned by the Company, in making a loan.

Additional information pertaining to the Company’s segments is set forth in Note 19 - 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 13 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.

Other Activities

NA Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce N.A. that purchases, holds and sells investments of Commerce N.A. Commerce Mortgage Acceptance Corp., a Delaware corporation, is a wholly-owned subsidiary of Commerce N.A. 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. Commerce Commercial Leasing LLC, a New Jersey Limited Liability Company, is a wholly-owned subsidiary of Commerce N.A. that provides business leasing services. On February 1, 2006, the Company acquired eMoney Advisor, Inc., a wholly-owned subsidiary of Commerce Insurance that provides web enabled wealth and financial planning solutions.

The Company has an investment in Pennsylvania Commerce Bancorp, Inc., Camp Hill, Pennsylvania (15.14% beneficial ownership as of December 31, 2005 assuming the exercise of all outstanding warrants held by the Company). The Company and its subsidiaries provide marketing, administrative and technical support services to Pennsylvania Commerce Bancorp, Inc. and its wholly-owned subsidiary, Commerce Bank/Harrisburg.

Competition

The Company’s service areas are 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 N.A.’s and Commerce North’s legal lending limit to a single borrower (approximately $335.0 million, and $38.2 million respectively, as of December 31, 2005) enables the banks to compete effectively for the business of smaller and mid-sized businesses. The combined legal lending limit of the Company is $373.2 million. These legal lending limits may act as a constraint on the banks’ 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 all 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 BHCA, and 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 BHCA, 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 BHCA 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 approved by the FRB 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 stores. Under the CRA, Commerce N.A. and Commerce North are currently rated “outstanding”.

In addition, under the BHCA, 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 “Capital Resources” contained within “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere herein.

Commerce N.A. and Commerce North

Commerce N.A. is subject to the National Bank Act and accordingly subject to the supervision and regular examination by the Office of the Comptroller of the Currency (“OCC”). Commerce N.A. is required to furnish quarterly reports to the OCC and OCC approval is required for the establishment of additional stores by any national bank, subject to applicable state law restrictions. In 2005, Commerce N.A. relocated its headquarters to Philadelphia, Pennsylvania and receives the benefit of Pennsylvania’s reciprocal banking arrangements in all the states which it currently or has plans to operate branches.

Commerce North, as a New Jersey state-chartered bank, is subject to the New Jersey Banking Act and subject to the supervision and regular examinations 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.

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 N.A. and Commerce North each received an "outstanding" rating.

Commerce N.A. and Commerce North are also members of the FDIC and Commerce N.A. is a member 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 N.A. and Commerce North which are regulated by these agencies include personal lending, mortgage lending and reserve requirements. The operation of Commerce N.A. and Commerce North 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 N.A. and Commerce North are subject to certain limitations on the amount of cash dividends that they can pay. See Note 18 - 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 "Capital Resources" 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, 2005 the Company's consolidated capital levels and each of the Company's banking subsidiaries met the regulatory definition of a "well capitalized" financial institution. In February 2006, Congress passed the FDIC Deposit Insurance Reform Act which requires the FDIC to develop a new system for assessing deposit premiums, including a system of credits for past premium payments to offset future assessments. While specific proposals have not been developed, new or rapidly growing depository institutions such as Commerce N.A. and Commerce North will be likely to receive smaller credits for premiums paid prior to 1996 relative to other institutions.

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 N.A., 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 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 must have a CRA rating of “satisfactory” or better as of its most recent examination; and (2) the holding company must have made an effective election with the FRB that it elects to be a financial holding company. The Company has not elected to be a financial holding company. 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.

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. Commerce N.A. has established a “financial subsidiary” to engage in certain limited underwriting activities.

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.

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 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, 2005 the Company had in excess of 10,800 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 1A. Risk Factors

The Company is subject to a number of risk factors including, among others, business and economic conditions, monetary and other governmental policies, accounting policies, competition and continuing consolidation in the financial services industry. 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. In addition to information in this 10-K, readers should carefully consider that the following important factors, among others, could materially impact the Company's business and future financial condition, results of operations and cash flows.

The Company plans to continue its rapid growth and there are risks associated with such growth.

The Company plans to continue rapidly expanding its operations in order to increase deposits and loans. In particular, the Company intends to expand its banking franchise through continued store expansion. The Company's growth may place a strain on its administrative, operational, personnel and financial resources and increase demands on its systems and controls. If the Company is unable to continue to upgrade or maintain effective operating and financial control systems and to recruit and hire necessary personnel or to successfully integrate new personnel into its operations, this could adversely impact its financial condition, results of operations and cash flows.

If the Company does not adjust to changes in the financial services industry, its financial performance may suffer.

The Company's ability to maintain its history of strong financial performance and return on investment to shareholders may depend in part on its ability to expand the scope of available financial services to its customers. The Company's business model focuses on using superior customer service to provide traditional banking services to a growing customer base. However, the Company operates in an increasingly competitive environment in which its competitors now include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies. This increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. If the Company is unable to expand the scope of its available financial services to its customers or compete in this increasingly competitive environment, this could adversely impact its financial condition, results of operations and cash flows.

Changes in interest rates could reduce the Company's income and cash flows.

The Company's income and cash flows and the value of its assets and liabilities depend to a great extent on the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions and policies of various governmental and regulatory agencies, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received and paid.

The Company operates in a highly regulated environment and may be adversely affected by changes in laws and regulations.

The Company is subject to extensive state and federal regulation, supervision, and legislation, which govern almost all aspects of its operations. These laws may change from time to time and are primarily intended for the protection of customers, depositors, and the deposit insurance funds. The impact of any changes to these laws may negatively impact the Company's financial condition, results of operations and cash flows.

Item 2. Properties

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

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

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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 18 - 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.

(dollars in thousands, except per share data)	**Year Ended December 31,** **2005**	2004	2003	2002	2001
Income Statement Data:					
Net interest income	**$ 1,153,582**	$ 1,017,785	$ 755,866	$ 572,755	$ 401,326
Provision for credit losses	**19,150**	39,238	31,850	33,150	26,384
Noninterest income	**442,794**	375,071	332,478	257,466	196,805
Noninterest expense	**1,146,380**	938,778	763,392	579,168	420,036
Income before income taxes	**430,846**	414,840	293,102	217,903	151,711
Net income	**282,939**	273,418	194,287	144,815	103,022
Balance Sheet Data:					
Total assets	**$38,466,037**	$30,501,645	$22,712,180	$16,403,981	$11,363,703
Loans (net)	**12,524,988**	9,318,991	7,328,519	5,731,856	4,516,431
Securities available for sale	**9,518,821**	8,044,150	10,650,655	7,806,779	4,152,704
Securities held to maturity	**13,005,364**	10,463,658	2,490,484	763,026	1,132,172
Trading securities	**143,016**	169,103	170,458	326,479	282,811
Deposits	**34,726,713**	27,658,885	20,701,400	14,548,841	10,185,594
Long-term debt		200,000	200,000	200,000	80,500
Stockholders' equity	**2,309,173**	1,665,705	1,277,288	918,010	636,570
Per Share Data:					
Net income-basic	**$ 1.70**	$ 1.74	$ 1.36	$ 1.08	$ 0.80
Net income-diluted	**1.61**	1.63	1.29	1.01	0.76
Dividends declared	**0.45**	0.40	0.34	0.31	0.28
Book value	**12.92**	10.42	8.35	6.77	4.85
Average shares outstanding:					
Basic	**165,974**	156,625	142,169	133,590	129,331
Diluted	**179,135**	172,603	156,507	149,389	136,204
Selected Ratios:					
Performance					
Return on average assets	**0.83** %	1.03 %	0.99 %	1.05 %	1.08%
Return on average equity	**14.90**	18.78	18.81	18.50	17.64
Net interest margin	**3.77**	4.28	4.36	4.69	4.76
Liquidity and Capital					
Average loans to average deposits	**35.01** %	34.49 %	36.93 %	42.48 %	48.04%
Dividend payout-basic	**26.47**	22.99	25.00	28.70	35.00
Stockholders' equity to total assets	**6.00**	5.46	5.62	5.60	5.60
Risk-based capital:					
Tier 1	**11.81**	12.30	12.66	11.47	10.81
Total	**12.58**	13.25	13.62	12.51	11.96
Leverage ratio	**6.04**	6.19	6.61	6.37	6.24
Asset Quality					
Non-performing assets to total year-end assets	**0.09** %	0.11 %	0.10 %	0.11 %	0.16%

Net charge-offs to average loans outstanding	**0.15**	0.19	0.16	0.18	0.19
Non-performing loans to total year-end loans	**0.27**	0.35	0.29	0.24	0.37
Allowance for credit losses to total end of year loans	**1.12**	1.43	1.51	1.56	1.46
Allowance for credit losses to non-performing loans	**406.85**	412.88	515.39	640.18	397.73

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 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 core deposit growth. The consistent inflow of 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.

In 2005, the Company continued to expand its unique model while challenged with a very difficult interest rate environment. The 2005 financial highlights are summarized below.

- Opened 47 new stores, including the Company's first seven in the metropolitan Washington, D.C. market.
- Expanded into Southeast Florida with the acquisition of Palm Beach County Bank, a privately held bank with seven stores in Palm Beach County, Florida.
- Redeemed all $200 million of the Company's Convertible Trust Preferred Securities, leaving the Company with no long-term debt.
- Total assets grew 26%.
- Total deposits grew 26%, with annualized deposit growth per store of $20 million.
- Total loans grew 34%, increasing the ratio of loans to deposits to 36%.

The continued flattening of the yield curve throughout 2005 produced an extremely challenging interest rate environment, which reduced the Company's net interest margin to 3.77%, from 4.28% in 2004, and impeded the Company's historical net interest income growth. During the fourth quarter of 2005, the Company, as a protective measure against further net interest margin compression due to the flat yield curve, repositioned a portion of its investment portfolio by selling fixed rate securities and purchasing approximately $1.5 billion of floating rate securities. In order to complete the repositioning, the Company incurred an after-tax charge of approximately $17.0 million, or $.09 per share, during the fourth quarter of 2005.

Despite the current interest rate environment, the Company's continued deposit growth enabled the Company to grow revenue 15%. Net income and diluted net income per share are reflective of the challenging interest rate environment as well as one-time charges, primarily associated with the repositioning of the investment portfolio.

		2005		2004	Change
(amounts in billions)					
Total Assets	**$**	**38.5**	$	30.5	26%
Total Loans (net)		**12.5**		9.3	34%
Total Investments		**22.7**		18.7	21%
Total Deposits		**34.7**		27.7	26%
(amounts in millions)					
Total Revenues	**$**	**1,596.4**	$	1,392.9	15%

Net Income	**282.9**	273.4	3%
Net Income per Share Diluted	**1.61**	1.63	(1)%

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 $1.2 billion of net interest income on a tax equivalent basis in 2005, an increase of $137.1 million or 13% over 2004. As more fully depicted in the chart below, the increase in net interest income in both 2005 and 2004 was due to volume increases in the Company's earning assets.

Net Interest Income
(dollars in millions)

	Volume Increase	Rate Change	Total Increase	
2005	**$272.5**	**($135.4)**	**$137.1**	**13%**
2004	$285.0	($20.3)	$264.7	34%

The Company continues to reiterate its future growth targets.

	Growth Targets	Actual 2005 Results
Total Deposits	24-26%	26%
Comp Store Deposits	18-20%	19%
Total Revenue	23-25%	15%
Net Income	23-25%	3%
Earnings Per Share	18-20%	(1)%

The Company added 54 stores in 2005 and is committed to opening approximately 65 new stores during 2006, of which approximately 30 are planned for 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.

Critical Accounting Policy

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

Allowance for credit losses. The allowance for credit losses represents management's estimate of probable credit losses inherent in the Company's loan and lease portfolio, as well as its commitments to lend. Determining the amount of the allowance for credit 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 based on risk characteristics of loans and commitments, and consideration of other qualitative factors, 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 credit losses, and a discussion of the factors driving changes in the amount of the allowance for credit losses is included in the Allowance for Credit 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 19 - 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		
	2005	2004	2003
Community Banks	**$ 270,960**	$ 267,466	$ 183,068
Parent/Other	**11,979**	5,952	11,219
Consolidated Total	**$ 282,939**	$ 273,418	$ 194,287

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, 2005, 2004 and 2003 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2005, average interest earning assets totaled $31.1 billion, an increase of $6.9 billion, or 28% over 2004. This increase resulted primarily from the increase in the average balance of investments, which rose $4.4 billion, and the average balance of loans, which rose $2.4 billion during 2005. 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 3.77% for 2005, a decrease of 51 basis points from 2004. The decrease was due to the flat yield curve throughout 2005. During 2005, short-term interest rates increased by 200 basis points, increasing the Company's overall cost of funds by approximately 74 basis points. Long-term interest rates did not increase as significantly over the same time period, therefore the Company did not experience a similar increase in the yield on 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 interest-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 2005 was $1.2 billion, an increase of $137.1 million, or 13%, over 2004. Interest income on a tax-equivalent basis increased to $1.7 billion from $1.3 billion, or 34%. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 2005 increased $291.2 million to $511.7 million from $220.5 million in 2004. This increase was primarily related to increases in the Company's average deposit balances and the interest rates paid on deposits and other interest-bearing liabilities.

The tax-equivalent yield on interest earning assets during 2005 was 5.42%, an increase of 23 basis points from 5.19% in 2004. The cost of interest-bearing liabilities increased 94 basis points in 2005 to 2.07% from 1.13% in 2004. The cost of total funding sources increased 74 basis points to 1.65% in 2005 from 0.91% in 2004.

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, 2005 and 2004 as compared to the respective previous periods.

	2005 vs. 2004 Increase (Decrease) Due to Changes in (1)			2004 vs. 2003 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total	Volume	Rate	Total
			(dollars in thousands)			
Interest on Investments:						
Taxable	$ 214,427	$ 15,041	$ 229,468	$ 216,828	$ 10,630	$ 227,458
Tax-exempt	3,097	(4,961)	(1,864)	8,015	(2,772)	5,243
Trading	(2,281)	684	(1,597)	(1,225)	180	(1,045)
Federal funds sold	766	1,603	2,369	633	15	648
Interest on loans:						
Commercial mortgages	46,497	10,798	57,295	41,216	(4,115)	37,101
Commercial	40,999	24,592	65,591	22,840	(206)	22,634
Consumer	60,702	9,156	69,858	39,258	(9,545)	29,713
Tax-exempt	7,871	(759)	7,112	5,163	(1,507)	3,656
Total interest income	372,078	56,154	428,232	332,728	(7,320)	325,408
Interest expense:						
Savings	36,098	40,641	76,739	15,174	3,910	19,084
Interest bearing demand	48,777	108,643	157,420	29,354	15,188	44,542
Time deposits	7,413	18,530	25,943	2,253	(9,792)	(7,539)
Public funds	(1,590)	14,620	13,030	404	828	1,232
Other borrowed money	12,420	9,305	21,725	598	2,824	3,422
Long-term debt	(3,568)	(133)	(3,701)			
Total interest expense	99,550	191,606	291,156	47,783	12,958	60,741

Net change	$ 272,528	(135,452)	$ 137,076	$ 284,945	($20,278)	$ 264,667

(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 and Net Interest Income

	Year Ended December 31,								
	2005			2004			2003		
(dollars in thousands)									
Earning Assets	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Investment securities									
Taxable	$ 19,637,178	$ 965,684	4.92%	$ 15,276,797	$ 736,216	4.82%	$ 10,777,538	$ 508,758	4.72%
Tax-exempt	424,303	17,214	4.06	347,979	19,078	5.48	201,775	13,835	6.86
Trading	127,634	6,995	5.48	169,242	8,592	5.08	193,376	9,637	4.98
Total investment securities	20,189,115	989,893	4.90	15,794,018	763,886	4.84	11,172,689	532,230	4.76
Federal funds sold	98,265	3,272	3.33	75,269	903	1.20	22,530	255	1.13
Loans									
Commercial mortgages	3,808,107	247,038	6.49	3,091,350	189,743	6.14	2,419,855	152,642	6.31
Commercial	2,639,491	176,007	6.67	2,024,648	110,416	5.45	1,605,845	87,782	5.47
Consumer	3,911,672	236,709	6.05	2,908,561	166,851	5.74	2,224,197	137,138	6.17
Tax-exempt	451,151	31,998	7.09	340,172	24,886	7.32	269,592	21,230	7.87
Total loans	10,810,421	691,752	6.40	8,364,731	491,896	5.88	6,519,489	398,792	6.12
Total earning assets	$ 31,097,801	$ 1,684,917	5.42%	$ 24,234,018	$ 1,256,685	5.19%	$ 17,714,708	$ 931,277	5.26%
Sources of Funds									
Interest-bearing liabilities									
Savings	$ 7,698,370	$ 123,419	1.60%	$ 5,446,713	$ 46,680	0.86%	$ 3,676,147	$ 27,596	0.75%
Interest-bearing demand	12,474,260	252,673	2.03	10,066,187	95,253	0.95	6,964,158	50,711	0.73
Time deposits	2,736,142	72,125	2.64	2,454,910	46,182	1.88	2,335,124	53,721	2.30
Public funds	828,860	26,656	3.22	878,310	13,626	1.55	852,319	12,394	1.45
Total deposits	23,737,632	474,873	2.00	18,846,120	201,741	1.07	13,827,748	144,422	1.04
Other borrowed money	826,400	28,410	3.44	465,137	6,685	1.44	423,538	3,263	0.77

Long-term debt	140,274	8,379	5.97	200,000	12,080	6.04	200,000	12,080	6.04
Total deposits and interest-bearing liabilities	24,704,306	511,662	2.07	19,511,257	220,506	1.13	14,451,286	159,765	1.11
Noninterest-bearing funds (net)	6,393,495			4,722,761			3,263,422		
Total sources to fund earning assets	$ 31,097,801	511,662	1.65	$ 24,234,018	220,506	0.91	$ 17,714,708	159,765	0.90
Net interest income and margin tax-equivalent basis		$ 1,173,255	3.77		$ 1,036,179	4.28		$ 771,512	4.36
Tax-exempt adjustment		19,673			18,394			15,646	
Net interest income and margin		$ 1,153,582	3.71%		$ 1,017,785	4.20%		$ 755,866	4.27%
Other Balances									
Cash and due from banks	$ 1,257,799			$ 1,134,991			$ 922,188		
Other assets	1,792,339			1,376,006			1,053,283		
Total assets	34,005,732			26,618,555			19,590,319		
Demand deposits (noninterest-bearing)	7,143,552			5,408,094			3,826,885		
Other liabilities	258,886			243,284			279,203		
Stockholders' equity	1,898,989			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.

15

Noninterest Income

For 2005, noninterest income totaled $442.8 million, an increase of $67.7 million or 18% from 2004. Deposit charges and service fees increased $64.6 million, or 30%. Other operating income, which includes the Company's insurance and capital markets divisions, increased by $19.8 million, or 13%. The increase in other operating income is more fully depicted in the following chart.

		2005		2004
Other Operating Income:				
Insurance	**$**	**76,216**	$	72,479
Capital Markets		**25,390**		28,053
Loan Brokerage Fees		**15,757**		13,189
Other		**56,769**		40,585
Total Other	**$**	**174,132**	$	154,306

Commerce Insurance, the Company's insurance brokerage subsidiary, recorded increased revenues of $3.7 million, or 5%, while Commerce Capital Markets recorded decreased revenues of $2.7 million, or 9%. The decrease in revenues for Commerce Capital Markets was primarily attributable to the exit from one of its business lines during 2004 and lower trading results.

Other increased by $16.2 million, or 40%, 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 the sale of SBA loans of $11.0 million and $9.1 million during 2005 and 2004, respectively.

The Company recorded $14.0 million in net securities losses during 2005 compared to $2.6 million in net securities gains in 2004. The 2005 losses were primarily attributable to the fourth quarter repositioning of the Company's investment portfolio, which resulted in a pre-tax charge of approximately $25.5 million.

Noninterest Expenses

Noninterest expenses totaled $1.1 billion for 2005, an increase of $207.6 million, or 22% over 2004. Contributing to this increase was the addition of 54 new stores during 2005. As a result of adding these new stores, staff, facilities and related expenses rose accordingly.

Other noninterest expense increased by $39.9 million, or 20%. The increase in other noninterest expenses is depicted in the following chart.

		2005		2004
Other Noninterest Expenses:				
Business Development Costs	**$**	**38,301**	$	29,516
Bank-Card Related Service Charges		**47,337**		35,728
Professional Services/Insurance		**38,723**		40,515
Provisions for Non-Credit-Related Losses		**28,449**		22,243
Other		**81,985**		66,919
Total Other	**$**	**234,795**	$	194,921

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 reduction in professional services and insurance expense was primarily attributable to decreased legal fees offset by increased consulting and insurance costs related to the Company's growth.

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 71.16%, 67.62%, and 70.38%, in 2005, 2004, and 2003, respectively. The increase in the Company's 2005 efficiency ratio was caused primarily by reduced net interest margins due to the flat yield curve. 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 2005 was $147.9 million compared to $141.4 million in 2004 and $98.8 million in 2003. The effective tax rate was 34.3%, 34.1% and 33.7% in 2005, 2004, and 2003, respectively.

Net Income

Net income for 2005 was $282.9 million, an increase of $9.5 million, or 3% over the $273.4 million recorded for 2004.

Diluted net income per share of common stock for 2005 was $1.61 compared to $1.63 per common share for 2004.

Net income and net income per share for 2005 were impacted by one-time charges of $19.3 million, or $.11 per share, net of tax, taken by the Company during the fourth quarter of 2005, primarily related to the repositioning of the investment portfolio and acceleration of stock options.

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 0.83%, 1.03%, and 0.99% for 2005, 2004, and 2003, respectively.

Return on average equity ("ROE") is determined by dividing annual net income by average stockholders' equity and indicates how effectively a company can generate net income on the capital invested by its stockholders. The Company's ROE was 14.90%, 18.78%, and 18.81% for 2005, 2004, and 2003, respectively.

Both the 2005 ROA and ROE were impacted by the flat yield curve and the resulting impact on the Company's net interest income as well as the one-time charges the Company recorded in the fourth quarter.

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 2001 through 2005.

	December 31,				
	2005	2004	2003	2002	2001
(dollars in thousands)					
Commercial:					
Term	$ 1,781,148	$ 1,283,476	$ 1,027,526	$ 842,869	$ 600,374
Line of credit	1,517,347	1,168,542	959,158	683,640	556,977
Demand			1,077	317	440
	3,298,495	2,452,018	1,987,761	1,526,826	1,157,791
Owner-occupied	2,402,300	1,998,203	1,619,079	1,345,306	1,028,408
Consumer:					
Mortgages					
(1-4 family residential)	2,000,309	1,340,009	918,686	626,652	471,680
Installment	211,332	132,646	138,437	140,493	161,647
Home equity	2,353,581	1,799,841	1,405,795	1,139,589	872,974
Credit lines	100,431	69,079	60,579	56,367	43,196
	4,665,653	3,341,575	2,523,497	1,963,101	1,549,497
Commercial real estate:					
Investor developer	2,001,674	1,455,891	1,167,672	885,276	799,799
Construction	290,530	206,924	142,567	102,080	47,917
	2,292,204	1,662,815	1,310,239	987,356	847,716
Total loans	$ 12,658,652	$ 9,454,611	$ 7,440,576	$ 5,822,589	$ 4,583,412

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 markets which the Company serves. 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, 2005, are summarized in the following table.

	December 31, 2005			
	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years	Total
(dollars in thousands)				
Commercial:				
Term	$ 608,730	$ 948,371	$ 224,047	$ 1,781,148
Line of credit	1,354,108	163,239		1,517,347
	1,962,838	1,111,610	224,047	3,298,495
Owner-occupied	380,938	1,188,374	832,988	2,402,300
Consumer:				
Mortgages				
(1-4 family residential)	22,263	201,245		