FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

COMMERCE BANCORP INC /NJ/

CIK:**715096**| IRS No.: **222433468** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
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SIC: **6021** National commercial banks

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CHERRY HILL NJ 08034-5400

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COMMERCE ATRIUM
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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 [FEE REQUIRED]
For the fiscal year ended December 31, 1998
OR
|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from ________________ to ________________.
Commission File #0-12874

COMMERCE BANCORP, INC.

(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 08034-5400
Cherry Hill, New Jersey (Zip Code)
(Address of principal executive offices)
Registrant's telephone number, including area code: 609-751-9000

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

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

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 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. |X|

The aggregate market value of voting stock held by non-affiliates of the Registrant is $1,109,133,000.(1)

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Title of Class	No. of Shares Outstanding as of 3/5/99
Common Stock $1.5625 Par Value	27,438,170

DOCUMENTS INCORPORATED BY REFERENCE

Parts II and IV incorporate certain information by reference from the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1998 (the "Annual Report"). Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 1999 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 amount of Common Stock held by officers, directors, and shareholders owning in excess of 10% of the Registrant's Common Stock multiplied by the last sale price for the Registrant's Common Stock on March 5, 1999. The information provided shall in no way be construed as an admission that the officer, director, or 10% shareholder in the Registrant may be deemed an affiliate of the Registrant or that he 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 purpose of the Securities and Exchange Commission.

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

The preceding Annual Report and Form 10-K incorporates into a single document the requirements of the accounting profession and the Securities and Exchange Commission. There has been no action by the Commission, however, to approve or disapprove or pass upon the accuracy or adequacy of the Annual Report and Form 10-K.

(a) (3) - Exhibits:

3.1 Restated Certificate of Incorporation of the Company, as amended. (I)

3.2 Certificate of Amendment to the Restated Certificate of Incorporation of the Company, setting forth the preferences, limitations and relative rights of the Company's Series C ESOP Cumulative Convertible Preferred Stock. (I)

3.3 By-laws of the Company, as amended. (K)

4.1 Form of Trust Indenture, dated July 15, 1993, between the Company and United Jersey Bank, with respect to the Company's $23,000,000 8 3/8% Subordinated Notes due July 15, 2003. (I)

4.2 Form of Indenture between the Company and Wilmington Trust Company, as Debenture Trustee. (M)

4.3 Certificate of Trust of Commerce Capital Trust I. (M)

4.4 Form of Amended and Restated Declaration of Trust of Commerce Capital Trust I. (M)

4.5 Form of Capital Security Certificate for Commerce Capital Trust I (included in Exhibit 4.4). (M)

4.6 Form of Guarantee Agreement. (M)

10.1 Ground lease, dated July 1, 1984, between Commerce NJ and Group Four Equities, relating to the branch office in Gloucester Township, New Jersey. (A)

10.2 Ground lease, dated April 15, 1986, between Commerce NJ and Mount Holly Equities, relating to Commerce NJ's branch office in Mt. Holly, New Jersey. (C)

*10.3 The Company's 1984 Incentive Stock Option Plan. (A)

*10.4 The Company's Employee Stock Ownership Plan. (F)

10.5 Lease, dated March 29, 1985, between Commerce PA and Devon

Properties (Ltd.), and lease dated September 4, 1985, between Commerce PA and Devon Properties (Ltd.), relating to Commerce PA's branch office in Devon, Pennsylvania. (B)

10.6 Assignment of Lease and Assumption Agreement dated November 30, 1987, between the Company and Commerce PA, relating to Commerce PA's branch office in Devon, Pennsylvania. (C)

10.7 Lease between the Company and Astoria Associates, relating to the Company's and Commerce NJ's headquarters facilities. (B)

10.8 Ground lease, dated April 15, 1986, between Commerce NJ and U.S. Equities, relating to one of Commerce NJ's branch offices in Washington Township, New Jersey. (D)

10.9 Ground lease, dated February 1, 1988, between Commerce NJ and Diversified Properties of New Jersey, relating to one of Commerce NJ's branch offices in Washington Township, New Jersey. (D)

10.10 Ground lease, dated February 15, 1988, between Commerce NJ and Diversified Properties of New Jersey, relating to one of Commerce NJ's branch offices in Cherry Hill, New Jersey. (D)

*10.11 The Company's 1989 Stock Option Plan for Non-Employee Directors. (E)

*10.12 A copy of employment contracts with Vernon W. Hill, II, C. Edward Jordan, Jr., and Peter Musumeci, Jr., dated January 2, 1992. (G)

*10.13 A copy of the Retirement Plan for Outside Directors of Commerce Bancorp, Inc. (H)

*10.14 The Company's 1994 Employee Stock Option Plan. (J)

10.15 Term Loan Agreement between Commerce Bancorp, Inc. Employee Stock Ownership Trust and Mellon Bank, N.A. dated as of November 29, 1994. (J)

*10.16 The Company's 1997 Employee Stock Option Plan. (L)

*10.17 A copy of employment contracts with Dennis M. DiFlorio and Robert D. Falese dated January 1, 1998. (N)

10.18 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. (N)

10.19 Ground lease, dated September 11, 1995, between Commerce Shore and Whiting Equities, L.L.C., relating to Commerce Shore's branch office in Manchester Township, New Jersey. (N)

10.20 Ground lease, dated November 1, 1995, between Commerce NJ and Evesboro Associates, L.L.C., relating to Commerce NJ's branch office in Evesham Township, New Jersey. (N)

10.21 Ground lease, dated October 1, 1996, between Commerce NJ and Triad Equities, L.L.C., relating to one of Commerce NJ's branch offices in Gloucester Township, New Jersey. (N)

10.22 Ground lease, dated October 11, 1996, between Commerce PA and Plymouth Equities, L.L.C., relating to Commerce PA's branch office in Plymouth Township, PA. (N)

10.23 Ground lease, dated January 16, 1998, between Commerce NJ and Ewing Equities, L.L.C., relating to Commerce NJ's branch in Ewing, New Jersey.

10.24 The Company's 1998 Stock Option Plan for Non-Employee Directors (O) 10.25 Ground lease, dated July 31, 1998, between Commerce NJ and English Creek Properties, L.L.C., relating to Commerce NJ's branch in Egg Harbor Township, New Jersey.

11.1 Computation of Net Income Per Share 32

13.1 The Registrant's Annual Report to Shareholders for its fiscal year ended December 31,1998.

21.1 Subsidiaries of the Company (incorporated by reference from PART I, Item 1. "BUSINESS" of this Report on Form 10-K.).47

23.1 Consent of Ernst & Young LLP.

27.1 The Registrant's Financial Data Schedule.

(A) Incorporated by reference from the Company's Registration Statement on Form S-1, and Amendments Nos. I and 2 thereto (Registration No. 2-94189).

(B) Incorporated by reference from the Company's Registration Statement on Form S-2 (Registration No 33-12603).

(C) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1987.

(D) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.

(E) Incorporated by reference from the Company's Registration Statement on Form S-2 and Amendments Nos. 1 and 2 thereto (Registration No. 33-31042).

(F) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989.

(G) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991.

(H) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.

(I) Incorporated by reference from the Company's Registration Statement on Form S-2 and Amendments Nos. 1 and 2 thereto (Registration No. 33-62702).

(J) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

(K) Incorporated by reference from the Company's Registration Statement on Form S-4 (Registration No. 333-10771).

(L) Incorporated by reference from the Company's Definitive Proxy Statement for its 1997 Annual Meeting of Shareholders, Exhibit A thereto.

(M) Incorporated by reference from the Company's Registration Statement on Form S-3 (Registration No. 333-28311).

(N) Incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

(O) Incorporated by reference from the Company's Definitive Proxy Statement for its 1998 Annual Meeting of Shareholders, Exhibit A thereto. * Management contract or compensation plan or arrangement.

(b) There were no reports on Form 8-K filed in the fourth quarter of 1998.

(c)(d) 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.

PART I

Item 1. Business

Forward-Looking Statements

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

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

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

General

The Company is a New Jersey business corporation which is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "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 100% of the outstanding shares of Commerce Bank, N.A. ("Commerce, NJ"). On January 2, 1987, the Company acquired all of the outstanding shares of Commerce Bank/Pennsylvania, N.A. ("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. ("Commerce Shore"). On September 30, 1993, the Company acquired all of the outstanding shares of The Coastal Bank, Ocean City, New Jersey, ("Coastal") which was merged into Commerce NJ. Effective 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 ("Commerce North").

On November 15, 1996, two insurance brokerage agencies, Keystone National Companies, Inc., Cherry Hill, New Jersey, and Morales, Potter & Buckelew, Inc., t/a Buckelew & Associates, Toms River, New Jersey, were acquired by the Company and thereafter merged to form Commerce National Insurance Services, Inc. ("Commerce Insurance"). Commerce Insurance is currently a wholly-owned subsidiary of Commerce North. In December 1996, Chesley & Cline, Inc., Mount Holly, New Jersey, was merged with and into Commerce Insurance. In January 1997, Colkate, Inc., t/a The Morrissey Agency, Mt. Laurel, New Jersey, was merged with and into Commerce Insurance. In December 1997, Joseph J. Reinhart and Associates, Inc., Cherry Hill, NJ, a risk/loss management and loss investigation consulting firm, and Associated Insurance Management Inc., Haddonfield, NJ, an employee and executive benefit consulting firm, were merged with and into Commerce Insurance. In August 1998, J.A. Montgomery, Inc., Wilmington, DE, an insurance brokerage agency, was merged with and into Commerce Insurance.

On March 27, 1998, the Company completed the acquisition of A. H. Williams & Co., Inc., ("Williams") Philadelphia, PA, a public finance investment firm, and combined Williams with Commerce Capital, the bank securities dealer division of Commerce NJ, to form Commerce Capital Markets, Inc. ("CCMI") a wholly-owned nonbank subsidiary of the Company engaging in certain securities activities permitted under Section 20 of the Glass-Steagall Act.

Effective January 15, 1999, the Company acquired Community First Banking Company ("CFBC"), a one-bank holding company headquartered in Tinton Falls, New Jersey. CFBC's wholly-owned bank subsidiary, Tinton Falls State Bank, was merged with and into Commerce Shore. At the time of acquisition, Tinton Falls State Bank had six branch offices in Monmouth County, New Jersey, and approximately $201 million in assets.

Also effective January 15, 1999, the Company acquired Prestige Financial Corp. ("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. At the time of acquisition, Prestige State Bank had seven branches in Hunterdon and Somerset Counties, New Jersey, and had approximately $328 million in assets.

In 1998, the Company received regulatory approvals to open Commerce Bank/Delaware, N.A. It is currently anticipated that the first office will open in the second quarter of 1999.

On June 9, 1997, the Company issued $57,500,000 of 8 3/4% Trust Capital Securities through Commerce Capital Trust 1, a newly formed Delaware business trust subsidiary of the Company.

Except as otherwise indicated, all references herein to the Company include Commerce NJ, Commerce PA, Commerce Shore, Commerce North, Commerce Capital Trust I, Commerce Insurance, and CCMI.

The Company's principal executive offices are located at Commerce Atrium, 1701 Route 70 East, Cherry Hill, New Jersey 08034-5400, and its telephone number is (609) 751-9000.

The total number of full-time equivalent persons employed by the Company was 2,777 as of December 31, 1998. The Company believes that its relationship with its employees is good.

Commerce NJ

Commerce NJ provides retail and commercial banking services through 43 retail branch offices in Camden, Burlington, Gloucester, Mercer, Atlantic, and Cape May Counties in New Jersey. Commerce NJ' s deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

As of December 31, 1998, Commerce NJ had total assets of $3.026 billion, total deposits of $2.708 billion, and total stockholders' equity of $194.4 million.

Service Area

Commerce NJ's primary service area includes Burlington, Camden, Gloucester, Atlantic and Cape May Counties, New Jersey. Commerce NJ has attempted to locate its branches in the fastest growing communities within its service area. Retail deposits gathered through these focused branching activities are used to support Commerce NJ's lending throughout Southern New Jersey.

Retail Banking Activities

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

Trust Activities

Commerce NJ offers trust services primarily focusing on corporate trust activities, particularly as bond trustee, paying agent, and registrar for municipal bond offerings.

Commercial Banking Activities

Commerce NJ 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 to fit the needs of its customers. Commerce NJ also finances the construction of business properties and makes real estate mortgage loans on completed

buildings. Where the needs of a customer exceed Commerce NJ's legal lending limit for any one customer (approximately $31.2 million as of December 31, 1998), Commerce NJ may participate with other banks, including Commerce PA, Commerce Shore, and Commerce North, in making a loan.

Commerce PA

In 1987, the Company acquired all of the issued and outstanding shares of capital stock of Commerce PA. As a result of this transaction, Commerce PA became a wholly-owned subsidiary of the Company.

Commerce PA was organized as a national bank on December 28, 1983 and commenced operations on June 29, 1984. As of December 31, 1998, Commerce PA had total assets of $806.9 million, total deposits of $746.4 million and total stockholders' equity of $54.9 million.

Commerce PA provides retail and commercial banking services through 18 retail branch offices in Philadelphia, Chester, Delaware and Montgomery Counties in Southeastern Pennsylvania. Commerce PA's deposits are insured by the FDIC.

Commerce PA generally provides the same retail and commercial banking services and products as Commerce NJ, Commerce Shore, and Commerce North. Commerce PA offers trust services similar to those offered by Commerce NJ.

Commerce Shore

In 1988, the Company acquired all of the issued and outstanding shares of capital stock of Commerce Shore. As a result of this transaction, Commerce Shore became a wholly-owned subsidiary of the Company.

Commerce Shore was organized as a state-chartered bank on December 8, 1972 and commenced operations on January 29, 1973. In 1989, Commerce Shore converted to a national charter. As of December 31, 1998, Commerce Shore had total assets of $512.1 million, total deposits of $473.8 million and total stockholders' equity of $33.4 million.

Commerce Shore provides retail and commercial banking services through 13 retail branch offices in Ocean County, New Jersey. Commerce Shore's deposits are insured by the FDIC.

Commerce Shore generally provides the same retail and commercial banking services and products as Commerce NJ, Commerce PA, and Commerce North. Commerce Shore does not offer trust services.

Commerce North

In 1997, the Company acquired Independence Bancorp, Inc. As a result of this transaction, Independence Bancorp Inc.'s wholly-owned state-chartered bank subsidiary, Independence Bank of New Jersey, became a wholly-owned subsidiary of the Company, and was subsequently renamed Commerce North.

Commerce North was organized as a state-chartered bank in 1974 and commenced operations in 1975. As of December 31, 1998, Commerce North had total assets of $600.3 million, total deposits of $535.6 million, and total stockholders' equity of $38.7 million.

Commerce North provides retail and commercial banking services through 10 retail branch offices in Bergen and Passaic Counties, New Jersey. Commerce North's deposits are insured by the FDIC.

Commerce North generally provides the same retail and commercial banking services and products as Commerce NJ, Commerce PA, and Commerce Shore. Commerce North does not offer trust services.

Commerce Insurance

Commerce Insurance operates as a regional insurance brokerage firm concentrating on commercial property, casualty and surety as well as personal lines. In addition, Commerce Insurance offers a line of employee benefit programs including both group as well as individual medical, life, disability and pension. Commerce Insurance currently operates out of six locations in New Jersey and three locations in Delaware. Commerce Insurance places insurance for clients in multiple states, primarily New Jersey, Pennsylvania, and Delaware.

Commerce Capital Markets, Inc.

Commerce Capital Markets, Inc. is a wholly-owned nonbank subsidiary of the Company engaging in certain securities activities permitted under Section 20 of the Glass-Steagall Act, including trading, underwriting, and advisory services. CCMI's principal place of business is Philadelphia, Pennsylvania, with

branch locations in Pittsburgh, Pennsylvania, Cherry Hill, New Jersey, Boston, Massachusetts, and Burlingame, California.

Other Activities

NA Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce NJ which purchases, holds and sells investments of Commerce NJ. Shore Asset Management Corporation, a Delaware corporation, is a wholly-owned subsidiary of Commerce Shore which purchases, holds and sells investments of Commerce Shore. North Asset Management, a Delaware corporation, is a wholly-owned subsidiary of Commerce North which purchases, holds, and sells investments of Commerce North.

As part of the Commerce Network, the Company has an equity investment in Commerce Bank/Harrisburg, Camp Hill, Pennsylvania (15.35% beneficial ownership). The Commerce Network provides certain marketing support and technical support services to its members.

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. Other competitors, including credit unions, consumer finance companies, factors, insurance companies and money market mutual funds, compete with certain lending and deposit gathering services offered by the Company. Many competitors have substantially greater financial resources and larger lending limits and larger branch systems than those of the Company.

In commercial transactions, Commerce NJ's, Commerce PA's, Commerce Shore's, and Commerce North's legal lending limit to a single borrower (approximately $31.2 million, $8.6 million, $5.3 million, and $6.2 million, respectively, as of December 31, 1998) enables them to compete effectively for the business of smaller and mid-sized businesses. However, these legal lending limits are considerably lower than that of various competing institutions and thus may act as a constraint on Commerce NJ's, Commerce PA's and Commerce Shore's effectiveness in competing for 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 it offers longer hours of operation than those offered by most of its competitors, free checking accounts for customers maintaining certain 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. 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 Bank Holding Company Act of 1956, as amended ("Holding Company Act"), and is therefore subject to supervision and regulation by the FRB. The Company is also regulated by the New Jersey and Pennsylvania Departments of Banking.

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. See "Interstate Banking."

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 nonbanking 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. The FRB has by regulation determined that certain activities are closely related to banking within the meaning of the Holding Company Act. These activities include, among others, operating a mortgage, finance, credit card or factoring company; performing certain data processing operations, providing investment and financial advice; acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; and certain stock brokerage and investment advisory services.

Satisfactory financial condition, particularly with regard to capital adequacy, and satisfactory Community Reinvestment Act ratings are generally prerequisites to obtaining federal regulatory approval to make acquisitions. All of the Company's subsidiary banks are currently rated "satisfactory" under the Community Reinvestment Act.

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 Securities and Exchange Commission ("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 nonbank 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 nonbank subsidiaries, to ten percent of the lending bank's capital stock and surplus, and as to the Company and all such nonbank subsidiaries in the aggregate, to 20 percent 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.

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 on page 14 of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1998, which page of the Annual Report appears elsewhere herein.

Commerce NJ, Commerce PA, Commerce Shore and Commerce North

Commerce NJ, Commerce PA and Commerce Shore, 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 branch offices 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, is regularly examined by, the New Jersey Department of Banking and Insurance ("Department") and the FDIC, and is required to furnish quarterly reports to each agency. The Approval of the Department and FDIC is necessary for the establishment of any additional branch offices by any New Jersey state-chartered bank, subject to applicable state law restrictions.

Under present New Jersey law, Commerce NJ, Commerce Shore and Commerce North would be permitted to operate offices at any location in New Jersey, subject to prior regulatory approval. Under present Pennsylvania law, Commerce PA would be permitted to operate offices within any county in Pennsylvania, subject to prior regulatory approval.

Under the Community Reinvestment Act, as amended ("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 to assess an institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. 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, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Performance less than satisfactory may be the basis for denying an application. In addition, under applicable regulations a bank having a less than satisfactory rating is not entitled to participate on the bid list for FDIC offerings. In 1998, Commerce NJ, Commerce PA, Commerce Shore and Commerce North each received a "satisfactory" rating.

Commerce NJ, Commerce PA, Commerce Shore and Commerce North 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 Shore and Commerce North which are regulated by these agencies include personal lending, mortgage lending and reserve requirements. The operation of Commerce NJ, Commerce PA, Commerce Shore and Commerce North are 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 Shore and Commerce North are subject to certain limitations on the amount of cash dividends that they can pay. See Note 18 of the Company's Notes to Consolidated Financial Statements which appears 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 Federal Reserve Board 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.

Substantially all of the deposits of the banking subsidiaries are insured up to applicable limits by the Bank Insurance Fund ("BIF") of the FDIC and are subject to deposit insurance assessments to maintain the BIF. 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 insured by the BIF to the statutory minimum of $2,000 annually for "well capitalized" banks. On September 30, 1996, the Deposit Insurance Funds Act of 1996 ("DIFA") was enacted and signed into law. DIFA reduced the amount of FDIC insurance premiums for savings association deposits acquired by banks to the same levels assessed for deposits insured by BIF. DIFA further provides for assessments to be imposed on all insured depository institutions with respect to deposits to pay for the cost of Financing Corporation bonds; however, banks are assessed for this purpose at only one-fifth the rate of the assessment on savings associations until December 31, 1999. As a result of these changes, the deposit insurance assessment for banks and for thrifts has been nearly equalized and will be identical for comparably rated institutions after January 1, 2000, at which time banks will share equally in the FICO assessment and the BIF and SAIF funds will be merged.

Interstate Banking

On September 29, 1994, the President signed into law the "Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994" (the "Interstate Act"). Among other things, the Interstate Act permits bank holding companies to acquire banks in any state after September 29, 1995. Beginning June 1, 1997, a bank may merge with a bank in another state so long as both states have not opted out of interstate branching between the date of enactment of the Interstate Act and May 31, 1997. States may enact laws opting out of interstate branching before June 1, 1997, subject to certain conditions. States may also enact laws permitting interstate merger transactions before June 1, 1997, and host states may impose conditions on a branch resulting from an interstate merger transaction that occurs before June 1, 1997, if the conditions do not discriminate against out-of-state banks, are not preempted by Federal law and do not apply or require performance after May 31, 1997. New Jersey and Pennsylvania have enacted laws opting in immediately to

interstate merger and interstate branching transactions. Interstate acquisitions and mergers would both be subject, in general, to certain concentration limits and state entry rules relating to the age of the bank.

Under the Interstate Act, the Federal Deposit Insurance Act is amended to permit the responsible Federal regulatory agency to approve the acquisition of a branch of an insured bank by an out-of-state bank or bank holding company without the acquisition of the entire bank or the establishment of a "de novo" branch only if the law of the state in which the branch is located permits out-of-state banks to acquire a branch of a bank without acquiring the bank or permits out-of-state banks to establish "de novo" branches. Pennsylvania and New Jersey have each passed such a law. However, the New Jersey law does not authorize establishment of interstate branches other than by means of acquiring such branches from another institution.

Commerce Insurance/ Commerce Capital Markets

Commerce Insurance, a nonbank subsidiary of Commerce North, is currently subject to supervision, regulation and examination by the New Jersey Department of Banking and Insurance. Commerce Capital Markets, a nonbank subsidiary of the Company, engages in certain securities activities permitted to bank holding company subsidiaries under Section 20 of the Glass-Steagall Act 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 public finance 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.

National Monetary Policy

In addition to being affected by general economic conditions, the earnings and growth of the Company, Commerce NJ, Commerce PA, Commerce Shore, and Commerce North 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 bad a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon the future business, earnings and growth of the Company, Commerce NJ, Commerce PA, Commerce Shore, and Commerce North cannot be predicted.

Legal Proceedings

Other than routine litigation incidental to its business, none of the Company, Commerce NJ, Commerce PA, Commerce Shore, Commerce North, Commerce Capital Trust 1, Commerce Insurance, or CCMI, or any of their properties is subject to any material legal proceedings, nor are any such proceedings known to be contemplated.

Employee Stock Ownership Plan

Effective January 1, 1989, the Company's Board of Directors approved the restatement of the Company's Stock Bonus Plan to an Employee Stock Ownership Plan ("ESOP"). The ESOP is intended to be a qualified retirement plan established and maintained in accordance with the Employee Retirement Income Security Act of 1974 for the benefit of the Company's and its bank subsidiaries' eligible employees. The ESOP is intended to invest primarily in "Qualifying Employer Securities" (i.e., common stock or preferred stock which is convertible into common stock). The assets of the ESOP are held in a trust fund pursuant to a Trust Agreement. The trustees under the Trust Agreement are authorized to invest up to 100% of the trust fund in Qualifying Employer Securities. The trustees are also authorized to borrow money for the purpose of purchasing Qualifying Employer Securities.

Generally, each participant in the ESOP is entitled to direct the trustees with respect to the voting rights, if any, of the Qualifying Employer Securities allocated to the participant's account. In other cases (i.e., unallocated shares), the voting of shares held by the ESOP is determined by the trustees. The current trustees are Vernon W. Hill, II and C. Edward Jordan, Jr., the trustees under the Company's former Stock Bonus Plan.

The Company is responsible for the operation and administration of the ESOP. The Company determines investment policies under which the trustees act. These duties are carried out by a committee appointed by the Board of Directors. The Board of Directors has the sole responsibility to appoint and remove members of the committee of trustees, to determine the amount of contributions to the ESOP by the Company and its subsidiary banks, and to amend or terminate, in whole or in part, the ESOP or the Trust Agreement.

The Company's Board of Directors approved the creation of a new series of cumulative convertible preferred stock known as "Series C ESOP Cumulative Convertible Preferred Stock." On January 31, 1990, the ESOP borrowed $7.5 million from another financial institution to complete the purchase of 417,000 shares of Series C ESOP Cumulative Convertible Preferred Stock from the Company, at $18.00 per share, with an annual dividend rate of $1.35. This loan was guaranteed by the Company. During 1994, the loan was refinanced with another financial institution, also with the guarantee of the Company. The balance of the loan at December 31, 1998 was $2,308,000. Effective March 1, 1998, the Trustees of the ESOP exercised their right to convert all 417,000 shares of Series C ESOP Cumulative Convertible Preferred Stock held by the ESOP into 849,062 shares of the Company's common stock.

The unallocated shares of common stock the ESOP Trust held of record as of' March 5, 1999 were less than 1% of the Company's outstanding common stock.

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

Date: March 26, 1999

By /s/ THOMAS J. SUKAY

Thomas J. Sukay
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	Date
/s/ VERNON W. HILL, II -------------------------------- Vernon W. Hill, II	Chairman of the Board and President (Principal Executive Officer)	March 26, 1999
/s/ C. EDWARD JORDAN JR. -------------------------------- C. Edward Jordan Jr.	Executive Vice President and Director	March 26, 1999
/s/ ROBERT C. BECK -------------------------------- Robert C. Beck	Secretary and Director	March 26, 1999
/s/ DAVID BAIRD, IV -------------------------------- David Baird, IV	Director	March 26, 1999
/s/ JACK R BERSHAD -------------------------------- Jack R Bershad	Director	March 26, 1999
/s/ MORTON N. KERR -------------------------------- Morton N. Kerr	Director	March 26, 1999
/s/ STEVEN M. LEWIS -------------------------------- Steven M. Lewis	Director	March 26, 1999
/s/ DANIEL J. RAGONE -------------------------------- Daniel J. Ragone	Director	March 26, 1999
/s/ WILLIAM A. SCHWARTZ JR. -------------------------------- William A. Schwartz Jr.	Director	March 26, 1999
/s/ JOSEPH T. TARQUINI JR. -------------------------------- Joseph T. Tarquini Jr.	Director	March 26, 1999
/s/ JOSEPH BUCKELEW -------------------------------- Joseph Buckelew	Director	March 26, 1999

/s/ FRANK C. VIDEON SR. -------------------------------- Frank C. Videon Sr.	Director	March 26, 1999

LEASE

from
EWING EQUITIES, L.L.C.

to
COMMERCE BANK, N.A.

Article 1
Reference Date and Exhibits

1.1 Data

DATE	:	January 16, 1998
LOCATION OF PREMISES	:	Olden Avenue and Arctic Avenue Ewing, New Jersey
LANDLORD	:	EWING EQUITIES, L.L.C.
ORIGINAL ADDRESS OF	:	17000 Horizon Way Suite 200 Mt. Laurel, NJ 08054
TENANT	:	COMMERCE BANK, N.A.
ORIGINAL ADDRESS OF	:	c/o Commerce Bancorp, Inc. 1701 Route 70 East Cherry Hill, NJ 08034
LEASE TERM	:	Twenty Years
ANNUAL FIXED RENT RATE	:	Year 1-5 $75,000.00 6-10 $82,500.00 11-15 $90,750.00 16-20 $99,825.00
INSURANCE LIMITS	:	$2,000,000 Single Action $4,000,000 Aggregate

1.2 Table of Contents

ARTICLE II
Premises and Term

2.1 Premises - LANDLORD hereby leases to TENANT and TENANT hereby leases from LANDLORD, subject to and with the benefit of the terms, covenants, conditions and provisions of this Lease, the premises shown on Exhibit "A" and described in Exhibit "B", both annexed hereto and made a part hereof, together with any and all improvements, appurtenances, rights, privileges and easements befitting, belonging or pertaining thereto and a building no greater than 4,000 square feet, so long as such building is within the perimeter of the leased premises as shown on Exhibit "A".

2.2 Term - TO HAVE AND TO HOLD for a term beginning at the earlier of (a) Ninety (90) days (inclusive of the time for objectors to appeal for any approval) after LANDLORD has obtained approval for the construction of the branch bank as set forth in Article 12 (notwithstanding TENANT may not have commenced construction) and continuing for the Lease term of twenty (20) years unless sooner terminated as hereinafter provided. When dates of the beginning and end of the Lease term have been determined, such dates shall be evidenced by a document in form for recording, executed by LANDLORD and TENANT and delivered each to the other.

2.3 Option to Extend - So long as TENANT is not in default hereunder, TENANT shall have the right to extend this Lease for four (4) five (5) year terms under the same terms, conditions and provisions as in the original term, at the following rentals:

Option Years	1 -5	$ 109,807.00
	6-10	$ 120,788.00
	11-15	$ 132,867.00
	16-20	$ 146,153.00

TENANT shall give written notice of its intention to exercise each extension option not less than Ninety (90) days prior to the expiration of the then current term. Lack of written notice by TENANT of its intention to exercise any option prior to ninety (90) days before the expiration of the then current term shall be deemed to constitute exercise of that option by the TENANT.

ARTICLE III

Improvements

3.1 Construction of Improvements - TENANT agrees to construct, at its sole cost, a branch banking facility, pursuant to the attached Site Plan, subject to reasonable approval by the LANDLORD Of the building plans and specifications.

3.2 Contractor - TENANT shall have the right to select and approve the contractor to complete the construction, which shall be subject to the approval of the LANDLORD. Approval by LANDLORD shall not be unreasonably withheld.

3.3 Signs - TENANT shall have the right to erect such signs as permitted by applicable zoning ordinances within the leased area.

ARTICLE IV

Rent

4.1 The Rent, Minimum Fixed - TENANT covenants and agrees to pay rent to LANDLORD at the original address of LANDLORD or such other place as LANDLORD may by notice in writing to TENANT from time to time direct, at the following rates and times.

(a) TENANT agrees to pay to LANDLORD base annual fixed rent for the Premises in accordance with and in the amount set forth in Paragraph 1.1 "Data". The base annual fixed rent shall be paid in equal monthly installments in advance on the first (1st) day of each month beginning on the Commencement Date. In addition to the base annual fixed rent, TENANT shall pay as and when the same become due and owing as additional rents, all other monies provided for in the Lease. It is the parties intention that all charges and assessments charged to or assessed against the Premises shall be the responsibility of the TENANT, such that the Lease shall be "net, net, net" to the LANDLORD, excepting only interest and principal on any mortgage made by the LANDLORD and effecting the Premises.

(b) For purposes of this Lease, the scheduled increases in the base annual fixed rate shall occur on the first day of the sixth (6th), eleventh (11th) and sixteenth (16th) years of the Initial Term as same is determined pursuant to Paragraph 2.2 and on the first day of the sixth (6th), eleventh (11th) and sixteenth (16th), years of the Option Terms.

(c) If any installment under this Lease is not paid within fifteen (15) days of the time and at the place and in the manner specified, then LANDLORD may, at its option, declare TENANT in default.

ARTICLE V

Real Estate Taxes

5.1 Real Estate Taxes - As additional rent, TENANT agrees to pay all real estate taxes levied upon the Premises, improvements located on the Premises, the leasehold estate, or any sublease hold estate of any nature including special assessments. The obligation for payment by TENANT of all real estate taxes shall commence simultaneously with the payment of rent hereunder.

5.2 Taxes - TENANT agrees to pay all taxes levied upon rents and personal property, including trade fixtures and inventory, kept on the demised Premises, covered by Section 5.1 after

presentation to TENANT by LANDLORD of statements from the taxing jurisdiction in which said property is located. TENANT, however, will pay only the lowest discounted amount and will not be required to pay any penalty, interest or cost occurring by reason of LANDLORD'S failure to secure said tax statements in a timely fashion from the taxing authorities for any tax required to be paid by TENANT.

LANDLORD may, however, direct the taxing authorities to send the statements directly to TENANT. "In the event LANDLORD directs the taxing authorities to send a statement directly to TENANT, TENANT shall make all such payments directly to the taxing authority at least ten (10) days before any delinquency and before any fine, interest or penalty shall become due or imposed by operation of law for their nonpayment. Further, TENANT shall furnish to LANDLORD within ten (10) days of the date when any tax, assessment or charge would become delinquent, receipts or other satisfactory evidence establishing the timely payment of said taxes or charges." LANDLORD further agrees that TENANT, in the name of LANDLORD, but at TENANT'S sole expense, may protest any assessment before any taxing authority or board or maintain any necessary legal action in reference to said assessment or for the recovery of any taxes paid thereon. Nothing herein contained shall require TENANT to pay any income or excess profits, taxes assessed against LANDLORD or any corporation, capital stock, or franchise tax imposed upon LANDLORD.

5.3 Method of Payment - LANDLORD shall give written notice advising TENANT of the amount of real estate taxes, together with a copy of the tax bill, and TENANT shall pay such amount to LANDLORD within thirty (30) days after receipt of such notice. If this Lease shall terminate during a tax year, TENANT shall pay to LANDLORD, a prorated portion of the amount that would have been due for the full tax year based on the number of days of said tax year expired on the date of termination.

ARTICLE VI

Utilities and Services

6.1 Utilities and Changes Therefore - TENANT agrees to pay directly to the authority charged with the collection thereof, all charges for water, gas, electricity, sanitary sewer and sprinkler changes, telephone connection and standby fees and other utilities used or consumed in the Premises and shall make its own arrangements for such utilities. In the event any such services cannot be reasonably procured from any public agency, and LANDLORD provides any such services, TENANT shall reimburse LANDLORD for its proportionate share of any such services used or consumed in the demised premises as additional rental.

ARTICLE VII
TENANT'S Additional Covenants

7.1 Affirmative Covenants - TENANT covenants at its expense at all times during the Lease term and such further time as TENANT occupies the Premises or any part thereof.

7.1.1 Use - TENANT shall use and permit the use of the Premises and the improvements to be constructed thereon primarily for the operation of a branch bank, provided that (subject to the other terms and conditions of this Lease), TENANT may at any time use the Premises and the building and other improvements to be constructed thereon, for any other lawful commercial purposes. Neither TENANT nor its subtenants, if any, shall commit any nuisance, nor permit the emission of any objectionable noise or odor, nor bring on, deposit or allow to be brought on or deposited on the Premises any asbestos materials or any other Hazardous Substance or materials as the same may be defined by Federal, State or local laws, rules, statutes or regulations or in the Environmental Rider annexed hereto, nor use the property in such a manner which negatively effects the reversion.

7.1.2 Compliance with Law - To make all repairs, alterations, additions or replacements to the Premises required by any law or ordinance or any order or regulation of any public authority because of TENANT'S use of the Premises, to keep the Premises equipped with all safety appliances so required because of such use; to pay all municipal, county or state taxes assessed against the personal property of any kind owned by or placed in, upon or about the premises by TENANT; and to comply with the orders and regulations of all governmental authorities, as well as all Insurance Carriers and Underwriters.

7.1.2 (A) TENANT has the right to contest by appropriate judicial or administrative proceeding, without cost or expense to the LANDLORD, the validity or application of any law, ordinance, order, rule, regulation or requirement ("law") which the TENANT legitimately deems unduly burdensome or inappropriate and TENANT shall not be in default for failure to comply with such law until the legally permitted time following final determination of TENANT'S contest expires; provided, however, if LANDLORD gives notice of request, TENANT shall first furnish LANDLORD with a bond, satisfactory to LANDLORD in form and insurer, guaranteeing compliance by TENANT with the contested law and indemnifying LANDLORD against all liability that LANDLORD may sustain by reason of TENANT'S failure or delay in complying with the law. LANDLORD may, but is not required to, contest any such law independent of TENANT. On TENANT'S notice of request, LANDLORD may join in TENANT'S contest.

7.1.3 Payment for TENANT'S Work - To pay promptly when due the entire cost of any work to the Premises undertaken by TENANT and to bond against or discharge any liens for labor or materials within ten (10) days after written request by LANDLORD; to procure all necessary permits

before undertaking such work; and to do all of such work in a good and workmanlike manner, employing new materials of good quality and complying with all governmental requirements.

7.1.4 Indemnity and Liability Insurance - To defend with counsel, save harmless and indemnify LANDLORD from all claims or damage to or of any person or property while on the premises unless arising from any omission, fault, negligence or other misconduct of LANDLORD, and from all claims or damage to or of any person or property occasioned by any omission, fault, neglect or other misconduct of TENANT; to maintain in responsible companies qualified to do business in the state in which the premises is located and in good standing therein, public liability insurance covering the premises insuring LANDLORD, as well as TENANT, with limits at least equal to those stated in Section 1.1, workmen's compensation insurance with statutory limits, covering all of TENANT'S employees working in the premises, and to deposit promptly with LANDLORD certificates for such insurance and all renewals thereof, bearing the endorsement that the policies will not be canceled until after ten (10) days written notice to LANDLORD. TENANT'S obligations hereunder may be satisfied through a blanket insurance policy covering other interests of the TENANT.

7.1.5 LANDLORD'S Right to Enter - To permit LANDLORD and its agents to examine the premises at reasonable times and to show the premises to prospective purchasers and lenders, provided such entry shall not unreasonably interfere with TENANT'S operation and conduct of its business in the demised premises or compromise security.

7.1.6 Personal Property at TENANT'S Risk - That all of the furnishings, fixtures, equipment, effects and property of every kind, nature and description of TENANT and of all persons claiming under TENANT, may be on the premises, shall be at the sole risk and hazard of TENANT, and if the whole or any part thereof shall be destroyed or damaged by fire, water, or otherwise, or by the leakage or bursting of water pipes, steam pipes or other pipes, by theft or from any other cause, no part of said loss or damage is to charged to or be borne by LANDLORD, except that LANDLORD shall in no event be indemnified or held harmless or exonerated from any liability resulting from its sole negligence, failure to perform any of its obligations under this Lease or to any extent prohibited by law.

7.1.7 Payment of LANDLORD'S Cost of Enforcement - To pay on demand LANDLORD'S expenses, including reasonable attorney's fees, incurred in enforcing any obligation of TENANT under this Lease or in curing any default by TENANT under this Lease as provided in Section 10.4, provided LANDLORD shall prevail in any judicial proceedings in respect to such enforcement.

7.1.8 Yield Up - At the expiration of the Lease term or earlier termination of this Lease, TENANT shall remove all trade fixtures and personal property, to repair any damage caused by such removal, to remove all TENANT'S signs wherever located and to surrender all keys to the premises and yield up the premises, broom clean and in the same good order and repair in which TENANT is obligated to keep and maintain the premises by the provisions of this Lease, reasonable wear and tear and insured

damage by fire, casualty or taking excepted. Any property not so removed shall be deemed abandoned and may be removed and disposed of by LANDLORD in such manner as LANDLORD shall determine without any obligation on the part of LANDLORD to account to TENANT for any proceeds therefrom, all of which shall become the property of LANDLORD. Any holdover by TENANT will not be deemed an extension of this Lease, and TENANT shall indemnify LANDLORD against all losses and damages from a failure to surrender.

7.1.9 Maintenance - Throughout the term, TENANT shall, at TENANT'S sole cost and expense maintain the premises and all improvements thereon in good condition and repair, ordinary wear and tear excepted, and in accordance with all applicable laws, rules, ordinances, orders and regulations of (1) federal, state, county, municipal and other governmental agencies and bodies having or claiming jurisdiction and all of their respective departments, bureaus and officials; (2) the insurance underwriting board or insurance inspection bureau having or claiming jurisdiction; and (3) all insurance companies insuring all or any part of the premises of the improvements located thereon, or both except as provided below and subject only to the provisions of Paragraph 9.2, TENANT shall promptly and diligently repair, restore and replace as required to maintain the premises and the improvements in the condition set forth above, or to remedy all damage to or destruction of all or any part of the improvements.

(A) The completed work of maintenance, compliance, repair, restoration or replacement shall be equal in value, quality and use to the condition of the improvements before the event giving rise to the work, unless otherwise provided for in this Lease. LANDLORD shall not be required to furnish any services or facilities or to make any repairs or alterations of any kind in or upon or on the premises, LANDLORD'S election to perform any obligations of the TENANT under this provision on TENANTS failure or refusal to do so shall not constitute a waiver of any right or remedy for TENANT'S default and TENANT shall promptly reimburse, defend and indemnify LANDLORD against all liability, loss, cost and expense arising from it.

7.1.10 Insurance - TENANT shall maintain in full force and effect, at its own cost, full replacement cost coverage insurance covering the demised premises (and all improvements for the full insurable value) against loss or damage by fire or casualty, with the usual extended coverage endorsements, together will endorsements protecting against loss or damage resulting from malicious mischief, sprinkler leakage and vandalism all in amounts not less than replacement parts value above foundation walls. All insurance policies shall name the LANDLORD as its interest may appear.

7.2 Negative Covenants - TENANT covenants at all times during the Lease term and such further times as TENANT occupies the premises or any part thereof:

7.2.1 Overloadinq Nuisance, etc. - Not to injure, overload, deface or otherwise harm the premises; nor commit any nuisance; nor make any use of the premises which is improper, offensive or contrary to any law or ordinance.

7.2.2 Installation, Alteration or Additions - Not to make any installations, alterations or additions (except only the installation of fixtures necessary for the conduct of its business), without on each occasion obtaining prior written consent of LANDLORD, LANDLORD'S consent not be unreasonable withheld. No consent shall be required for nonstructural alterations not exceeding $100,000 in cost. No addition will be allowed which increases the building size to more than 4,000 square feet, or which violates the terms of Paragraph 2.1 of this Lease.

ARTICLE VIII

LANDLORD'S Additional Covenants

8.1 Warranty on Use - LANDLORD warrants and represents that at the commencement of construction it will be the Owner in Fee of the Land shown on Exhibit "A" and described in Exhibit "B". LANDLORD has no knowledge of and TENANT requires that there be no zoning regulations, restrictive agreements, leases or other instruments which prevent the use of the premises for the purpose intended herein, nor otherwise conflict with any of the provisions of this Lease. TENANT'S sole and conclusive remedy for a breach of this warranty shall be its right, at its election, to terminate the Lease prior to commencement of construction.

8.2 Competing Use - During the term of this Lease, provided TENANT is not in default, LANDLORD agrees not to lease or sell any portion of the project, of which the leased premises is a part, to a commercial bank, savings bank, savings and loan or credit union.

ARTICLE IX

Casualty or Taking

9.1 TENANT to Repair or Rebuild in the Event of Casualty - In case the Premises or any part thereof shall be damaged or destroyed by fire other casualty, taken (which term or reference to eminent domain action generally, for the purposes of this Article shall include a sale in lieu of the exercise of the right of eminent domain) or ordered to be demolished by the action of any public authority in consequence of a fire or other casualty, this Lease shall, unless it is terminated as provided below in Section 9.2 or 9.3, remain in full force and effect and TENANT shall, at its expense, proceed with all reasonable dispatch, to repair or rebuild the premises and the improvements, or what may remain thereof, so as to restore them as nearly as practicable to the condition they were in immediately prior to such damage or destruction.

9.2 Right to Terminate in Event of Casualty - In case of any damage or destruction occurring in the last five years of the original term of this Lease or during any extension of the term, to the extent of 50% or more of the insurable value of the building, TENANT may at its option, to be evidenced by notice in writing given to the LANDLORD within seven (7) days after the occurrence of such damage or destruction, in lieu of repairing or replacing the building, elect to terminate this Lease as of the date of said damage or

destruction. In the event the TENANT shall so terminate the lease all insurance proceeds shall become the property of the LANDLORD.

9.3 Eminent Domain - If the whole, or any part of the demised premises shall be taken or condemned by any competent authority for any public use or purpose during the term of this Lease. TENANT reserves the unto itself the right to prosecute its claim for an award based upon its leasehold interest for such taking, without impairing any rights of LANDLORD for the taking of or injury to the reversion.

In the event that a part of the demised premises shall be taken or condemned that (a) the part so taken includes the building on the demised premises or any part thereof or (b) the part so taken shall remove from the premises 20% or more of the front depth of the parking areas thereof, or (c) the part so taken shall consist of 25% or more of the total parking area, or (d) such partial taking shall result in cutting off direct access from the demised premises to any adjacent public street or highway, then and in any such event, the TENANT may at any time either prior to or within a period of sixty (60) days after the date when possession of the premises shall be required by the condemning authority elect to terminate this Lease, or if any option to purchase the premises is conferred upon the TENANT by any other provision of this Lease, may as an alternative to such termination of this Lease elect to purchase the demised premises in accordance with such purpose option. In the event that TENANT shall fail to exercise any such option to terminate this Lease or to purchase the premises or in the event that a part of the demised premises shall be taken or condemned under circumstances under which the TENANT will have no such option, then and in either such event the LANDLORD shall, with reasonable promptness, make necessary repairs to and alterations of the improvements on the demised premises for the purpose of restoring the same to an economic architectural unit, susceptible to the same use as that which was in effect immediately prior to such taking, to the extent that may have been necessary by such condemnation, subject to a pro-rata reduction in rental. Any dispute resulting from Section 9.3 of this Lease shall be submitted to the American Arbitration Society, whose decision shall be binding on the parties hereto.

ARTICLE X

Defaults

10.1 Events of Default - If (a) Tenant shall default in the performance of any of its obligations to pay rent or additional rent hereunder and if such default shall continue for ten (10) days after written notice from LANDLORD designating such default or if within thirty (30) days after written notice from LANDLORD to TENANT specifying any other non-monetary default or defaults, TENANT has not commenced diligently to correct the default or defaults so specified or has not thereafter diligently pursued such corrective action to completion, or (b) any assignment shall be made by TENANT for the benefit of credits, or (c) if TENANT'S leasehold interest shall be taken on execution, attached, levied upon or (d) if a petition is filed

by TENANT for adjudication as a bankrupt, or for reorganization or an arrangement under any provision of the Bankruptcy Act as then in force and effect, or (e) if an involuntary petition under any of the provisions of said Bankruptcy Act is filed against TENANT and such involuntary petition is not dismissed within sixty (60) days thereafter, then, and in any of such cases, LANDLORD lawfully may exercise all defaults rights available to it under law, including repossession of the leased property, termination of the lease, acceleration of all future rental payments, and such other rights as may be lawfully permitted.

10.2 Remedies - In the event that this Lease is terminated under any of the provisions contained in Section 10.1 or shall be otherwise terminated for breach of any obligation of TENANT, TENANT covenants to pay punctually to LANDLORD all the sums and perform all the obligations which TENANT covenants in this Lease to pay and to perform in the same manner and to the same extent and at the same time as if this Lease had not been terminated so long as such obligations shall have not been rendered unnecessary or impossible of performance by the subsequent re-letting or other occupancy permitted by LANDLORD. In calculating the amounts to be paid by TENANT under the foregoing covenant, TENANT shall be credited with the net proceeds of any rent or the value of other considerations obtained by LANDLORD by re-letting the premises, after deducting all LANDLORD'S expenses in connection with such re-letting, including, without limitation, all repossession costs, brokerage commissions, reasonable fees for legal services and expenses of preparing the premises for such reletting, it being agreed by TENANT that LANDLORD may (i) re-let the premises or any part or parts thereof, for a term or terms which may at LANDLORD'S option be equal to or less than or exceed the period which would otherwise have constituted the balance of the Lease term, and (ii) make such alterations, repairs and decorations in the premises as LANDLORD in its sole judgment considers advisable or necessary to re-let the same.

Nothing contained in this Lease shall, however, limit or prejudice the right of LANDLORD to prove for and obtain in proceedings for bankruptcy or insolvency by reason of the termination of this Lease, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amounts of the loss or damages referred to above.

10.3 Remedies Cumulative - Any and all rights and remedies which LANDLORD may have under this Lease, and at law and equity, shall be cumulative and shall not be deemed inconsistent with each other, and any two or more of all such rights and remedies may be exercised at the same time insofar as permitted by law.

10.4 LANDLORD'S and TENANT'S Right to Cure Defaults - LANDLORD may, but shall not be obligated to, cure at any time, following ten (10) days prior written notice to TENANT, except in cases of emergency when no notice shall be required, any default by TENANT under this Lease; and whenever LANDLORD so elects, all costs and expenses incurred by LANDLORD, including reasonable attorney's

fees, in curing a default shall be paid by TENANT to LANDLORD as additional rent on demand. TENANT shall have a like right to cure any default of LANDLORD, and TENANT may reimburse itself for the cost thereof out of succeeding rental payments.

10.5 Effect of Waivers on Default - No consent or waiver, expressed or implied, by either party to or of any breach of any covenants, conditions or duty of the other shall be construed as a consent or waiver to or of any other breach of the same of any other covenant, condition or duty.

ARTICLE XI

Miscellaneous Provisions

11.1 Assignment, Subletting, etc. - LANDLORD'S written consent shall be required for any assignment, transfer or subletting except to another financial institution which consent shall not be unreasonably withheld.

11.2 Notice from One Party to the Other - Any notice from LANDLORD to TENANT or from TENANT to LANDLORD shall be deemed duly served if mailed by registered or certified mail, return receipt requested, postage pre-paid, addressed, if to TENANT, at the original address of TENANT or such other addresses as TENANT shall have last designated by notice in writing to LANDLORD, and if to LANDLORD, at the original address of LANDLORD or such other address as LANDLORD shall have last designated by notice in writing to TENANT.

11.3 Quiet Employment - LANDLORD agrees that upon TENANT'S paying the rent and performing and observing the agreements, conditions and other provisions on its part to be performed and observed, TENANT shall and may peaceably and quietly have, hold and enjoy the demised premises during the Lease term without any manner or hindrance or molestation from LANDLORD or anyone claiming under LANDLORD, subject to the covenants and conditions of this Lease.

11.4 Recording - TENANT agrees not to record this Lease, but each party hereto agrees on request of the other, to execute a Notice or Short Form of this Lease in recordable form in compliance with applicable statutes, and reasonably satisfactory to LANDLORD'S and TENANT'S attorneys. In no event shall such document set forth the rental or other charges payable by TENANT under this Lease; and any such document shall expressly state that it is executed pursuant to the provisions contained in this Lease, and is not intended to vary the terms and conditions of this Lease. In the event LANDLORD and/or TENANT believe that the Lease has been lawfully terminated, abandoned or otherwise of no force and effect and the other party will not voluntarily execute a Discharge of Memorandum of Lease, the party seeking the Discharge of Memorandum of Lease may move summarily before the Superior Court of New Jersey for a determination of whether or not the Memorandum of Lease should be discharged. The other party consents to the jurisdiction of the Superior Court of New Jersey and agrees to proceed in a summary manner. It is expressly understood and agreed that in addition to the relief provided herein, the

parties will have such additional cumulative remedies as are available to it at law or in equity for damages suffered by reason of a wrongful refusal to execute and deliver a Discharge of Memorandum of Lease.

11.5 Acts of God - In any case where either party hereto is required to do any act, delays caused by or resulting from Acts of God, war, civil commotion, fire or other casualty, labor difficulties, shortages of labor, materials or equipment, government regulations, or other causes beyond such party's reasonable control shall not be counted in determining the time during which work shall be completed, whether or such time be designated by a fixed date, a fixed time or "a reasonable time".

11.6 Waiver of Subrogation - All insurance which is carried by either party with respect to the demised premises, whether or not required, shall include provisions which either designates the other party as one of the insured or deny to the insurer acquisition by subrogation of rights of recovery against the other party. Each party shall be entitled to have duplicates or certificates of any policies containing such provisions. Each party hereby waives all rights of recovery against the other for loss or injury against which the waiving party is protected by insurance containing such provisions.

11.7 Rights of Mortgagee and Subordination -

11.7.1 This Lease is subject and is hereby subordinated to all present and future mortgages, deeds of trust, and other encumbrances affecting the premises or the property of which said premises are a part; provided, however, that an agreement or instrument affecting such subordination shall be executed by the mortgagee or other Lender, be recorded with such mortgage or other security agreement, and a copy delivered to the TENANT and contain provisions, to the effect that (i) so long as TENANT observes the terms and provisions of this Lease and notwithstanding the Lease may be foreclosed, TENANT will not be effected or disturbed by the mortgagee in the exercise of any of its rights under the mortgage or other security agreement, or the bond, note or debt secured thereby; (ii) in the event the mortgagee comes into possession or ownership of the premises by foreclosing or otherwise, TENANT'S use, occupancy and quiet enjoyment of the premises shall not be disturbed by any such proceedings; (iii) in the event the premises are sold or otherwise disposed of pursuant to any right or power contained in the mortgage or other security agreement, or the bond or note secured thereby, or as a result of proceedings thereon, the purchaser shall take title subject to this Agreement of Non Disturbance, and all of the rights of the TENANT hereunder; (iv) in the event the buildings and improvements upon the premises are damaged by fire and other casualty, for which loss the proceeds payable under any insurance policy or policies are payable to the mortgagee, such insurance funds, when paid, shall be made available for the purpose of repair and restoration as provided in this Lease; and (v) the agreement shall be binding upon the LANDLORD, mortgagee and their respective heirs, executors, administrators, successors and assigns. The TENANT agrees to execute, at no expense to the LANDLORD, any instrument which may be deemed necessary or desirable by the LANDLORD to further effect the subordination of this Lease to any such mortgage, deed of trust or encumbrance.

11.7.2 No Accord and Satisfaction - No acceptance by LANDLORD of lesser sum than the rent or any other charges then due shall be deemed to be other than on account of the earliest installment of such rent or charge due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent or other charge be deemed an accord and satisfaction, and LANDLORD may accept such check or payment without prejudice to LANDLORD'S right to recover and balance of such installments or pursue any other remedy in this Lease provided.

11.8 Applicable Law and Construction - This Lease shall be governed by and construed in accordance with the laws of the State of Pennsylvania, and if any provisions of this Lease shall to any extent be invalid, the remainder of this Lease shall not be affected thereby. There are no oral or written agreements between LANDLORD and TENANT affecting this Lease. This Lease may be amended only by instruments in writing executed by LANDLORD and TENANT. LANDLORD shall not be deemed in any way or for any purpose, to have become, by the execution of this Lease or any action taken thereunder, a partner of TENANT in its business or otherwise a joint venturer or member of any enterprises of TENANT. The titles of the several Articles and Sections contained herein are for convenience only and shall not be considered in construing this Lease. Unless repugnant to the context, the words "LANDLORD and TENANT" appearing in this Lease shall be construed to mean those names above and their respective heirs, administrators, successors and assigns, and those claiming through or under them respectively.

ARTICLE XII

Permits and Approvals

12.1 TENANT'S Obligations - The obligations of TENANT hereunder are contingent upon final approval by the bank's Board of Directors of this transaction and upon TENANT securing on or before June 30, 1998 the following unconditional and unappealable approvals:

A. All state and federal regulatory approvals for the construction and operation of a branch bank on the leased premises.

B. All municipal and governmental approvals required for the construction of TENANT'S proposed building including the issuance of a building permit("Permit and Approvals") and approvals for a free standing sign and other prototype signage as necessary to properly identify the building.

12.2 Approvals - TENANT shall diligently pursue all required approvals.

12.3 Easements - TENANT shall have absolutely no right to grant any easement with regard to the premises other than such easements to public entities or public service corporations for the purpose of serving only the premises, rights-of-way or easements on or over the premises for poles or conduits, or both, for telephone, electricity, water, sanitary or storm sewers or both and for other utilities and municipal or special district services. LANDLORD shall cooperate with TENANT to permit the creation of all necessary easements.

1/16/98

ARTICLE XV

Holdover

15.1 Holdover - In the event that TENANT continues in use and occupancy and holds over in possession of the premises after the expiration of the Initial Term or, properly exercised, the Option Term, in addition to all other damages to which LANDLORD may be entitled, the monthly rent during the period of holdover shall be in a sum equal to double the amount of the monthly installment of base annual fixed rent during the last month of the term which has just expired. Said holdover rent shall be in addition to all additional rents for which the TENANT shall be responsible during the holdover period.

ARTICLE XVI

Construction Cost

16.1 Construction Cost - TENANT shall construct its own building at its own costs and bear all construction within its demised premises, as identified in Exhibit A.

ARTICLE XVII

Environmental

17.1 Environmental Matters -

A. LANDLORD represents and warrants that any handling, transportation, storage,treatment or usage of hazardous or toxic substances (as defined by any applicant government authority and hereinafter being referred to as "Hazardous Materials") that has occurred or will occur on the Demise Premises shall be in compliance with all applicable federal, state and local laws, regulations and ordinances. TENANT represents and warrants that any handling, transportation, storage, treatment or usage of Hazardous Materials by TENANT at the Demised Premises shall be in compliance with applicable federal, state and local laws. LANDLORD further represents and warrants that no leak, spill, discharge, emission or disposal of Hazardous Materials has occurred or will occur on the Demised Premises and that the soil, groundwater, soil vapor on or under the Demised Premises is or will be free of Hazardous Materials as of the date hereof. LANDLORD agrees to indemnify, defend and hold TENANT and its officers, from any claims, judgments, damages, fines, penalties, costs, liabilities (including sums paid in settlement of claims) or loss including attorney's fees, consultants fees, and expert fees which arise during or after the Primary Term or any Renewal Term, or in connection with the presence of suspected presence of Hazardous Materials in the soil, groundwater, or soil vapor on or under the Demised Premises, unless such Hazardous Materials are present solely as the result of the acts of TENANT, its officers, employees or agents. Without limiting the generality of the foregoing, this indemnification shall survive the expiration of this Lease and does specifically cover costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work

required by any federal, state or local governmental agency or political subdivision because of the presence or suspected presence of Hazardous Materials in the soil, groundwater or soil vapor odor under the Demised Premises, unless the hazardous Materials are present solely as the result of the acts of TENANT, its officers, agents or employees. Without limiting the generality of the foregoing, this indemnification shall also specifically cover costs in connection with:

1 Hazardous Materials present or suspected to be present in the soil, groundwater or soil vapor on or under the Demised Premises before the date hereof;or

2. Hazardous Materials that migrate, flow, percolate, diffuse or in any move onto or under the Demised Premises after the date hereof; or

3 Hazardous Materials present on or under the Demised Premises as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Demised Premises during or after the Primary Term or any Renewal Term by any person or entity.

B. TENANT agrees to indemnify LANDLORD and its officers, employees and agent harmless from any claims, judgments, damages, fines, penalties, costs, liabilities (including sums paid in settlement of claims) or loss including attorney's fees, consultants fees and expert fees which arise during or after the Primary Term or any Renewal Term in connection with the presence of toxic or hazardous substances in the soil, groundwater, or soil vapor on or under the Demised Premises to the extent such presence is caused by the acts of Tenant, its officers, employees and agents.

C. A condition precedent to this Lease shall be TENANT's satisfactory review of the report (the "Phase I Environmental Survey") on the environmental condition of the land on which the Demised Premises is located. LANDLORD agrees to provide TENANT with a Phase I Environmental Survey of the land on which the Demised Premises is located. In the event that TENANT shall discover in its review of the Phase I Environmental Survey that any Hazardous Materials may be present in the soil, ground water or soil vapor on or under the Demised Premises, TENANT may, upon written notice to LANDLORD within ten (10) days after the date TENANT receives the Phase I Environmental Survey, terminate this Lease.

D. If during the term of this Lease any governmental authority requires the remediation of Hazardous Materials from the Demised Premises or the Shopping Center and such remediation materially affects TENANT's business operations or poses a safety threat to TENANT's employees or customers, then TENANT shall be entitled to an equitable abatement of rent from the date such interference or safety hazard occurs to the date such interference and safety hazard are no longer present.

ARTICLE XVIII

18.1 Title - This lease shall be subject and subordinate to the lien of any bank or institution or other mortgage or mortgages now or hereafter in force against LANDLORD's property, and to all

advances made upon the security thereof, provided the holder of any such mortgage shall execute and deliver to TENANT an agreement, in the form of Exhibit D attached hereto, or as otherwise agreed to by TENANT, LANDLORD and such holder, providing that such holder will recognize this lease and not disturb TENANT's possession of the premises in the event of foreclosure if TENANT is not then in default hereunder beyond any applicable cure period, TENANT agrees, upon receipt of such agreement, to execute such further instrument(s) as may be necessary to subordinate this lease to the lien of any such mortgage. The term "mortgage" shall include deeds of trust or any other similar hypothecations.

18.2 Ownership - LANDLORD warrants that it owns in fee the subject premises subject only to the liens, mortgages and encumbrances listed on the attached schedule, evidenced by a title report provided by LANDLORD to TENANT within forty-five (45) days of the execution of this lease, which shall be subject to TENANT's reasonable approval. TENANT's lease hereunder shall be subordinate only to such liens where the holder of such liens has executed and delivered to TENANT in the form attached hereto a Subordination and Non-Disturbance Agreement.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals this day and year first above written.

COMMERCE BANK, N.A.

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Attest

BY:
\---------------------------------
Thomas H. Arasz
Senior Vice President/CRA Officer

EWING EQUITIES L.L.C.

Attest

BY:

John P. Silvestri
President

LEASE

from
ENGLISH CREEK PROPERTIES, L.L.C.

to
COMMERCE BANK, N.A.

Article I

Reference Date and Exhibits

1.1 Data

DATE	:	July 31, 1998
LOCATION OF PREMISES	:	English Creek Rd.
	:	Egg Harbour twp., New Jersey
LANDLORD	:	ENGLISH CREEK PROPERTIES, L.L.C.
ORIGINAL ADDRESS OF	:	17000 Horizon Way Suite 200 Mt. Laurel, NJ 08054
TENANT	:	COMMERCE BANK, N.A.
ORIGINAL ADDRESS OF	:	c/o Commerce Bancorp, Inc. 1701 Route 70 East Cherry Hill, NJ 08034
LEASE TERM	:	Twenty Years
ANNUAL FIXED RENT RATE	:	Year 1-5 $55,000.00 6-10 $60.500.00 11-15 $66,550.00 16-20 $73,205.00
INSURANCE LIMITS	:	$2,000,000 Single Action $4,000,000 Aggregate

1.2 Table of Contents

ARTICLE 11
Premises and Term

2.1 Premises - LANDLORD hereby leases to TENANT and TENANT hereby leases from LANDLORD, subject to and with the benefit of the terms, covenants, conditions and provisions of this Lease, the premises shown on Exhibit "A" and described in Exhibit "B", both annexed hereto and made a part hereof, together with any and all improvements, appurtenances, rights, privileges and easements befitting, belonging or pertaining thereto and a building no greater than 4,000 square feet, so long as such building is within the perimeter of the leased premises as shown on Exhibit W.

2.2 Term - TO HAVE AND TO HOLD for a term beginning at the earlier of (a) Ninety (90) days (inclusive of the time for objectors to appeal for any approval) after LANDLORD has obtained approval for the construction of the branch bank as set forth in Article 12 (notwithstanding TENANT may not have commenced construction) and continuing for the Lease term of twenty (20) years unless sooner terminated as hereinafter provided. When dates of the beginning and end of the Lease term have been determined, such dates shall be evidenced by a document in form for recording, executed by LANDLORD and TENANT and delivered each to the other.

2.3 Option to Extend - So long as TENANT is not in default hereunder, TENANT shall have the right to extend this Lease for four (4) five (5) year terms under the same terms, conditions and provisions as in the original term, at the following rentals:

Option Years	1-5	$80,525.00
	6-10	$88,578.00
	11-15	$97,435.00

16-20 $107,179.00

TENANT shall give written notice of its intention to exercise each extension option not less than Ninety (90) days prior to the expiration of the then current term. Lack of written notice by TENANT of its intention to exercise any option prior to ninety (90) days before the expiration of the then current term shall be deemed to constitute exercise of that option by the TENANT.

ARTICLE III

Improvements

3.1 Construction of Improvements - TENANT agrees to construct, at its sole cost, a branch banking facility, pursuant to the attached Site Plan, subject to reasonable approval by the LANDLORD of the building plans and specifications.

3.2 Contractor - TENANT shall have the right to select and approve the contractor to complete the construction, which shall be subject to the approval of the LANDLORD. Approval by LANDLORD shall not be unreasonably withheld.

3.3 Signs - TENANT shall have the right to erect such signs as permitted by applicable ordinances within the leased area.

ARTICLE IV

Rent

4.1 The Rent. Minimum Fixed - TENANT covenants and agrees to pay rent to LANDLORD at the original address of LANDLORD or such other place as LANDLORD may by notice In writing to TENANT from time to time direct, at the following rates and times.

(a) TENANT agrees to pay to LANDLORD base annual fixed rent for the Premises in accordance with and in the amount set forth In Paragraph 1.1 "Data". The base annual fixed rent shall be paid in equal monthly installments in advance on the first (1st) day of each month beginning on the Commencement Date. In addition to the base annual fixed rent, TENANT shall pay as and when the same become due and owing as additional rents, all other monies provided for in the Lease. It is the parties intention that all charges and assessments charged to or assessed against the Premises shall be the responsibility of the TENANT, such that the Lease shall be "net, net, net" to the LANDLORD, excepting only interest and principal on any mortgage made by the LANDLORD and effecting the Premises.

(b) For purposes of this Lease, the scheduled increases in the base annual fixed rate shall occur on the first day of the sixth (6th), eleventh (11th) and sixteenth (16th) years of the Initial Term as same is determined pursuant to Paragraph 2.2 and on the first day of the sixth (6th) eleventh (11th) and sixteenth (16th), years of the Option Terms.

(c) If any installment under this Lease is not paid within fifteen (15) days of the time and at the place and in the manner specified, then LANDLORD may, at its option, declare TENANT in default.

ARTICLE V
Real Estate Taxes

5.1 Real Estate Taxes - As additional rent, TENANT agrees to pay all real estate taxes levied upon the Premises, Improvements located on the Premises, the leasehold estate, or any sublease hold estate of any nature including special assessments. The obligation for payment by TENANT of all real estate taxes shall commence simultaneously with the payment of rent hereunder.

5.2 Taxes - TENANT agrees to pay all taxes levied upon rents and personal property, including trade fixtures and inventory, kept on the demised Premises, covered by Section 5.1 after presentation to TENANT by LANDLORD of statements from the taxing jurisdiction in which said property is located. TENANT, however, will pay only the lowest discounted amount and will not be required to pay

any penalty, Interest or cost occurring by reason of LANDLORD'S failure to secure said tax statements in a timely fashion from the taxing authorities for any tax required to be paid by TENANT.

LANDLORD may, however, direct the taxing authorities to send the statements directly to TENANT. "In the event LANDLORD directs the taxing authorities to send a statement directly to TENANT, TENANT shall make all such payments directly to the taxing authority at least ten (10) days before any delinquency and before any fine, interest or penalty shall become due or imposed by operation of law for their nonpayment. Further, TENANT shall furnish to LANDLORD within ten (10) days of the date when any tax, assessment or charge would become delinquent, receipts or other satisfactory evidence establishing the timely payment of said taxes or charges." LANDLORD further agrees that TENANT, in the name of LANDLORD, but at TENANT'S sole expense, may protest any assessment before any taxing authority or board or maintain any necessary legal action in reference to said assessment or for the recovery of any taxes paid thereon. Nothing herein contained shall require TENANT to pay any income or excess profits, taxes assessed against LANDLORD or any corporation, capital stock, or franchise tax imposed upon LANDLORD.

5.3 Method of Payment - LANDLORD shall give written notice advising TENANT of the amount of real estate taxes, together with a copy of the tax bill, and TENANT shall pay such amount to LANDLORD within thirty (30) days after receipt of such notice. If this Lease shall terminate during a tax year, TENANT shall pay to LANDLORD, a prorated portion of the amount that would have been due for the full tax year based on the number of days of said tax year expired on the date of termination.

ARTICLE VI

Utilities and Services

6.1 Utilities and Charges Therefore - TENANT agrees to pay directly to the authority charged with the collection thereof, all charges for water, gas, electricity, sanitary sewer and sprinkler changes, telephone connection and standby fees and other utilities used or consumed in the Premises and shall make its own arrangements for such utilities. In the event any such services cannot be reasonably procured from any public agency, and LANDLORD provides any such services, TENANT shall reimburse LANDLORD for its proportionate share of any such services used or consumed in the demised premises as additional rental.

ARTICLE VII

TENANT'S Additional Covenants

7.1 Affirmative Covenants - TENANT covenants at its expense at all times during the Lease term and such further time as TENANT occupies the Premises or any part thereof.

7.1.1 Use - TENANT shall use and permit the use of the Premises and the improvements to be constructed thereon primarily for the operation of a branch bank, provided that (subject to the other terms and conditions of this Lease), TENANT may at any time use the Premises and the building and other improvements to be constructed thereon, for any other lawful commercial purposes. Neither TENANT nor its subtenants, if any, shall commit any nuisance, nor permit the emission of any objectionable noise or odor, nor bring on, deposit or allow to be brought on or deposited on the Premises any asbestos materials or any other Hazardous Substance or materials as the same may be defined by Federal, State or local laws, rules, statutes or regulations or in the Environmental Rider annexed hereto, nor use the property in such a manner which negatively effects the reversion.

7.1.2 Compliance with Law - To make all repairs, alterations, additions or replacements to the Premises required by any law or ordinance or any order or regulation of any public authority because of TENANT'S use of the Premises, to keep the Premises equipped with all safety appliances so required because of such use; to pay all municipal, county or state taxes assessed against the personal property of any kind owned by or placed in, upon or about the premises by TENANT; and to comply with the orders and regulations of all governmental authorities, as well as all Insurance Carriers and Underwriters.

7.1.2 (A) TENANT has the right to contest by appropriate judicial or administrative proceeding, without cost or expense to the LANDLORD, the validity or application of any law, ordinance, order, rule, regulation or requirement ("law") which the TENANT legitimately deems unduly burdensome or inappropriate and TENANT shall not be in default for failure to comply with such law until the legally permitted time following final determination of TENANT'S contest expires; provided, however, if LANDLORD gives notice of request, TENANT shall first furnish LANDLORD with a bond, satisfactory to LANDLORD in form and insurer, guaranteeing compliance by TENANT with the contested law and indemnifying LANDLORD against all liability that LANDLORD may sustain by reason of TENANT'S failure or delay in complying with the law. LANDLORD may, but is not required to, contest any such law independent of TENANT. On TENANT'S notice of request, LANDLORD may join in TENANT'S contest.

7.1.3 Payment for TENANT'S Work - To pay promptly when due the entire cost of any work to the Premises undertaken by TENANT and to bond against or discharge any liens for labor or materials within ten (10) days after written request by LANDLORD; to procure all necessary permits

before undertaking such work; and to do all of such work in a good and workmanlike manner, employing new materials of good quality and complying with all governmental requirements.

7.1.4 Indemnity and Liability Insurance - To defend with counsel, save harmless and indemnify LANDLORD from all claims or damage to or of any person or property while on the premises unless arising from any omission, fault, negligence or other misconduct of LANDLORD, and from all claims or damage to or of any person or property occasioned by any omission, fault, neglect or other misconduct of TENANT; to maintain in responsible companies qualified to do business in the state in which the premises is located and in good standing therein, public liability insurance covering the premises insuring LANDLORD, as well as TENANT, with limits at least equal to those stated in Section 1.1, workmen's compensation insurance with statutory limits, covering all of TENANT'S employees working in the premises, and to deposit promptly with LANDLORD certificates for such insurance and all renewals thereof, bearing the endorsement that the policies will not be canceled until after ten (10) days written notice to LANDLORD. TENANT'S obligations hereunder may be satisfied through a blanket insurance policy covering other interests of the TENANT.

7.1.5 LANDLORD'S Right to Enter - To permit LANDLORD and its agents to examine the premises at reasonable times and to show the premises to prospective purchasers and lenders, provided such entry shall not unreasonably interfere with TENANT'S operation and conduct of its business in the demised premises or compromise security.

7.1.6 Personal Property at TENANT'S Risk - That all of the furnishings, fixtures, equipment, effects and property of every kind, nature and description of TENANT and of all persons claiming under TENANT, may be on the premises, shall be at the sole risk and hazard of TENANT, and if the whole or any part thereof shall be destroyed or damaged by fire, water, or otherwise, or by the leakage or bursting of water pipes, steam pipes or other pipes, by theft or from any other cause, no part of said loss or damage is to charged to or be borne by LANDLORD, except that LANDLORD shall in no event be indemnified or held harmless or exonerated from any liability resulting from its sole negligence, failure to perform any of its obligations under this Lease or to any extent prohibited by law.

7.1.7 Payment of LANDLORD'S Cost of Enforcement - To pay on demand LANDLORD'S expenses, including reasonable attorney's fees, incurred in enforcing any obligation of TENANT under this Lease or in curing any default by TENANT under this Lease as provided in Section 10.4, provided LANDLORD shall prevail in any judicial proceedings in respect to such enforcement.

7.1.8 Yield Up - At the expiration of the Lease term or earlier termination of this Lease, TENANT shall remove all trade fixtures and personal property, to repair any damage caused by such removal, to remove all TENANT'S signs wherever located and to surrender all keys to the premises and yield up the premises, broom clean and in the same good order and repair in which TENANT is obligated to keep and maintain the premises by the provisions of this Lease, reasonable wear and tear and insured

damage by fire, casualty or taking excepted. Any property not so removed shall be deemed abandoned and may be removed and disposed of by LANDLORD in such manner as LANDLORD shall determine, without any obligation on the part of LANDLORD to account to TENANT for any proceeds therefrom, all of which shall become the property of LANDLORD. Any holdover by TENANT will not be deemed an extension of this Lease, and TENANT shall Indemnify LANDLORD against all losses and damages from a failure to surrender.

7.1.9 Maintenance -Throughout the term, TENANT shall, at TENANT'S sole cost and expense maintain the premises and all improvements thereon in good condition and repair, ordinary wear and tear excepted, and in accordance with all applicable laws, rules, ordinances, orders and regulations of (1) federal, state, county, municipal and other governmental agencies and bodies having or claiming jurisdiction and all of their respective departments, bureaus and officials; (2) the insurance underwriting board or insurance inspection bureau having or claiming jurisdiction; and (3) all insurance companies insuring all or any part of the premises of the improvements located thereon, or both except as provided below and subject only to the provisions of Paragraph 9.2, TENANT shall promptly and diligently repair, restore and replace as required to maintain the premises and the improvements in the condition set forth above, or to remedy all damage to or destruction of all or any part of the improvements.

(A) The completed work of maintenance, compliance, repair, restoration or replacement shall be equal in value, quality and use to the condition of the improvements before the event giving rise to the work, unless otherwise provided for in this Lease. LANDLORD shall not be required to furnish any services or facilities or to make any repairs or alterations of any kind in or upon or on the premises, LANDLORD'S election to perform any obligations of the TENANT under this provision on TENANTS failure or refusal to do so shall not constitute a waiver of any right or remedy for TENANTS default and TENANT shall promptly reimburse, defend and indemnify LANDLORD against all liability, loss, cost and expense arising from it.

7.1.10 Insurance - TENANT shall maintain in full force and effect, at its own cost, full replacement cost coverage insurance covering the demised premises (and all improvements for the full insurable value) against loss or damage by fire or casualty, with the usual extended coverage endorsements, together will endorsements protecting against loss or damage resulting from malicious mischief, sprinkler leakage and vandalism all in amounts not less than replacement parts value above foundation walls. All insurance policies shall name the LANDLORD as it interest may appear.

7.2 Negative Covenants - TENANT covenants at all times during the Lease further times as TENANT occupies the premises or any part thereof:

7.2.1 Overloading Nuisance, etc. - Not to injure, overload, deface or otherwise harm the premises; nor commit any nuisance; nor make any use of the premises which is improper, offensive or contrary to any law or ordinance.

7.2.2 Installation, Alteration or Additions - Not to make any installations, alterations or additions (except only the installation of fixtures necessary for the conduct of its business), without on each occasion obtaining prior written consent of LANDLORD, LANDLORD'S consent not be unreasonable withheld. No consent shall be required for nonstructural alterations not exceeding $100,000 in cost. No addition will be allowed which increases the building size to more than 4,000 square feet, or which violates the terms of Paragraph 2.1 of this Lease.

ARTICLE VIII

LANDLORD'S Additional Covenants

8.1 Warranty on Use - LANDLORD warrants and represents that at the commencement of construction it will be the Owner in Fee of the Land shown on Exhibit "A" and described in Exhibit "B". LANDLORD has no knowledge of and TENANT requires that there be no zoning regulations, restrictive agreements, leases or other instruments which prevent the use of the premises for the purpose intended herein, nor otherwise conflict with any of the provisions of this Lease. TENANT'S sole and conclusive remedy for a breach of this warranty shall be its right, at its election, to terminate the Lease prior to commencement of construction.

8.2 Competing Us - During the term of this Lease, provided TENANT is not in default, LANDLORD agrees not to lease or sell any portion of the project, of which the leased premises is a part, to a commercial bank, savings bank, savings and loan or credit union.

ARTICLE IX
Casualty or Taking

9.1 TENANT to Repair or Rebuild in the Event of Casualty - In case the Premises or any part thereof shall be damaged or destroyed by fire other casualty, taken (which term or reference to eminent domain action generally, for the purposes of this Article shall include a sale in lieu of the exercise of the right of eminent domain) or ordered to be demolished by the action of any public authority in consequence of a fire or other casualty, this Lease shall, unless it is terminated as provided below in Section 9.2 or 9.3, remain in full force and effect and TENANT shall, at its expense, proceed with all reasonable dispatch, to repair or rebuild the premises and the improvements, or what may remain thereof, so as to restore them as nearly as practicable to the condition they were in immediately prior to such damage or destruction.

9.2 Right to Terminate in Event of Casualty - In case of any damage or destruction occurring in the last five years of the original term of this Lease or during any extension of the term, to the extent of 50% or more of the insurable value of the building, TENANT may at its option, to be evidenced by notice in writing given to the LANDLORD within seven (7) days after the occurrence of such damage or destruction, in lieu of repairing or replacing the building, elect to terminate this Lease as of the date of said damage or

destruction. In the event the TENANT shall so terminate the lease all insurance proceeds shall become the property of the LANDLORD.

9.3 Eminent Domain - If the whole, or any part of the demised premises shall be taken or condemned by any competent authority for any public use or purpose during the term of this Lease. TENANT reserves the unto itself the right to prosecute its claim for an award based upon its leasehold interest for such taking, without impairing any rights of LANDLORD for the taking of or injury to the reversion.

In the event that a part of the demised premises shall be taken or condemned that (a) the part so taken includes the building on the demised premises or any part thereof or (b) the part so taken shall remove from the premises 20% or more of the front depth of the parking areas thereof, or (c) the part so taken shall consist of 25% or more of the total parking area, or (d) such partial taking shall result in cutting off direct access from the demised premises to any adjacent public street or highway, then and in any such event, the TENANT may at any time either prior to or within a period of sixty (60) days after the date when possession of the premises shall be required by the condemning authority elect to terminate this Lease, or if any option to purchase the premises is conferred upon the TENANT by any other provision of this Lease, may as an alternative to such termination of this Lease elect to purchase the demised premises in accordance with such purpose option. In the event that TENANT shall fail to exercise any such option to terminate this Lease or to purchase the premises or in the event that a part of the demised premises shall be taken or condemned under circumstances under which the TENANT will have no such option, then and in either such event the LANDLORD shall, with reasonable promptness, make necessary repairs to and alterations of the improvements on the demised premises for the purpose of restoring the same to an economic architectural unit, susceptible to the same use as that which was in effect immediately prior to such taking, to the extent that may have been necessary by such condemnation, subject to a pro-rata reduction in rental. Any dispute resulting from Section 9.3 of this Lease shall be submitted to the American Arbitration Society, whose decision shall be binding on the parties hereto.

ARTICLE X

Defaults

10.1 Events of Default - If (a) Tenant shall default in the performance of any of its obligations to pay rent or additional rent hereunder and if such default shall continue for ten (10) days after written notice from LANDLORD designating such default or if within thirty (30) days after written notice from LANDLORD to TENANT specifying any other non-monetary default or defaults, TENANT has not commenced diligently to correct the default or defaults so specified or has not thereafter diligently pursued such corrective action to completion, or (b) any assignment shall be made by TENANT for the benefit of credits, or (c) if TENANT'S leasehold interest shall be taken on execution, attached, levied upon or (d) if a petition is filed

by TENANT for adjudication as a bankrupt, or for reorganization or an arrangement under any provision of the Bankruptcy Act as then in force and effect, or (e) if an involuntary petition under any of the provisions of said Bankruptcy Act is filed against TENANT and such involuntary petition is not dismissed within sixty (60) days thereafter, then, and in any of such cases, LANDLORD lawfully may exercise all defaults rights available to it under law, including repossession of the leased property, termination of the lease, acceleration of all future rental payments, and such other rights as may be lawfully permitted.

10.2 Remedies - In the event that this Lease is terminated under any of the provisions contained in Section 10.1 or shall be otherwise terminated for breach of any obligation of TENANT, TENANT covenants to pay punctually to LANDLORD all the sums and perform all the obligations which TENANT covenants in this Lease to pay and to perform in the same manner and to the same extent and at the same time as if this Lease had not been terminated so long as such obligations shall have not been rendered unnecessary or impossible of performance by the subsequent re-letting or other occupancy permitted by LANDLORD. In calculating the amounts to be paid by TENANT under the foregoing covenant, TENANT shall be credited with the net proceeds of any rent or the value of other considerations obtained by LANDLORD by re-letting the premises, after deducting all LANDLORD'S expenses in connection with such re-letting, including, without limitation, all repossession costs, brokerage commissions, reasonable fees for legal services and expenses of preparing the premises for such reletting, it being agreed by TENANT that LANDLORD may (i) re-let the premises or any part or parts thereof, for a term or terms which may at LANDLORD'S option be equal to or less than or exceed the period which would otherwise have constituted the balance of the Lease term, and (ii) make such alterations, repairs and decorations in the premises as LANDLORD in its sole judgment considers advisable or necessary to re-let the same.

Nothing contained in this Lease shall, however, limit or prejudice the right of LANDLORD to prove for and obtain in proceedings for bankruptcy or insolvency by reason of the termination of this Lease, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amounts of the loss or damages referred to above.

10.3 Remedies Cumulative - Any and all rights and remedies which LANDLORD may have under this Lease, and at law and equity, shall be cumulative and shall not be deemed inconsistent with each other, and any two or more of all such rights and remedies may be exercised at the same time insofar as permitted by law.

10.4 LANDLORD'S and TENANT'S Right to Cure Defaults - LANDLORD may, but shall not be obligated to, cure at any time, following ten (10) days prior written notice to TENANT, except in cases of emergency when no notice shall be required, any default by TENANT under this Lease; and whenever LANDLORD so elects, all costs and expenses incurred by LANDLORD, including reasonable attorney's

fees, in curing a default shall be paid by TENANT to LANDLORD as additional rent on demand. TENANT shall have a like right to cure any default of LANDLORD, and TENANT may reimburse itself for the cost thereof out of succeeding rental payments.

10.5 Effect of Waivers on Default - No consent or waiver, expressed or implied, by either party to or of any breach of any covenants, conditions or duty of the other shall be construed as a consent or waiver to or of any other breach of the same of any other covenant, condition or duty.

ARTICLE XI

Miscellaneous Provisions

11.1 Assignment, Subletting, etc. - LANDLORD'S written consent shall be required for any assignment, transfer or subletting except to another financial institution which consent shall not be unreasonably withheld.

11.2 Notice from One Party to the Other - Any notice from LANDLORD to TENANT or from TENANT to LANDLORD shall be deemed duly served if mailed by registered or certified mail, return receipt requested, postage pre-paid, addressed, if to TENANT, at the original address of TENANT or such other addresses as TENANT shall have last designated by notice in writing to LANDLORD, and if to LANDLORD, at the original address of LANDLORD or such other address as LANDLORD shall have last designated by notice in writing to TENANT.

11.3 Quiet Employment - LANDLORD agrees that upon TENANT'S paying the rent and performing and observing the agreements, conditions and other provisions on its part to be performed and observed, TENANT shall and may peaceably and quietly have, hold and enjoy the demised premises during the Lease term without any manner or hindrance or molestation from LANDLORD or anyone claiming under LANDLORD, subject to the covenants and conditions of this Lease.

11.4 Recording - TENANT agrees not to record this Lease, but each party hereto agrees on request of the other, to execute a Notice or Short Form of this Lease in recordable form in compliance with applicable statutes, and reasonably satisfactory to LANDLORD'S and TENANTS attorneys. In no event shall such document set forth the rental or other charges payable by TENANT under this Lease; and any such document shall expressly state that it is executed pursuant to the provisions contained in this Lease, and is not intended to vary the terms and conditions of this Lease. In the event LANDLORD and/or TENANT believe that the Lease has been lawfully terminated, abandoned or otherwise of no force and effect and the other party will not voluntarily execute a Discharge of Memorandum of Lease, the party seeking the Discharge of Memorandum of Lease may move summarily before the Superior Court of New Jersey for a determination of whether or not the Memorandum of Lease should be discharged. The other party consents to the jurisdiction of the Superior Court of New Jersey and agrees to proceed in a summary manner. It is expressly understood and agreed that in addition to the relief provided herein, the

parties will have such additional cumulative remedies as are available to it at law or in equity for damages suffered by reason of a wrongful refusal to execute and deliver a Discharge of Memorandum of Lease.

11.5 Acts of God - In any case where either party hereto is required to do any act, delays caused by or resulting from Acts of God, war, civil commotion, fire or other casualty, labor difficulties, shortages of labor, materials or equipment, government regulations, or other causes beyond such party's reasonable control shall not be counted in determining the time during which work shall be completed, whether or such time be designated by a fixed date, a fixed time or "a reasonable time*.

11.6 Waiver of Subrogation - All insurance which is carried by either party with respect to the demised premises, whether or not required, shall include provisions which either designates the other party as one of the insured or deny to the insurer acquisition by subrogation of rights of recovery against the other party. Each party shall be entitled to have duplicates or certificates of any policies containing such provisions. Each party hereby waives all rights of recovery against the other for loss or injury against which the waiving party is protected by insurance containing such provisions.

11.7 Rights of Mortgagee and Subordination -

11.7.1 This Lease is subject and is hereby subordinated to all present and future mortgages, deeds of trust, and other encumbrances affecting the premises or the property of which said premises are a part; provided, however, that an agreement or instrument affecting such subordination shall be executed by the mortgagee or other Lender, be recorded with such mortgage or other security agreement, and a copy delivered to the TENANT and contain provisions, to the effect that (i) so long as TENANT observes the terms and provisions of this Lease and notwithstanding the Lease may be foreclosed, TENANT will not be effected or disturbed by the mortgagee in the exercise of any of its rights under the mortgage or other security agreement, or the bond, note or debt secured thereby, (ii) in the event the mortgagee comes into possession or ownership of the premises by foreclosing or otherwise, TENANT'S use, occupancy and quiet enjoyment of the premises shall not be disturbed by any such proceedings; (iii) in the event the premises are sold or otherwise disposed of pursuant to any right or power contained in the mortgage or other security agreement, or the bond or note secured thereby, or as a result of proceedings thereon, the purchaser shall take title subject to this Agreement of Non Disturbance, and all of the rights of the TENANT hereunder; (iv) in the event the buildings and Improvements upon the premises are damaged by fire and other casualty, for which loss the proceeds payable under any insurance policy or policies are payable to the mortgagee, such insurance funds, when paid, shall be made available for the purpose of repair and restoration as provided in this Lease; and (v) the agreement shall be binding upon the LANDLORD, mortgagee and their respective heirs, executors, administrators, successors and assigns. The TENANT agrees to execute, at no expense to the LANDLORD, any instrument which may be deemed necessary or desirable by the LANDLORD to further effect the subordination of this Lease to any such mortgage, deed of trust or encumbrance.

11.7.2 No Accord and Satisfaction - No acceptance by LANDLORD of lesser sum than the rent or any other charges then due shall be deemed to be other than on account of the earliest installment of such rent or charge due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent or other charge be deemed an accord and satisfaction, and LANDLORD may accept such check or payment without prejudice to LANDLORD'S right to recover and balance of such installments or pursue any other remedy in this Lease provided.

11.8 Applicable Law and Construction - This Lease shall be governed by and construed in accordance with the laws of the State of New Jersey, and if any provisions of this Lease shall to any extent be invalid, the remainder of this Lease shall not be affected thereby. There are no oral or written agreements between LANDLORD and TENANT affecting this Lease. This Lease may be amended only by instruments in writing executed by LANDLORD and TENANT. LANDLORD shall not be deemed in any way or for any purpose, to have become, by the execution of this Lease or any action taken thereunder, a partner of TENANT in its business or otherwise a joint venturer or member of any enterprises of TENANT. The titles of the several Articles and Sections contained herein are for convenience only and shall not be considered in construing this Lease. Unless repugnant to the context, the words "LANDLORD and TENANT" appearing in this Lease shall be construed to mean those names above and their respective heirs, administrators, successors and assigns, and those claiming through or under them respectively.

ARTICLE XII

Permits and Approvals

12.1 TENANT'S Obligations - The obligations of TENANT hereunder are contingent upon final approval by the bank's Board of Directors of this transaction and upon TENANT securing on or before July 30, 1998 the following unconditional and unappealable approvals:

A. All state and federal regulatory approvals for the construction and operation of a branch bank on the leased premises.

B. All municipal and governmental approvals required for the construction of TENANT'S proposed building including the issuance of a building permit("Permit and Approvals") and approvals for a free standing sign and other prototype signage as necessary to properly identify the building.

12.2 Approvals - TENANT shall diligently pursue all required approvals.

12.3 Easements - TENANT shall have absolutely no right to grant any easement with regard to the premises other than such easements to public entities or public service corporations for the purpose of serving only the premises, rights-of-way or easements on or over the premises for poles or conduits, or both, for telephone, electricity, water, sanitary or storm sewers or both and for other utilities and municipal or special district services. LANDLORD shall cooperate with TENANT to permit the creation of all necessary easements.

ARTICLE XIII
Net, Net, Net Lease

13.1 Net, Net, Net Lease - It is the intention of LANDLORD and TENANT that the rental herein specified shall be net to LANDLORD in each lease year, that all costs, expenses, and obligations of every kind relating to the TENANT'S use and occupancy of the premises which may arise during the term of this Lease shall be paid by TENANT, and that LANDLORD shall be indemnified by TENANT against any such costs, expenses and obligations.

ARTICLE XIV

Right of First Refusal

14.1 Right of First Refusal to Lease - If within one hundred eighty (180) days prior to the conclusion of this Lease and all options to extend the term thereof, LANDLORD shall desire to accept a bona fide offer received by it to lease any part of the Premises, LANDLORD shall notify TENANT of such a desire in the manner provided in this Lease for the giving of notice, and TENANT shall have the right of first refusal to lease said premises exercisable within ten (10) days of said written notice upon the terms contained in the notice. This provision shall only be effective after the termination, expiration or conclusion of the original lease term and all options to extend the Lease, and shall not affect the premises during the term of this Lease or any option to extend the term thereof.

14.2 Right of First Refusal to Purchase - TENANT shall have the right of first refusal to purchase the demised premises as hereinafter set forth. If at any time during the term as extended, LANDLORD shall receive a bona fide offer from a third person for the purchase of the demised premises, which offer LANDLORD shall desire to accept, LANDLORD shall promptly deliver to TENANT a copy of such offer, and TENANT may, within fifteen (15) days thereafter, elect to purchase the demised premises on the same terms as those set forth in such offer, excepting that TENANT shall be credited against the purchase price to be paid by TENANT, with a sum equal to the amount of any brokerage commissions, if any, which LANDLORD shall save by a sale to TENANT. If LANDLORD shall receive an offer for the purchase of the demised premises, which is not consummated by delivering a deed to the offerer, the TENANT'S right of first refusal to purchase shall remain applicable to subsequent offers. If LANDLORD shall sell the demised premises after a failure of TENANT to exercise its right of first refusal, such shall be subject to the Lease and shall continue to be applicable to subsequent sales of the demised premises. Notwithstanding the foregoing, TENANT'S right of first refusal shall not apply or extend to any sales or transfers between LANDLORD and any affiliates in which the principals of the LANDLORD are the majority shareholders to any family trusts or to the heirs of the principals of LANDLORD. LANDLORD shall be entitled to net the same amount under any right of first refusal exercise.

ARTICLE XV

Holdover

15.1 Holdover - In the event that TENANT continues in use and occupancy and holds over in possession of the promises after the expiration of the Initial Term or, properly exercised, the Option Term, in addition to all other damages to which LANDLORD may be entitled, the monthly rent during the period of holdover shall be in a sum equal to double the amount of the monthly installment of base annual fixed rent during the last month of the term which has just expired. Said holdover rent shall be in addition to all additional rents for which the TENANT shall be responsible during the holdover period.

ARTICLE XVI

Construction Cost

16.1 Construction Cost - TENANT shall construct its own building at its own costs and construction within its demised premises, as identified in Exhibit A.

ARTICLE XVII

Environmental

17.1 Environmental Matters -

A. LANDLORD represents and warrants that any handling, transportation, storage, treatment or usage of hazardous or toxic substances (as defined by any applicant government authority and hereinafter being referred to as "Hazardous Materials") that has occurred or will occur on the Demised Premises shall be in compliance with all applicable federal, state and local laws, regulations and ordinances. TENANT represents and warrants that any handling, transportation, storage, treatment or usage of Hazardous Materials by TENANT at the Demised Premises shall be in compliance with applicable federal, state and local laws. LANDLORD further represents and warrants that no leak, spill, discharge, emission or disposal of Hazardous Materials has occurred or will occur on the Demised Premises and that the soil, groundwater, soil vapor on or under the Demised Premises is or will be free of Hazardous Materials as of the date hereof. LANDLORD agrees to indemnify, defend and hold TENANT and its officers, from any claims, judgments, damages, fines, penalties, costs, liabilities (including sums paid in settlement of claims) or loss including attorney's fees, consultants fees, and expert fees which arise during or after the Primary Term or any Renewal Term, or in connection with the presence of suspected presence of Hazardous Materials in the soil, groundwater, or soil vapor on or under the Demised Premises, unless such Hazardous Materials are present solely as the result of the acts of TENANT, its officers, employees or agents. Without limiting the generality of the foregoing, this indemnification shall survive the expiration of this Lease and does specifically cover costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work

required by any federal, state or local governmental agency or political subdivision because of the presence or suspected presence of Hazardous Materials in the soil, groundwater or soil vapor odor under the Demised Premises, unless the hazardous Materials are present solely as the result of the acts of TENANT, its officers, agents or employees. Without limiting the generality of the foregoing, this indemnification shall also specifically cover costs in connection with:

1. Hazardous Materials present or suspected to be present in the soil, groundwater or soil vapor on or under the Demised Premises before the date hereof; or

2. Hazardous Materials that migrate, flow, percolate, diffuse or in any move onto or under the Demised Premises after the date hereof; or

3. Hazardous Materials present on or under the Demised Premises as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Demised Premises during or after the Primary Term or any Renewal Term by any person or entity.

B. TENANT agrees to indemnify LANDLORD and its officers, employees and agents harmless from any claims, judgments, damages, fines, penalties, costs, liabilities (including sums paid in settlement of claims) or loss including attorney's fees, consultants fees and expert fees which arise during or after the Primary Term or any Renewal Term in connection with the presence of toxic or hazardous substances in the soil, groundwater, or soil vapor on or under the Demised Premises to the extent such presence is caused by the acts of Tenant, its officers, employees and agents.

C. A condition precedent to this Lease shall be TENANT's satisfactory review of the report (the "Phase I Environmental Survey") on the environmental condition of the land on which the Demised Premises is located. LANDLORD agrees to provide TENANT with a Phase I Environmental Survey of the land on which the Demised Premises is located. In the event that TENANT shall discover in its review of the Phase I Environmental Survey that any Hazardous Materials may be present in the soil. ground water or soil vapor on or under the Demised Premises, TENANT may, upon written notice to LANDLORD within ten (10) days after the date TENANT receives the Phase I Environmental Survey, terminate this Lease.

D. If during the term of this Lease any governmental authority requires the remediation of Hazardous Materials from the Demised Premises or the Shopping Center and such remediation materially affects TENANT's business operations or poses a safety threat to TENANT's employees or customers, then TENANT shall be entitled to an equitable abatement of rent from the date such interference or safety hazard occurs to the date such interference and safety hazard are no longer present.

ARTICLE XVIII

18.1 Title - This lease shall be subject and subordinate to the lien of any bank or institution or other mortgage or mortgages now or hereafter in force against LANDLORD'S property, and to all

advances made upon the security thereof, provided the holder of any such mortgage shall execute and deliver to TENANT an agreement, in the form of Exhibit D attached hereto, or as otherwise agreed to by TENANT, LANDLORD and such holder, providing that such holder will recognize this lease and not disturb TENANT's possession of the promises in the event of foreclosure if TENANT is not then in default hereunder beyond any applicable cure period. TENANT agrees, upon receipt of such agreement, to execute such further instrument(s) as may be necessary to subordinate this lease to the lien of any such mortgage. The term "mortgage" shall include deeds of trust or any other similar hypothecation's.

18.2 Ownership - LANDLORD warrants that it owns in fee the subject premises subject only to the liens, mortgages and encumbrances listed on the attached schedule, evidenced by a title report provided by LANDLORD to TENANT within forty-five (45) days of the execution of this lease, which shall be subject to TENANT's reasonable approval. TENANT's lease hereunder shall be subordinate only to such liens where the holder of such liens has executed and delivered to TENANT in the form attached hereto a Subordination and Non-Disturbance Agreement.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals this day and year first above written.

COMMERCE BANK, N.A.

------------------------------ BY: -------------------------------

Attest

Thomas H. Arasz
Senior Vice President/Real Estate Officer

ENGLISH CREEK PROPERTIES, L.L.C.

------------------------------ BY: -------------------------------

Attest

John P. Silvestri
Managing Member

Commerce Bancorp, Inc. and Subsidiaries Selected Financial Data

(dollars in thousands, except per share data)	1998	1997	1996	1995	1994
	Year Ended December 31,				
Income Statement Data:					
Net interest income	$ 173,727	$ 147,140	$ 125,413	$ 109,899	$ 102,997
Provision for loan losses	5,867	4,668	4,857	2,774	5,224
Noninterest income	88,947	57,374	32,776	23,623	19,591
Noninterest expense	181,967	137,929	109,031	89,316	82,734
Income before income taxes	74,840	61,917	44,301	41,432	34,630
Net income	49,318	40,325	28,250	26,652	22,145
Balance Sheet Data:					
Total assets	$ 4,894,065	$ 3,938,967	$ 3,232,152	$ 2,738,587	$ 2,571,704
Loans (net)	1,904,954	1,390,028	1,248,880	1,032,801	916,437
Securities available for sale	1,283,504	1,315,120	767,487	571,553	126,437
Securities held to maturity	1,127,658	874,032	837,512	772,999	1,257,551
Trading securities	85,359	7,911	15,327	8,843	
Federal funds sold			26,975	42,370	18,300
Deposits	4,435,115	3,369,404	2,919,670	2,529,186	2,099,247
Long-term debt	24,282	25,308	26,333	27,359	28,385
Trust preferred securities	57,500	57,500			
Stockholders' equity	300,716	250,760	203,964	179,695	126,582
Per Share Data:					
Net income-basic	$ 2.08	$ 1.79	$ 1.37	$ 1.30	$ 1.18
Net income-diluted	1.98	1.69	1.26	1.23	1.11
Cash dividends	0.92	0.57	0.48	0.42	0.39
Book value	12.50	10.89	9.17	8.81	6.82
Average shares outstanding:					
Basic	23,668	22,197	20,017	19,653	17,357
Diluted	24,951	23,786	22,372	21,536	19,753
Selected Ratios:					
Performance					
Return on average assets	1.13%	1.13%	0.96%	1.01%	0.89%
Return on average equity	17.67	18.18	15.43	16.57	18.54
Net interest margin	4.38	4.55	4.72	4.58	4.51
Liquidity and Capital					
Average loans to average deposits	41.81%	42.42%	42.84%	41.92%	43.24%
Dividend payout	44.04	32.04	34.89	32.52	32.82
Stockholders' equity to total assets	6.14	6.37	6.31	6.56	4.92
Risk-based capital:					
Tier 1	12.98	15.66	12.57	12.64	10.04
Total	14.66	17.97	15.09	15.49	13.08
Leverage capital	7.36	7.81	6.46	6.43	4.93
Asset Quality					
Non-performing assets to total year-end assets	0.27%	0.44%	0.60%	0.81%	1.05%
Net charge-offs to average loans outstanding	0.04	0.10	0.25	0.14	0.35
Non-performing loans to total year-end loans	0.37	0.82	0.89	0.97	1.64
Allowance for loan losses to total end of year loans	1.37	1.51	1.42	1.53	1.58
Allowance for loan losses to non-performing loans	371.28	183.46	159.88	156.72	96.26

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.

1998 Overview

In 1998, the Company posted increases in net income, deposits, loans, and assets. The increase in net income was due to increases in net interest income and noninterest income, which offset increased noninterest expenses. Loan growth totaled 37% for 1998, and deposit growth totaled 32%. At December 31, 1998, the Company had total assets of $4.9 billion, total loans of $1.9 billion, total investment securities of $2.5 billion, and total deposits of $4.4 billion.

Segment Reporting

The Company operates one reportable segment of business, Community Banks, as more fully described in Note 19 to the Consolidated Financial Statements on page 41. The following table summarizes net income by segment for each of the last three years:

	Net Income		
	1998	1997	1996
Community Banks	$ 50,378	$ 41,429	$ 30,133
Parent/Other	(1,060)	(1,104)	(1,883)
Consolidated total	$ 49,318	$ 40,325	$ 28,250

Average Balances and Net Interest Income

The table on page 4 sets forth balance sheet items on a daily average basis for the years ended December 31, 1998, 1997, and 1996 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 1998, average interest earning assets totaled $4.0 billion, an increase of $754.5 million, or 23% over 1997. This increase resulted primarily from the increase in the average balance of loans, which rose $286.9 million, and the average balance of investment securities, which rose $459.7 million during 1998. 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 $733.0 million.

Net Interest Income and Net Interest Margin

Net interest margin on a tax-equivalent basis was 4.38% for 1998, a decrease of 17 basis points from 1997.

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 1998 was $176.1 million, an increase of $27.6 million, or 19%, over 1997. Interest income on a tax-equivalent basis increased to $291.7 million from $245.5 million, or 19%. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 1998 rose $18.5 million to $115.6 million from $97.0 million in 1997. This increase was primarily related to increases in the Company's levels of deposits.

The tax-equivalent yield on interest earning assets during 1998 was 7.25%, a decrease of 27 basis points from 7.52% in 1997. The decrease resulted primarily from decreased yields in the loan and investment portfolios due to the level and timing of changes in general market interest rates during 1998 as compared to 1997.

The cost of interest-bearing liabilities decreased six basis points in 1998 to 3.57% from 3.63% in 1997. The decrease resulted primarily from lower market interest rates in 1998 as compared to 1997. The cost of total funding sources decreased 10 basis points in 1998 to 2.87% from 2.97%.

The following table presents the major factors that contributed to the changes in net interest income for the years ended December 31, 1998 and 1997 as compared to the respective previous periods.

<TABLE>
<CAPTION>

	1998 vs. 1997 Increase (Decrease) Due to Changes in (1)			1997 vs. 1996 Increase (Decrease) Due to Changes in (1)		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest on investments:						
Taxable	$27,766	$(4,909)	$22,857	$26,681	$ 610	$27,291
Tax-exempt	(342)	750	408	983	(416)	567
Trading	1,562	82	1,644	49	(91)	(42)
Federal funds sold	412	(57)	355	(1,577)	197	(1,380)
Interest on loans:						

Commercial real estate	8,222	(1,614)	6,608	5,198	(516)	4,682
Commercial	4,884	(836)	4,048	3,233	53	3,286
Consumer	10,654	(1,347)	9,307	7,842	(811)	7,031
Tax-exempt	935	(31)	904	297	(3)	294
Total interest income	54,093	(7,962)	46,131	42,706	(977)	41,729
Interest expense:						
Regular savings	2,759	(922)	1,837	2,260	1,252	3,512
N.O.W. accounts	1,472	(77)	1,395	(5,843)	535	(5,308)
Money market plus	6,082	407	6,489	10,796	(506)	10,290
Time deposits	3,422	431	3,853	1,404	192	1,596
Public funds	4,027	(194)	3,833	3,388	(415)	2,973
Other borrowed money	(1,338)	207	(1,131)	3,735	55	3,790
Long-term debt	2,218	22	2,240	2,860	2	2,862
Total interest expense	18,642	(126)	18,516	18,600	1,115	19,715
Net increase	$35,451	$(7,836)	$27,615	$24,106	$(2,092)	$22,014

<FN>
(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.
</FN>
</TABLE>

Noninterest Income

For 1998, noninterest income totaled $88.9 million, an increase of $31.6 million or 55% from 1997. The increase was due primarily to increased other operating income, which rose $24.4 million from 1997, including an increase of $8.7 million in revenues from Commerce National Insurance Services, Inc. (Commerce Insurance), the Company's insurance brokerage subsidiary, and an increase of $10.8 million in revenues from Commerce Capital Markets, Inc. (CCMI). CCMI, a wholly-owned nonbank subsidiary of the Company engaging in certain securities activities permitted under Section 20 of the Glass-Steagall Act, was formed in the first quarter of 1998 by the combination of Commerce Capital, the bank securities dealer division of Commerce NJ, and the former A. H. Williams & Co., Philadelphia, PA, a public finance firm acquired by the Company. In addition, deposit charges and service fees increased $6.6 million over 1997 due primarily to higher transaction volumes, and net investment securities gains were $648 thousand higher in 1998 than the prior year.

Noninterest Expenses

Noninterest expenses totaled $182.0 million for 1998, an increase of $44.0 million, or 32% over 1997. Contributing to this increase was the addition of eight new branches, the expansion of Commerce Insurance, and the formation of CCMI. With the addition of these new offices and CCMI, staff, facilities, marketing, and related expenses rose accordingly. Other noninterest expenses rose $8.3 million to $27.2 million in 1998. This increase resulted primarily from higher bank-card related service charges, increased business development expenses, and increased provisions for non-credit-related losses.

A key industry productivity measure is the oper-ating 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). Over the last three years, this ratio equaled 69.54%, 67.31% and 66.95% in 1998, 1997 and 1996, respectively. The Company's efficiency ratio remains above its peer group primarily due to its aggressive growth expansion activities and investments in technology.

<TABLE>
<CAPTION>
Commerce Bancorp, Inc. and Subsidiaries Average Balances and Net Interest Income

	Year Ended December 31,		
	1998	1997	1996

(dollars in thousands) Earning Assets	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Investment securities									
Taxable	$2,270,569	$143,649	6.33%	$1,831,692	$120,792	6.59%	$1,427,098	$ 93,501	6.55%
Tax-exempt	45,633	2,940	6.44	50,940	2,532	4.97	31,163	1,965	6.31
Trading	32,921	1,965	5.97	6,766	321	4.74	5,740	363	6.32
Total investment securities	2,349,123	148,554	6.32	1,889,398	123,645	6.54	1,464,001	95,829	6.55
Federal funds sold	35,045	1,842	5.26	27,206	1,487	5.47	56,050	2,867	5.12
Loans									
Commercial real estate	620,582	56,349	9.08	530,467	49,741	9.38	475,038	45,060	9.49
Commercial	302,775	27,480	9.08	248,958	23,432	9.41	214,604	20,146	9.39
Consumer	693,213	55,490	8.00	559,707	46,183	8.25	465,147	39,152	8.42
Tax-exempt	19,678	1,939	9.85	10,193	1,035	10.15	7,269	740	10.18
Total loans	1,636,248	141,258	8.63	1,349,325	120,391	8.92	1,162,058	105,098	9.04
Total earning assets	$4,020,416	$291,654	7.25%	$3,265,929	$245,523	7.52%	$2,682,109	$203,794	7.60%
Sources of Funds									
Interest-bearing liabilities									
Regular savings	$ 789,389	$18,256	2.31%	$ 670,074	$16,419	2.45%	$ 577,824	$12,907	2.23%
N.O.W. accounts	178,805	3,964	2.22	112,421	2,569	2.29	368,120	7,877	2.14
Money market plus	1,116,628	28,744	2.57	880,357	22,255	2.53	453,284	11,965	2.64
Time deposits	656,051	34,440	5.25	590,866	30,587	5.18	563,752	28,991	5.14
Public funds	346,866	19,027	5.49	273,445	15,194	5.56	212,468	12,221	5.75
Total deposits	3,087,739	104,431	3.38	2,527,163	87,024	3.44	2,175,448	73,961	3.40
Other borrowed money	68,400	3,995	5.84	91,308	5,126	5.61	24,782	1,336	5.39
Long-term debt	80,500	7,127	8.85	55,452	4,887	8.81	23,000	2,025	8.80
Total deposits and interest-bearing liabilities	3,236,639	115,553	3.57	2,673,923	97,037	3.63	2,223,230	77,322	3.48
Noninterest-bearing funds (net)	783,777			592,006			458,879		
Total sources to fund earning assets	$4,020,416	115,553	2.87	$3,265,929	97,037	2.97	$2,682,109	77,322	2.88
Net interest income and margin tax-equivalent basis		176,101	4.38		148,486	4.55		126,472	4.72
Tax-exempt adjustment		2,374			1,345			1,059	
Net interest income and margin		$173,727	4.33%		$147,141	4.51%		$125,413	4.68%
Other Balances									
Cash and due from banks	$177,570			$ 154,375			$ 147,768		
Other assets	204,634			168,818			141,848		
Total assets	4,370,097			3,568,566			2,954,851		
Demand deposits (noninterest-bearing)	826,099			653,626			537,079		
Other liabilities	37,077			19,153			11,488		
Stockholders' equity	279,097			221,864			183,055		

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

Management's Discussion and Analysis of
Financial Condition and Results of Operations

Income Taxes

The provision for federal and state income taxes for 1998 was $25.5 million compared to $21.6 million in 1997 and $16.1 million in 1996.

The increase in 1998 total tax expense was the result of an increase in income before income taxes. The effective tax rate was 34.1%, 34.9% and 36.2% in 1998, 1997, and 1996, respectively.

Net Income

Net income for 1998 was $49.3 million, an increase of $9.0 million, or 22% over the $40.3 million recorded for 1997. The increase in net income was due to increases in net interest income and noninterest income, which offset increased noninterest expenses.

Diluted net income per share of common stock for 1998 was $1.98 compared to $1.69 per common share for 1997.

Return on Average Equity and Average Assets

Two industry measures of the performance by a banking institution are its return on average assets and return on average equity. Return on average assets ("ROA") measures net income in relation to total average assets and indicates a company's ability to employ its resources profitably. For 1998 and 1997, the Company's ROA was 1.13%. 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. For 1998, the Company's ROE was 17.67% compared to 18.18% for 1997.

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 1994 through 1998.

<TABLE>
<CAPTION>

(dollars in thousands)	December 31, 1998	1997	1996	1995	1994
Commercial real estate:					
Owner-occupied	$ 250,059	$ 221,788	$ 167,702	$ 149,258	$151,420
Other	358,600	287,510	288,733	250,782	215,063
Construction	111,972	57,182	52,372	52,593	53,792
	720,631	566,480	508,807	452,633	420,275
Commercial:					
Term	200,060	152,115	153,793	126,120	106,536
Line of credit	166,920	101,134	91,418	68,372	54,379
Demand	309	442	529	407	766
	367,289	253,691	245,740	194,899	161,681
Consumer:					
Mortgages (1-4 family residential)	304,622	167,979	153,615	133,893	111,689
Installment	68,032	63,448	54,548	44,781	32,447
Home equity	458,401	347,903	293,591	212,845	195,362
Credit lines	12,388	11,788	10,554	9,764	9,649
	843,443	591,118	512,308	401,283	349,147
Total loans	$1,931,363	$1,411,289	$1,266,855	$1,048,815	$931,103

</TABLE>

The Company manages risk associated with its loan portfolio through diversification, underwriting policies and procedures which are reviewed and updated on at least an annual basis, and ongoing loan monitoring efforts. The commercial real estate portfolio includes owner-occupied (owner occupies greater than 50% of the property), other commercial real estate, and construction loans. Owner-occupied and other commercial real estate loans generally have five year call provisions and bear the personal guarantees of the principals involved. Construction loans are primarily used for single family residential properties. Financing is provided against firm agreements of sale, with speculative construction limited to one sample per project. The commercial loan portfolio is comprised primarily of amortizing loans to small businesses in the New Jersey/Southeastern Pennsylvania market area. 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. Such loans comprised approximately 90% of consumer loans at December 31, 1998.

The 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, 1998, are summarized in the following table.

	December 31, 1998			
(dollars in thousands)	Due in One Year or Less	Due in One to Five Years	Due in Over Five Years	Total
Commercial real estate:				
Owner occupied/other	$116,872	$411,584	$80,203	$608,659
Construction	81,145	30,793	34	111,972
	198,017	442,377	80,237	720,631
Commercial:				
Term	69,472	112,612	17,976	200,060
Line of credit	163,921	2,999	0	166,920
Demand	271	38	0	309
	233,664	115,649	17,976	367,289
Consumer:				
Mortgages (1-4 family residential)	13,512	38,647	252,463	304,622
Installment	30,939	36,008	1,085	68,032
Home equity	53,087	194,601	210,713	458,401
Credit lines	4,253	8,135	0	12,388
	101,791	277,391	464,261	843,443
Total loans	$533,472	$835,417	$562,474	$1,931,363
Interest rates:				
Predetermined	$203,882	$636,278	$442,515	$1,282,675
Floating	329,590	199,139	119,959	648,688
Total loans	$533,472	$835,417	$562,474	$1,931,363

During 1998, loans increased $520.1 million, or 37% from $1.4 billion to $1.9 billion. At December 31, 1998, loans represented 43% of total deposits and 39% of total assets. All segments of the loan portfolio experienced growth in 1998, including loans secured by commercial real estate, commercial loans, and consumer loans.

The Company has traditionally been an active provider of commercial real estate loans to creditworthy local borrowers, with such loans secured by properties within the Company's primary trade area. At December 31, 1998, $250.1 million, or 41%, of commercial real estate loans (other than construction) were secured by owner-occupied properties. Commercial loan growth was led by activity in the middle market and healthcare sectors. Growth in consumer loans was due primarily to loans secured by one to four family residential properties, including home equity loans and home equity lines of credit.

Commercial real estate construction loans increased $54.8 million to $112.0 million in 1998. At December 31, 1998, construction loans for 1-4 family residential dwellings totaled $1.7 million and construction loans secured by commercial properties amounted to $28.1 million. The balance of $82.2 million was for land development, of which $56.6 million was residential. As of December 31, 1998, there were no concentrations of loans to any one type of industry exceeding 10% of total loans nor were there any loans classified as highly leveraged transactions.

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, 1998 were $13.2 million or .27% of total assets, as compared to $17.4 million or .44% of total assets at December 31, 1997.

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, 1998 were $7.1 million as compared to $11.6 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. 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, 1998, loans past due 90 days or more and still accruing interest amounted to $249 thousand, compared to $226 thousand at December 31, 1997. Additional loans considered as potential problem loans ($17.7 million at December 31, 1998) by the Company's internal loan review department have been evaluated as to risk exposure in determining the adequacy of the allowance for loan losses.

Other real estate (ORE) totaled $6.1 million at December 31, 1998 as compared to $5.8 million at December 31, 1997. 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 loans secured by real estate, particularly those categorized as non-performing loans and potential problem loans. 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, 1994 through 1998.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans (1):					
Commercial	$ 1,484	$ 1,816	$ 1,263	$ 1,623	$ 3,925
Consumer	831	703	1,145	978	1,755
Real estate					
Construction		1,345	2,156	1,787	955
Mortgage	4,564	7,706	6,157	5,308	8,025
Total non-accrual loans	6,879	11,570	10,721	9,696	14,660
Restructured loans (1):					
Commercial	17	19	21	161	143
Consumer			29	60	29
Real estate					
Construction					
Mortgage	217		481	301	404
Total restructured loans	234	19	531	522	576
Total non-performing loans	7,113	11,589	11,252	10,218	15,236
Other real estate	6,081	5,845	8,252	11,862	11,739
Total non-performing assets	$13,194	$17,434	$19,504	$22,080	$26,975
Non-performing assets as a percent of total assets	0.27%	0.44%	0.60%	0.81%	1.05%
Loans past due 90 days or more and still accruing interest	$249	$226	$259	$159	$400

<FN>
(1) Interest income of approximately $897,000, $1,361,000, $1,226,000, $1,079,000, and $1,496,000 would have been recorded in 1998, 1997, 1996, 1995 and 1994 respectively, on non-performing loans in accordance with their original terms. Actual interest recorded on these loans amounted to $266,000 in 1998, $323,000 in 1997, $262,000 in 1996, $299,000 in 1995, and $317,000 in 1994.
</FN>
</TABLE>

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. Management has established a loan loss reserve which it believes is adequate for estimated losses in its loan portfolio. 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, management considers the results of recent regulatory examinations, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, the amount of charge-offs for the period, the amount of non-performing loans and related collateral security, the evaluation of its loan portfolio by the internal loan review department and the annual examination of the Company's financial statements by its independent auditors. Charge-offs occur when loans are deemed to be uncollectible.

Through an internal loan review function that operates independently of the lending function, management employs several methodologies to measure the appropriate level of loan loss reserves. Those methodologies include migration analyses based on historical experience and the related internal ratings of loans charged off, and an allocation methodology based on the review of individual loans, individual loan classifications, and collateral values. When utilizing the allocation methodology, an unallocated portion of the reserve is determined based on management's assessment of general national, regional, and local economic conditions. 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 or other methodology criteria.

During 1998, net charge-offs amounted to $719 thousand, or .04% of average loans outstanding for the year, compared to $1.4 million or .10% of average loans outstanding for 1997. During 1998, the Company recorded provisions of $5.9 million to the allowance for loan losses compared to $4.7 million for 1997. At December 31, 1998, the allowance aggregated $26.4 million or 1.37% of total loans and provided coverage of 371% of non-performing loans.

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

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1998	1997	1996	1995	1994
(dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of period	$21,261	$17,975	$16,014	$14,666	$12,515
Provisions charged to operating expenses	5,867	4,668	4,857	2,774	5,224
	27,128	22,643	20,871	17,440	17,739
Recoveries of loans previously charged-off:					
Commercial	332	348	286	486	335
Consumer	280	406	274	243	247
Commercial real estate	756	144	95	292	23
Total recoveries	1,368	898	655	1,021	605
Loans charged-off:					
Commercial	(572)	(964)	(1,202)	(1,253)	(2,608)
Consumer	(1,211)	(1,170)	(1,046)	(771)	(683)
Commercial real estate	(304)	(146)	(1,303)	(423)	(387)
Total charged-off	(2,087)	(2,280)	(3,551)	(2,447)	(3,678)
Net charge-offs	(719)	(1,382)	(2,896)	(1,426)	(3,073)
Balance at end of period	$26,409	$21,261	$17,975	$16,014	$14,666
Net charge-offs as a percentage of average loans outstanding	0.04%	0.10%	0.25%	0.14%	0.35%
Allowance for loan losses					

as a percentage of year-end loans	1.37%	1.51%	1.42%	1.53%	1.58%

</TABLE>

Allocation of the Allowance for Loan Losses

The following table details the allocation of the allowance for loan losses to the various categories. 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.

<TABLE>
<CAPTION>

	Allowance for Loan Losses at December 31,									
	1998		1997		1996		1995		1994	
	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans
(dollars in thousands)										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 6,224	19%	$ 4,054	18%	$ 3,375	19%	$ 3,364	19%	$ 3,105	18%
Consumer	13,520	44	11,628	42	4,081	41	3,321	38	2,707	37
Commercial real estate	6,665	37	5,579	40	10,519	40	9,329	43	8,854	45
	$26,409	100%	$21,261	100%	$17,975	100%	$16,014	100%	$14,666	100%

</TABLE>

Investment Securities

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

<TABLE>
<CAPTION>

	December 31,		
	1998	1997	1996
(dollars in thousands)			
<S>	<C>	<C>	<C>
U.S. Government agency and mortgage-backed obligations	$1,134,852	$1,252,693	$707,316
Obligations of state and political subdivisions	26,041	23,515	15,743
Equity securities	15,397	11,364	3,994
Other	107,214	27,548	40,434
Securities available for sale	$1,283,504	$1,315,120	$767,487
U.S. Government agency and mortgage-backed obligations	$1,081,895	$ 834,228	$798,345
Obligations of state and political subdivisions	20,982	20,940	22,674
Other	24,781	18,864	16,493
Securities held to maturity	$1,127,658	$ 874,032	$837,512

</TABLE>

Consistent with accounting and regulatory pronouncements, 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. 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 are carried at market value, with gains and losses, both realized and unrealized, included in other operating income.

In total, investment securities increased $299.5 million from $2.2 billion to $2.5 billion at December 31, 1998. Deposit growth and other funding sources were used to increase the Company's investment portfolio. The available for sale portfolio decreased $31.6 million to $1.3 billion, and the securities held to maturity portfolio increased $253.6 million to $1.1 billion from $874.0 million at year-end 1997. The portfolio of trading securities increased $77.4 million from year-end 1997 to $85.4 million at year-end 1998, primarily due to the formation of CCMI. At December 31, 1998, the average life and duration of the investment portfolio were approximately 4.4 years and 3.2 years, respectively, as compared to 5.4 years and 4.2 years, respectively, at December 31, 1997. At December 31, 1998 the yield on the portfolio was 6.23%, down from 6.57% at December 31, 1997.

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. Since most securities are purchased at premiums or discounts, their yield will change depending on any change in the estimated rate of prepayments. The Company amortizes premiums and accretes discounts over the estimated average life of the securities. Changes in the estimated average life of the investment portfolio will lengthen or shorten the period in which the premium or discount must be amortized or accreted, thus affecting the Company's investment yields. For the year ended December 31, 1998, the yield on the investment portfolio was 6.32%, a decrease of 22 basis points from 6.54% in fiscal 1997.

At December 31, 1998, the unrealized appreciation in securities available for sale included in stockholders' equity totaled $7.0 million, net of tax, compared to unrealized appreciation of $3.8 million, net of tax, at December 31, 1997.

The contractual maturity distribution and weighted average yield of the Company's investment portfolio (excluding equity and trading securities) at December 31, 1998, are summarized in the following table. Weighted average yield is calculated by dividing income within each maturity range by the outstanding amount of the related investment and has been tax effected on tax-exempt obligations.

<TABLE>
<CAPTION>

	December 31, 1998									
	Due Under 1 Year		Due 1-5 Years		Due 5-10 Years		Due Over 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
(dollars in thousands)										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Securities available for sale:										
U.S. Government agency and mortgage-backed obligations	$ 8,915	5.31%	$ 27,269	5.74%	$ 56,449	6.15%	$1,042,219	6.36%	$1,134,852	6.33%
Obligations of state and political subdivisions	1,296	7.83	9,764	7.48	13,415	7.47	1,566	7.27	26,041	7.48
Other securities	100,164	4.50					7,050	8.19	107,214	4.74
	$110,375	4.60%	$ 37,033	6.20%	$69,864	6.40%	$1,050,835	6.38%	$1,268,107	6.22%
Securities held to maturity:										
U.S. Government agency and mortgage-backed obligations			$ 8,662	6.64%	$109,549	6.08%	$ 963,684	6.21%	$1,081,895	6.20%
Obligations of state and political subdivisions	$ 18,327	5.69%	2,655	7.08					20,982	5.87
Other securities	23,786	5.98	995	9.50					24,781	6.12
	$ 42,113	5.85%	$ 12,312	6.96%	$109,549	6.08%	$963,684	6.21%	$1,127,658	6.19%

</TABLE>

Deposits

Total deposits at December 31, 1998 were $4.4 billion, an increase of $1.1 billion or 32% above total deposits of $3.4 billion at December 31, 1997. 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 certificates of deposit, retail and public, in excess of $100 thousand. All but $55.2 million of the 1998 increase in deposits was in the various core categories.

Total deposits averaged $3.9 billion for 1998, an increase of $733.0 million or 23% above the 1997 average. The average balance of noninterest-bearing demand deposits in 1998 was $826.1 million, an $172.5 million or 26% increase over the average balance for 1997. The average total balance of passbook and statement savings accounts increased $119.3 million, or 18% compared to the prior year. The average balance of interest-bearing demand accounts (money market and N.O.W. accounts) for 1998 was $1.3 billion, a $302.7 million or 30% increase over the average balance for the prior year. The average balance of time deposits for 1998 was $1.0 billion, a $138.7 million or 16% increase over the average balance for 1997. For 1998, the cost of total deposits was 2.67% as compared to 2.74% in 1997.

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 free checking accounts (subject to a small minimum balance requirement), convenient branch locations, extended hours of operation, quality service, and active marketing.

The average balances and weighted average rates of deposits for each of the years 1998, 1997, and 1996 are presented below.

<TABLE>
<CAPTION>

	1998		1997		1996	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Demand deposits:						
Noninterest-bearing	$ 826,099		$ 653,626		$ 537,079	
Interest-bearing (money market and N.O.W. accounts)	1,295,433	2.52%	992,778	2.50%	821,404	2.42%
Savings deposits	789,389	2.31	670,074	2.45	577,824	2.23
Time deposits/public funds	1,002,917	5.33	864,311	5.29	776,220	5.31
Total deposits	$3,913,838		$3,180,789		$2,712,527	

</TABLE>

The remaining maturity of certificates of deposit for $100,000 or more as of December 31, 1998, 1997, and 1996 is presented below:

Maturity	1998	1997	1996
(dollars in thousands)			
3 months or less	$313,613	$271,765	$240,188
3 to 6 months	37,572	32,017	30,767
6 to 12 months	19,876	12,249	7,297
Over 12 months	1,319	1,153	2,071
Total	$372,380	$317,184	$280,323

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 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, 1998.

<TABLE>
<CAPTION>

Interest Rate Sensitivity Gaps
December 31, 1998

(dollars in millions)	1-90 Days	91-180 Days	181-365 Days	1-5 Years	Beyond 5 Years	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Rate sensitive:						
Interest-earning assets						
Loans	$ 720.2	$ 55.8	$ 73.9	$ 631.5	$442.9	$1,924.3
Investment securities	285.2	173.7	325.6	1,277.9	434.1	2,496.5
Total interest-earning assets	1,005.4	229.5	399.5	1,909.4	877.0	4,420.8
Interest-bearing liabilities						
Transaction accounts	784.5				1,674.6	2,459.1
Time deposits	453.2	155.4	165.4	165.2	0.1	939.3
Other borrowed money	21.8					21.8
Long-term debt				23.0	57.5	80.5
Total interest-bearing liabilities	1,259.5	155.4	165.4	188.2	1,732.2	3,500.7
Period gap	(254.1)	74.1	234.1	1,721.2	(855.2)	$ 920.1
Cumulative gap	$(254.1)	$(180.0)	$54.1	$1,775.3	$920.1	
Cumulative gap as a percentage of total interest-earning assets	(5.7)%	(4.1)%	1.2%	40.2%	20.8%	

</TABLE>

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 200 basis point change during the next year, with rates remaining constant in the second year.

The Company's Asset/Liability Committee (ALCO) policy has established that interest income sensitivity will be considered acceptable if net income in the above interest rate scenario is within 15% of net income in the flat rate scenario in the first year and within 30% over the two year time frame. At December 31, 1998, the Company's income simulation model indicates net income would decrease by 1.0% and 6.3% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 0.7% and a decrease of 2.7%, respectively, at December 31, 1997. The model projects that net income would decrease by 2.9% and 2.0% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease of 6.7% and 8.8%, respectively, at December 31, 1997. 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 portfolio, the use of risk management strategies such as interest rate swaps and caps, or the extension of the maturities of its short-term borrowings.

Management also monitors interest rate risk by utilizing a market value of equity model. The model assesses the impact of a change in interest rates on the market value of all the Company's assets and liabilities, as well as any off balance sheet items. The model calculates the market value of the Company's assets and liabilities in excess of book value in the current rate scenario, and then compares the excess of market value over book value given an immediate 200 basis point change in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate 200 basis point change would result in the loss of 60% or more of the excess of market value over book value in the current rate scenario. At December 31, 1998, 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 200 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. The Company has completed a comprehensive core deposit study in order to assign its own core deposit premiums as permitted by regulation. The study confirmed management's assertion that the Company's core deposits have stable balances over long periods of time, and are generally insensitive to changes in interest rates. Thus, these core deposit balances provide an internal hedge to market value fluctuations in the Company's mortgage-backed securities portfolio. The data utilized in the core deposit study is updated on a quarterly basis. Management believes the core deposit premiums produced by its core deposit study and utilized in its market value of equity model at December 31, 1998 provide an accurate assessment of the Company's interest rate risk.

Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other borrowing needs, to maintain reserve requirements and to otherwise operate the Company on an ongoing basis. The Company's liquidity needs are primarily met by growth in core deposits, its cash and federal funds sold position, and cash flow from its amortizing investment and loan portfolios. If necessary, the Company has the ability to raise liquidity through collateralized borrowings, FHLB advances, or the sale of its available for sale investment portfolio. During 1998, deposit growth was used to fund growth in the loan portfolio and purchase additional investment securities.

Short-Term Borrowings

Short-term borrowings, or other borrowed money, which consists of securities sold under agreement to repurchase, federal funds purchased, and overnight lines of credit, were used in 1998 to meet short-term liquidity needs. For 1998, short-term borrowings averaged $68.4 million as compared to $91.3 million in 1997. The average rate on the Company's short-term borrowings was 5.84% and 5.61% during 1998 and 1997, respectively. As of December 31, 1998, short-term borrowings included $21.9 million of borrowings under overnight lines of credit at an average rate of 4.82%.

Long-Term Debt

On June 9, 1997, the Company issued $57.5 million of 8.75% Trust Capital Securities through Commerce Capital Trust I, a newly formed Delaware business trust subsidiary of the Company. All $57.5 million of the Trust Capital Securities qualify as Tier I capital for regulatory capital purposes. Proceeds of this offering were earmarked for general corporate purposes, including additional capitalization of existing banking subsidiaries.

Stockholders' Equity and Dividends

At December 31, 1998, stockholders' equity totaled $300.7 million, up $50.0 million or 20% over stockholders' equity of $250.8 million at December 31, 1997. This increase was primarily due to the Company's net income for the year. Stockholders' equity as a percent of total assets was 6.14% at December 31, 1998, as compared to 6.37% at December 31, 1997.

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 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	
	1998	1997	1998	1997
Risk based capital ratios:				
Tier 1	12.98%	15.66%	4.00%	4.00%
Total capital	14.66	17.97	8.00	8.00
Leverage ratio	7.36	7.81	3.00-5.00	3.00-5.00

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 Federal Reserve System ("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, 1998, 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 for each of the last two years are shown in the table below. The prices and dividends per share have been adjusted to reflect common stock dividends of 5% with record dates of January 7, 1999, January 7, 1998, and January 8, 1997, as well as the 5-for-4 stock split in the form of a 25% stock dividend with a record date of July 13, 1998. As of February 28, 1999, there were approximately 18,000 holders of record of the Company's common stock.

Common Share Data

	Market Prices High	Market Prices Low	Cash Dividends Per Share
1998 Quarter Ended			
December 31	$50.36	$33.22	$0.1857
September 30	45.19	33.45	0.3733
June 30	46.38	40.58	0.1829
March 31	41.95	32.81	0.1742

1997 Quarter Ended			
December 31	$37.38	$27.25	$0.1451
September 30	29.44	26.13	0.1451
June 30	28.13	20.05	0.1451
March 31	23.22	19.95	0.1382

</TABLE>

The Company offers a Dividend Reinvestment and Stock Purchase Plan by which dividends on the Company's Common Stock and optional cash payments of up to $5,000 per month (subject to change) may be invested in Common Stock at a 3% discount (subject to change) to the market price and without payment of brokerage commissions.

Results of Operations - 1997 versus 1996

Net income for 1997 was $40.3 million compared to $28.3 million in 1996. Diluted net income per common share was $1.69 compared to $1.26 per common share for the prior year. Net income and net income per share for 1996 were impacted by a one-time special assessment of approximately $1.3 million from a legislative mandate to recapitalize the Savings Association Insurance Fund (SAIF). This assessment impacted after tax net income by approximately $850 thousand.

Net interest income on a tax-equivalent basis for 1997 amounted to $148.5 million, an increase of $22.0 million, or 17% over 1996.

Interest income on a tax-equivalent basis increased $41.7 million or 20% to $245.5 million in 1997. This increase was primarily related to volume increases in the loan and investment portfolios. Interest expense for 1997 rose $19.7 million to $97.0 million from $77.3 million in 1996. This increase was primarily related to increases in the Company's levels of deposits.

The provision for loan losses was $4.7 million in 1997 compared to $4.9 million in the prior year.

For 1997, noninterest income totaled $57.4 million, an increase of $24.6 million or 75% from 1996. The increase was due primarily to increased other operating income, which rose $18.7 million from 1996, including an increase of $15.3 million in revenues (to $16.5 million in 1997) from Commerce Insurance, the insurance brokerage subsidiary formed in the fourth quarter of 1996. In addition, deposit charges and service fees increased $5.3 million over 1996 due to higher transaction volumes, and net investment securities gains were $610 thousand higher in 1997 than the prior year.

Noninterest expenses totaled $137.9 million for 1997, an increase of $28.9 million, or 27% over 1996. Contributing to this increase was the addition of nine new branches during 1997, and the formation of Commerce Insurance. With the addition of these new offices and the insurance business, staff, facilities, marketing and related expenses rose accordingly. Audit and regulatory fees and assessments were $1.6 million lower in 1997 than the prior year, which resulted primarily from 1996 reflecting the SAIF assessment. Other noninterest expenses rose $3.5 million to $17.8 million in 1997. Higher bank- card related service charges, increased legal fees, and higher provisions for non-credit-related losses contributed to the increase.

Year 2000

The Company began the process of preparing its computer systems and applications for the Year 2000 in 1996. The process involves identifying and resolving date recognition problems in computer systems and software, and to a lesser extent, other operating equipment, that could be caused by the date change from December 31, 1999 to January 1, 2000.

The Company has completed its assessment of all business processes that could be affected by the Year 2000 issue. Each business process assessment

included a review of the information systems used in that process, including hardware and software, involvement of third parties, and any other operating equipment. The Company licenses substantially all software used in conducting its business from third party vendors. All vendors have been contacted regarding the Year 2000 issue, and the Company continues to track the progress each vendor is making in reaching Year 2000 compliance. The Company is also working with significant customers and counterparties to monitor their Year 2000 efforts. The Company had substantially all of the necessary changes in place and tested for all mission critical systems (those systems defined as absolutely essential to the daily business operation of the Company) by the end of 1998. Additionally, the Company has completed certification testing with several mission critical service providers. Changes for all remaining systems should be substantially in place by the end of the first quarter of 1999, with testing completed by the end of the second quarter of 1999.

The Company believes it is taking the appropriate steps to address all Year 2000 issues. Despite the Company's efforts to address the Year 2000 problem and develop contingency plans in the event of Year 2000 failures, including non-compliance by third parties (including loan customers), there can be no assurance that the Year 2000 issue will not materially adversely impact the Company's financial position, results of operations, or relationships with customers, vendors, or others.

The Company estimates the total cost of the Year 2000 compliance process, including internal and external personnel and any required hardware and software modifications, will not exceed $1.0 million.

Mergers and Acquisitions

Effective January 15, 1999, the Company acquired Community First Banking Company (CFBC), a one-bank holding company headquartered in Tinton Falls, New Jersey, and Prestige Financial Corp. (PFC), a one-bank holding company headquartered in Flemington, New Jersey. CFBC had approximately $201 million in assets and $181 million in deposits, and PFC had approximately $328 million in assets and $313 in deposits. The Company issued approximately 1,360,000 shares of common stock to shareholders of CFBC based on an exchange ratio of .644 of a share of the Company's common stock for each share of CFBC common stock. The Company issued approximately 1,857,000 shares of common stock to shareholders of PFC based on an exchange ratio of .397 of a share of the Company's common stock for each share of PFC common stock. The transactions were accounted for as poolings of interests. The combined organization will have approximately $5.4 billion in assets, $4.9 billion in deposits, and 96 branch offices throughout New Jersey and Metropolitan Philadelphia, Pennsylvania.

Commerce Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

Commerce Bancorp, Inc. and Subsidiaries Selected Financial Data
Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

	December 31,	
(dollars in thousands)	1998	1997
<S>	<C>	<C>
Assets		
Cash and due from banks	$ 245,352	$ 167,900
Federal funds sold		
Cash and cash equivalents	245,352	167,900
Mortgages held for sale		7,260
Trading securities	85,359	7,911
Securities available for sale	1,283,504	1,315,120
Securities held to maturity	1,127,658	874,032
(market value 1998-$1,130,777; 1997-$869,815)		
Loans	1,931,363	1,411,289
Less allowance for loan losses	26,409	21,261
	1,904,954	1,390,028
Bank premises and equipment, net	141,848	111,759
Other assets	105,390	64,957
	$4,894,065	$3,938,967
Liabilities		
Deposits:		
Demand:		
Interest-bearing	$1,568,042	$1,111,302
Noninterest-bearing	1,036,798	762,843
Savings	891,002	705,906
Time	939,273	789,353
Total deposits	4,435,115	3,369,404
Other borrowed money	21,845	223,300
Other liabilities	54,607	12,695
Obligation to Employee Stock Ownership Plan (ESOP)	1,282	2,308
Trust Capital Securities - Commerce Capital Trust I	57,500	57,500
Long-term debt	23,000	23,000
	4,593,349	3,688,207

Stockholders' Equity		
Common stock, 24,155,166 shares issued (22,643,051 shares in 1997)	35,958	25,309
Series C preferred stock, 417,000 shares in 1997		7,506
Capital in excess of par or stated value	211,737	167,529
Retained earnings	48,916	50,592
Accumulated other comprehensive income	7,011	3,756
	303,622	254,692
Less commitment to ESOP	1,282	2,308
Less treasury stock, at cost, 100,159 shares	1,624	1,624
Total stockholders' equity	300,716	250,760
	$4,894,065	$3,938,967

See accompanying notes.

</TABLE>

Commerce Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income

<TABLE>

		Year Ended December 31,		
	(dollars in thousands, except per share amounts)	1998	1997	1996
<S>		<C>	<C>	<C>
Interest Income				
	Interest and fees on loans	$140,580	$120,028	$104,842
	Interest on investment securities	146,859	122,662	95,026
	Other interest	1,841	1,487	2,867
	Total interest income	289,280	244,177	202,735
Interest Expense				
	Interest on deposits:			
	Demand	32,708	24,824	19,842
	Savings	18,257	16,419	12,907
	Time	53,466	45,781	41,212
	Total interest on deposits	104,431	87,024	73,961
	Interest on other borrowed money	3,995	5,126	1,336
	Interest on long-term debt	7,127	4,887	2,025
	Total interest expense	115,553	97,037	77,322
	Net interest income	173,727	147,140	125,413
	Provision for loan losses	5,867	4,668	4,857
	Net interest income after provision for loan losses	167,860	142,472	120,556
Noninterest Income				
	Deposit charges and service fees	33,685	27,110	21,850
	Other operating income	52,329	27,979	9,251
	Net investment securities gains	2,933	2,285	1,675
	Total noninterest income	88,947	57,374	32,776
Noninterest Expense				
	Salaries	72,501	52,166	37,668
	Benefits	15,186	12,161	9,389
	Occupancy	16,440	14,223	12,418
	Furniture and equipment	23,013	18,374	14,336
	Office	16,145	12,632	9,760
	Audit and regulatory fees and assessments	2,086	1,611	3,173
	Marketing	8,078	6,069	4,777
	Other real estate (net)	1,348	1,814	2,329
	Other	27,170	18,879	15,181
	Total noninterest expenses	181,967	137,929	109,031
	Income before income taxes	74,840	61,917	44,301
	Provision for federal and state income taxes	25,522	21,592	16,051
	Net income	49,318	40,325	28,250
	Dividends on preferred stocks		563	842

Net income applicable to common stock	$ 49,318	$ 39,762	$ 27,408
Net income per common and common equivalent share:			
Basic	$ 2.08	$ 1.79	$ 1.37
Diluted	$ 1.98	$ 1.69	$ 1.26
Average common and common equivalent shares outstanding:			
Basic	23,668	22,197	20,017
Diluted	24,951	23,786	22,372
Cash dividends declared, common stock	$ 0.92	$ 0.57	$ 0.48

See accompanying notes.

</TABLE>

Commerce Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
<TABLE>
<CAPTION>

	Year Ended December 31,		
(dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Operating Activities			
Net income	$ 49,318	$ 40,325	$ 28,250
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	5,867	4,668	4,857
Provision for depreciation, amortization and accretion	24,053	17,438	16,156
Gains on sales of securities available for sale	(2,933)	(2,285)	(1,675)
Proceeds from sales of mortgages held for sale	25,093	22,626	23,683
Originations of mortgages held for sale	(17,833)	(28,572)	(19,555)
Net loan (chargeoffs)	(719)	(1,382)	(2,896)
Net (increase) decrease in trading securities	(77,448)	7,416	(6,484)
(Increase) decrease in other assets	(43,073)	(12,575)	524
Increase in other liabilities	44,200	2,551	9,823
Deferred income tax expense (benefit)	(2,288)	(2,041)	161
Net cash provided by operating activities	4,237	48,169	52,844
Investing Activities			
Proceeds from the sales of securities available for sale	428,483	223,217	107,666
Proceeds from the maturity of securities available for sale	395,108	162,892	187,120
Proceeds from the maturity of securities held to maturity	299,706	123,496	125,283
Purchase of securities available for sale	(786,226)	(835,005)	(497,926)
Purchase of securities held to maturity	(557,455)	(244,503)	(192,168)
Net increase in loans	(529,040)	(154,454)	(227,331)
Proceeds from sales of loans	8,966	10,020	9,291
Purchases of premises and equipment	(46,939)	(31,235)	(25,766)
Net cash used by investing activities	(787,397)	(745,572)	(513,831)
Financing Activities			
Net increase in demand and savings deposits	915,791	430,417	330,095
Net increase in time deposits	149,920	19,317	60,389
Net (decrease) increase in other borrowed money	(201,455)	153,300	70,000
Issuance of common stock			6,859
Dividends paid	(21,563)	(12,484)	(9,298)
Proceeds from issuance of Trust Capital Securities		57,500	
Proceeds from issuance of common stock under dividend reinvestment and other stock plans	9,428	6,876	4,288
Other	8,491	1,544	(2,370)
Net cash provided by financing activities	860,612	656,470	459,963
Increase (decrease) in cash and cash equivalents	77,452	(40,933)	(1,024)
Cash and cash equivalents at beginning of year	167,900	208,833	209,857
Cash and cash equivalents at end of year	$ 245,352	$ 167,900	$ 208,833
Supplemental disclosures of cash flow information: Cash paid during the year for:			
Interest	$ 114,064	$ 98,217	$ 75,731

Income taxes	28,808	23,632	14,449
Other noncash activities:			
Transfer of securities to securities available for sale		83,773	

See accompanying notes.
</TABLE>

Commerce Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
<TABLE>
<CAPTION>

Years ended December 31, 1998, 1997 and 1996 (in thousands, except per share amounts)	Common Stock	Preferred Stock	Capital in Excess of Par or Stated Value	Retained Earnings	Commitment to ESOP	Treasury Stock	Accumulated Other Comprehensive Income	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at December 31, 1995	$18,894	$8,283	$125,911	$34,110	$(5,553)	$(2,116)	$166	$179,695
Acquisition of Commerce National Insurance Services (983 shares)	1,114		(1,135)					(21)
As adjusted balance at January 1, 1996	20,008	8,283	124,776	34,110	(5,553)	(2,116)	166	179,674
Net income				28,250				28,250
Other comprehensive income, net of tax								
Unrealized gain (loss) on securities (pre-tax ($7,992)							(6,434)	(6,434)
Reclassification adjustment (pre-tax $790)							514	514
Other comprehensive income								(5,920)
Total comprehensive income								22,330
5% common stock dividend and cash paid in lieu of fractional shares (534 shares)	834		10,388	(11,244)				(22)
Cash dividends, common stock ($0.48 per share)				(8,431)				(8,431)
Common stock issued in connection with incentive stock option plan (78 shares)	121		622					743
Cash dividends, preferred stock				(845)				(845)
Decrease in obligation to ESOP					1,150			1,150
Common stock issued (727 shares)	1,136		5,465					6,601
Tax benefit from ESOP dividends			197					197
Proceeds from issuance of common stock under dividend reinvestment plan (175 shares)	264		3,281					3,545
Conversion and redemption of preferred stock	1,183	(747)	(178)					258
Purchase of common stock of former Independence shareholders						(1,236)		(1,236)
Balances at December 31, 1996	$23,546	$7,536	$144,551	$41,840	$(4,403)	$(3,352)	$(5,754)	$203,964
Acquisition of insurance brokerage agencies (293 shares)	332		(55)					277
As adjusted balance at January 1, 1997	23,878	7,536	144,496	41,840	(4,403)	(3,352)	(5,754)	204,241
Net income				40,325				40,325
Other comprehensive income, net of tax								
Unrealized gain (loss) on securities (pre-tax $12,838)							10,475	10,475
Reclassification adjustment (pre-tax $(1,484))							(965)	(965)
Other comprehensive income								9,510
Total comprehensive income								49,835
5% common stock dividend and cash paid in lieu of fractional shares (611 shares)	955		18,134	(19,113)				(24)
Cash dividends, common stock ($0.57 per share)				(11,897)				(11,897)
Common stock issued in connection with incentive stock option plan (306 shares)	478		2,139					2,617
Cash dividends, preferred stock				(563)				(563)
Decrease in obligation to ESOP					2,095			2,095
Tax benefit from ESOP dividends			197					197
Proceeds from issuance of common stock under dividend reinvestment plan (128 shares)	201		4,058					4,259
Retirement of treasury shares	(203)	(30)	(1,495)			1,728		0
Balances at December 31, 1997	$25,309	$7,506	$167,529	$50,592	$(2,308)	$(1,624)	$3,756	$250,760
Acquisition of investment firm/insurance brokerage agency (616 shares)	794		(300)	7,997				8,491
As adjusted balance at January 1, 1998	26,103	7,506	167,229	58,589	(2,308)	(1,624)	3,756	259,251
Net income				49,318				49,318
Other comprehensive income, net of tax								
Unrealized gain (loss) on securities (pre-tax $5,831)							3,153	3,153
Reclassification adjustment (pre-tax $156)							102	102

Other comprehensive income								3,255
Total comprehensive income								52,573
5% common stock dividend and cash paid in lieu of fractional shares (809 shares)	1,264		36,164	(37,467)				(39)
25% common stock dividend and cash paid in lieu of fractional shares (4,501 shares)	7,033		(7,033)	(47)				(47)
Cash dividends, common stock ($0.92 per share)				(21,477)				(21,477)
Common stock issued in connection with incentive stock option plan (185 shares)	289		1,713					2,002
Convert preferred C stock to common stock (647 shares)	1,011	(7,506)	6,495					0
Decrease in obligation to ESOP					1,026			1,026
Proceeds from issuance of common stock under dividend reinvestment plan (165 shares)	258		7,169					7,427
Balances at December 31, 1998	$35,958	$0	$211,737	$48,916	$(1,282)	$(1,624)	$7,011	$300,716

</TABLE>

See accompanying notes.

Commerce Bancorp, Inc. and Subsidiaries 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 wholly-owned subsidiaries, Commerce Bank, N.A. (Commerce NJ), Commerce Bank/Pennsylvania, N.A. (Commerce PA), Commerce Bank/Shore, N.A. (Commerce Shore), Commerce Bank/North (Commerce North), Commerce Capital Trust I, and Commerce Capital Markets, Inc. (CCMI). All material intercompany transactions have been eliminated. Certain amounts from prior years have been reclassified to conform with 1998 presentation. All common stock and per share information has been adjusted for the 5-for-4 stock split in the form of a 25% common stock dividend declared on June 29, 1998, and the 5% common stock dividend declared on December 15, 1998.

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

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Investment Securities

Trading account securities are carried at market value. Gains and losses, both realized and unrealized, are included in other operating income.

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 certificate method and are included in noninterest income.

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. Loan origination fees are generally considered as adjustments of interest rate yields and are amortized into interest income on loans over the terms of the related loans.

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. Based upon management's evaluation of the loan portfolio, the allowance is maintained at a level considered adequate to absorb estimated inherent losses in the loan portfolio.

The level of the allowance is based on an evaluation of

the risk characteristics included in the loan portfolio, including such factors as the volume and composition of the portfolio, historical loan loss experience, present and prospective financial condition of borrowers, general national and local economic conditions, and other relevant factors.

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 for financial reporting purposes, and accelerated methods for income tax purposes.

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.

Intangible Assets

The excess of cost over fair value of net assets acquired (goodwill) is included in other assets and is being amortized on a straight-line basis over the period of expected benefit, which approximates 15 years. Goodwill amounted to $2,788,000 and $3,082,000 at December 31, 1998 and 1997, respectively. Other intangible assets are amortized on a straight-line basis over 10 to 15 year lives. Other intangibles amounted to $2,019,000 and $2,471,000 at December 31, 1998 and 1997, respectively.

Income Taxes

The provision for income taxes is based on current taxable income. When income and expenses are recognized in different periods for book purposes, deferred taxes are provided.

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 1998 and 1997 were approximately $4,956,000 and $12,355,000, respectively.

Recent Accounting Statements

The Financial Accounting Standards Board (FASB) in June 1997 issued Statement No. 130 "Reporting Comprehensive Income" (FAS 130). FAS 130 establishes new standards for reporting comprehensive income, which includes net income as well as certain other items which result in a change in equity during the period. FAS 130 requires that all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company adopted FAS 130 in 1998. The disclosure standards of FAS 130 had no impact on the Company's financial position or results of operations.

Also in June 1997, the FASB issued Statement 131 "Disclosures About Segments of an Enterprise and Related Information" (FAS 131). FAS 131 requires disclosure of financial and descriptive information about an enterprise's operating segments that meet certain quantitative thresholds. Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally and the performance of which is subject to evaluation by the chief operating decision maker, as

defined, in determining resource allocation. The Company adopted FAS 131 for 1998 annual reporting. The disclosure standards of FAS 131 had no impact on the Company's financial position or results of operations.

In June 1998, the FASB issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). FAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets or liability through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. FAS 133 becomes effective for the Company beginning

January 1, 2000. Although early adoption is allowed in any quarterly period after June 1998, the Company has no plans to adopt FAS 133 prior to the effective date. Based on the Company's minimal use of derivatives at the current time, management does not expect the adoption of FAS 133 to have a significant effect on results of operations or the financial position of the Company. However, the impact from adopting FAS 133 will depend on the nature and purpose of the derivative instruments in use by the Company at that time.

2. Mergers and Acquisitions

In November 1996, two insurance brokerage agencies, Keystone National Companies, Inc., Cherry Hill, New Jersey, and Morales, Potter & Buckelew, Inc., t/a Buckelew & Associates, Toms River, New Jersey, were acquired by the Company and thereafter merged to form Commerce National Insurance Services, Inc. ("Commerce Insurance"). In December 1996, Chesley & Cline, Inc., Mount Holly, New Jersey, was merged with and into Commerce Insurance. The Company issued approximately 983,000 shares of common stock in exchange for all of the outstanding shares of these agencies acquired in 1996. In January 1997, Colkate, Inc., t/a The Morrissey Agency, Mt. Laurel, New Jersey, was merged with and into Commerce Insurance. In December 1997, Joseph J. Reinhart and Associates, Inc., Cherry Hill, NJ, a risk/loss management and loss investigation consulting firm, and Associated Insurance Management, Inc., Haddonfield, NJ, an employee and executive benefit consulting firm, were merged with and into Commerce Insurance. The Company issued approximately 293,000 shares of common stock in exchange for all of the outstanding shares of the agencies acquired in 1997. In August 1998, J.A. Montgomery, Inc., Wilmington, DE, an insurance brokerage agency, was merged with and into Commerce Insurance. The Company issued approximately 201,000 shares of common stock in exchange for all of the outstanding shares of this agency. All of these transactions were accounted for as poolings of interests. However, financial statements of the periods prior to the acquisitions have not been restated, as the changes, in the aggregate, would be immaterial.

The former Independence Bancorp, Inc. ("Independence"), Bergen County, New Jersey, was merged into Commerce Bancorp, Inc. on January 21, 1997 and its wholly-owned subsidiary bank, Independence Bank of New Jersey, was thereafter renamed Commerce Bank/North. The Company issued approximately 3,666,000 shares of common stock to effect the merger. The transaction was accounted for as a pooling of interests. The Company's originally reported results of operations for 1996 have been restated herein to include Commerce North's results of operations for 1996.

In the first quarter of 1998, the Company completed the acquisition of A. H. Williams & Co., Inc., (Williams) Philadelphia, PA, a public finance investment firm, and combined Williams with Commerce Capital, the bank securities dealer division of Commerce NJ, to form Commerce Capital Markets, Inc., a wholly-owned nonbank subsidiary of the Company

engaging in certain securities activities permitted under Section 20 of the Glass-Steagall Act. The acquisition was completed by the issuance of common stock of the Company totaling approximately 415,000 shares. The transaction was accounted for as a pooling of interests, however, financial statements of the periods prior to the acquisition have not been restated, as the changes, in the aggregate, would be immaterial.

Effective January 15, 1999, the Company acquired Community First Banking Company (CFBC), a one-bank holding company headquartered in Tinton Falls, New Jersey, and Prestige Financial Corp. (PFC), a one-bank holding company headquartered in Flemington, New Jersey. CFBC had approximately $201 million in assets and $181 million in deposits, and PFC had approximately $328 million in assets and $313 million in deposits. The Company issued approximately 1,360,000 shares of common stock to shareholders of CFBC based on an exchange ratio of .644 of a share of the Company's common stock for each share of CFBC common stock. The Company issued approximately 1,857,000 shares of common stock to shareholders of PFC based on an exchange ratio of .397 of a share of the Company's common stock for each share of PFC common stock. The transactions were accounted for as poolings of interests.

A summary of unaudited pro forma combined financial information for the Company, CFBC, and PFC follows:

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Operating results (in thousands, except per share data):			
Net interest income	$ 194,647	$ 166,617	$ 140,813
Noninterest income	96,288	61,124	35,275
Net income	42,567	44,844	31,561

Net income per common share - diluted	1.51	1.65	1.22
Average common shares outstanding on a diluted basis	28,281	27,116	25,702

	1998	1997
Balance sheet at year-end (dollars in thousands):		
Assets	$5,423,379	$4,387,851
Loans	2,249,328	1,639,352
Deposits	4,928,808	3,784,576
Stockholders' equity	325,728	281,664

</TABLE>

3. 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, 1998 and 1997 follows:

<TABLE>
<CAPTION>

	December 31,							
	1998				1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Government agency and mortgage-backed obligations	$1,128,033	$9,196	$(2,377)	$1,134,852	$1,250,977	$5,028	$(3,312)	$1,252,693
Obligations of state and political subdivisions	25,338	703		26,041	23,085	430		23,515
Equity securities	11,988	3,584	(175)	15,397	7,679	3,685		11,364
Other	107,164	50		107,214	27,548			27,548
Securities available for sale	$1,272,523	$13,533	$(2,552)	$1,283,504	$1,309,289	$9,143	$(3,312)	$1,315,120
U.S. Government agency and mortgage-backed obligations	$1,081,895	$8,398	$(5,426)	$1,084,867	$834,228	$3,976	$(8,198)	$830,006
Obligations of state and political subdivisions	20,982	153		21,135	20,940			20,940
Other	24,781		(6)	24,775	18,864	5		18,869
Securities held to maturity	$1,127,658	$8,551	$(5,432)	$1,130,777	$874,032	$3,981	$(8,198)	$869,815

</TABLE>

The amortized cost and estimated market value of investment securities (in thousands) at December 31, 1998, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because obligors have the right to repay obligations without prepayment penalties.

<TABLE>
<CAPTION>

	Available for Sale		Held to Maturity	
	Amortized Cost	Market Value	Amortized Cost	Market Value
<S>	<C>	<C>	<C>	<C>
Due in one year or less	$ 108,455	$ 108,481	$ 41,877	$ 41,877
Due after one year through five years	11,552	11,816	3,650	3,803
Due after five years through ten years	13,443	13,915	25,000	25,000
Due after ten years	8,551	8,616	1,600	1,644
Mortgage backed securities	1,118,534	1,125,279	1,055,531	1,058,453
Equity securities	11,988	15,397		
	$1,272,523	$1,283,504	$1,127,658	$1,130,777

</TABLE>

Proceeds from sales of securities available for sale during 1998, 1997 and 1996 were $428,483,000, $223,217,000 and $107,666,000, respectively. Gross gains of

$3,259,000, $2,669,000 and $1,675,000 were realized on the sales in 1998, 1997 and 1996, respectively, and gross losses of $326,000 and $384,000 were realized in 1998 and 1997, respectively.

At December 31, 1998 and 1997, investment securities with a carrying value of $597,554,000 and $324,717,000, respectively, were pledged to secure deposits of public funds.

In connection with the acquisition of Independence, management reclassified $83.8 million of investment securities from held to maturity to available for sale in the first quarter of 1997. Unrealized losses on those securities transferred were $840,000.

4. Loans

The following is a summary of loans outstanding (in thousands) at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
Commercial real estate:		
Owner-occupied	$ 250,059	$ 221,788
Other	358,600	287,510
Construction	111,972	57,182
	720,631	566,480
Commercial loans:		
Term	200,060	152,115
Line of credit	166,920	101,134
Demand	309	442
	367,289	253,691
Consumer:		
Mortgages (1-4 family residential)	304,622	167,979
Installment	68,032	63,448
Home equity	458,401	347,903
Credit lines	12,388	11,788
	843,443	591,118
	$1,931,363	$1,411,289

</TABLE>

At December 31, 1998 and 1997, loans of approximately $9,489,000 and $8,772,000, respectively, were outstanding to certain of the Company's and its subsidiaries' directors and officers, and approximately $25,684,000 and $25,584,000, respectively, of loans were outstanding from companies with which certain of the Company's and its subsidiaries' directors and officers are associated, exclusive of loans to any such person and associated companies which in aggregate did not exceed $60,000. The terms of these loans are substantially the same as those prevailing at the time for comparable unrelated transactions. A summary (in thousands) of the related party loans outstanding at December 31, 1998 is as follows:

	1998
Balance, January 1	$34,356
New loans	13,717
Loan payments	12,900
Balance, December 31	$35,173

The Company engaged in certain activities with entities affiliated with directors of the Company. The Company received real estate appraisal services from a company owned by a director of the Company. Such real estate appraisal services amounted to $304,000 in 1998, $183,000 in 1997, and $195,000 in 1996. The Company received legal services from two law firms of which two directors of the Company are partners. Such aggregate legal services amounted to $1,554,000 in 1998, $1,439,000 in 1997, and $1,243,000 in 1996.

5. Allowance for Loan Losses

The following is an analysis of changes in the allowance for loan losses (in thousands) for 1998, 1997, and 1996:

	1998	1997	1996
Balance, January 1	$ 21,261	$ 17,975	$ 16,014
Provision charged to operating expense	5,867	4,668	4,857
Recoveries of loans previously charged off	1,368	898	655
Loan charge-offs	(2,087)	(2,280)	(3,551)
Balance, December 31	$ 26,409	$ 21,261	$ 17,975

6. Non-accrual and Restructured Loans and Other Real Estate

The total of non-performing loans (non-accrual and restructured loans) was $7,113,000 and $11,589,000 at December 31, 1998 and 1997, respectively. Non-performing loans of $3,361,000, $2,320,000, and $1,758,000 net of charge offs of $0, $47,000, and $250,000 were transferred to other real estate during 1998, 1997, and 1996, respectively. Other real estate ($6,081,000 and $5,845,000 at December 31, 1998 and 1997, respectively) is included in other assets.

At December 31, 1998 and 1997, the recorded investment in loans considered to be impaired under FASB Statement No. 114 "Accounting by Creditors for Impairment of a Loan" totaled $3,682,000 and $9,700,000, respectively, all of which are included in non-performing loans. 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. No portion of the allowance for loan losses for 1998 or 1997 was allocated to these loans. During 1998 and 1997, impaired loans averaged approximately $6,691,000 and $9,126,000, respectively. Interest income of approximately $897,000 and $1,361,000 would have been recorded on non-performing loans (including impaired loans) in accordance with their original terms in 1998 and 1997, respectively. Actual interest income recorded on these loans amounted to $266,000 and $323,000 during 1998 and 1997, respectively.

7. Bank Premises, Equipment, and Leases

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

	December 31,	
	1998	1997
Land	$ 28,578	$ 22,707
Buildings	67,833	49,101
Leasehold improvements	5,687	9,293
Furniture, fixtures and equipment	86,872	68,238
Leased property under capital leases	124	124
	189,094	149,463
Less accumulated depreciation and amortization	47,246	37,704
	$141,848	$111,759

At December 31, 1998, Commerce NJ leased one of its branches under a capital lease with an unrelated party. All other branch leases are accounted for as operating leases with the related rental payments being expensed ratably over the life of the lease.

The Company leases its operations facility from a limited partnership in which the Company is a limited partner at December 31, 1998. The lease is accounted for as an operating lease with an annual rent of $584,000. The lease expires in 2004 and is renewable for two additional terms of five years each.

At December 31, 1998, the Company leased from related parties under separate operating lease agreements the land on which it has constructed ten branch offices. The aggregate annual rental under these related party leases for 1998 was approximately $440,000, and was approximately $375,000 and $250,000 in 1997 and 1996, respectively. These leases expire periodically through 2018 but are renewable through 2038. Aggregate annual rentals escalate to $575,000 in 2007. The Company leases land to a limited partnership partially comprised of the directors of Commerce PA and Commerce NJ. The initial lease term is 25 years, with two successive 10-year options. As of December 31, 1998, the total future minimum lease payments to be received by the Company amount to approximately $432,000 for the remainder of the initial lease term. In accordance with the provision of the land lease, the limited partnership constructed and owns the office building located on the land. Commerce PA leases the building as a branch facility through 2010. Commerce North leases one of its branches from a director and its headquarters facility from a partnership in which a director has a substantial interest. The aggregate annual rental under these related party leases for 1998, 1997, and 1996 was approximately $434,000, $432,000, and $503,000, respectively. The leases expire in 2007 and 2017.

Total rent expense charged to operations under operating leases was approximately $5,011,000 in 1998, $4,334,000 in 1997, and $3,706,000 in 1996.

The future minimum rental commitments, by year, under the non-cancelable leases are as follows (in thousands) at December 31, 1998:

	Capital	Operating
1999	$ 12	$ 5,396
2000	12	5,339
2001	12	4,858
2002	12	4,320
2003	12	4,322
Later years	132	37,039
Net minimum lease payment	$192	$61,274
Less amount representing interest	93	
Present value of net minimum lease payments	$ 99	

The Company obtained interior design and general contractor services for $1,313,000, $916,000, and $642,000 in 1998, 1997, and 1996, respectively, from a business owned by the spouse of the Chairman of the Board of the Company. Additionally, the business received commissions of approximately $814,000, $1,464,000, and $990,000 in 1998, 1997 and 1996, respectively, on furniture and facility purchases made directly by the Company.

8. Deposits

The aggregate amount of time certificates of deposits in denominations of $100,000 or more was $372,380,000 and $317,184,000 at December 31, 1998 and 1997, respectively.

9. Other Borrowed Money

Other borrowed money consisted primarily of securities sold under agreements to repurchase, which ranged up to two months in maturity, federal funds purchased, and overnight lines of credit. The following table represents information for other borrowed money.

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
	Amount	Average Rate	Amount	Average Rate
<S>	<C>	<C>	<C>	<C>
Securities sold under agreements to repurchase			$178,300	6.22%
Federal funds purchased			45,000	6.00
Lines of credit	$ 21,845	4.82%		
	$ 21,845		$223,300	

Average amount outstanding	$ 68,400	5.84%	$ 91,308	5.61%
Maximum month-end balance	228,950		223,300	

</TABLE>

As of December 31, 1998, the Company had a line of credit of $493,234,000 available from the Federal Home Loan Bank of New York, and CCMI had a line of credit of $30,000,000 from another bank, of which $8,155,000 was available.

10. Long-Term Debt

On July 15, 1993, the Company issued $23,000,000 of 8 3/8% subordinated notes due 2003. Interest on the debt is payable semi-annually on January 15 and July 15 of each year. The notes may be redeemed in whole or in part at the option of the Company after July 15, 2000 at a price from 102% to 100% of the principal plus accrued interest, if any, to the date fixed for redemption, subject to certain conditions. A portion of the notes qualify for total risk-based capital for regulatory purposes, subject to certain limitations.

On June 9, 1997, the Company issued $57,500,000 of 8 3/4% Trust Capital Securities through Commerce Capital Trust 1, a newly formed Delaware business trust subsidiary. The Trust Capital Securities evidence a preferred ownership interest in the Trust, of which 100% of the common equity is owned by the Company. The proceeds from the issuance of the Trust Capital Securities were invested in substantially similar Junior Subordinated Debt of the Company. The Trust Capital Securities are unconditionally guaranteed by the Company. Interest on the debt is payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year. The Trust Capital Securities are scheduled to mature on June 30, 2027. The Trust Capital Securities may be redeemed in whole or in part at the option of the Company on or after June 30, 2002 at 100% of the principal plus accrued interest, if any, to the date fixed for redemption, subject to certain conditions. All $57,500,000 of the Trust Capital Securities qualify as Tier I capital for regulatory capital purposes.

11. Income Taxes

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

	1998	1997	1996
Current:			
Federal	$ 26,954	$ 21,980	$ 15,026
State	856	1,653	864
Deferred:			
Federal	(2,341)	(1,733)	106
State	53	(308)	55
	$ 25,522	$ 21,592	$ 16,051

The above provision includes income taxes related to securities gains of $1,026,000, $800,000 and $586,000 for 1998, 1997 and 1996, respectively.

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

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Expected provision at statutory rate:	35.0%	35.0%	35.0%
Difference resulting from:			
Tax-exempt interest on loans	(0.4)	(0.3)	(0.3)
Tax-exempt interest on securities	(1.2)	(0.8)	(1.0)
Purchase accounting adjustments	0.1	0.2	0.3
Other	0.6	0.8	2.2
	34.1%	34.9%	36.2%

</TABLE>

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, 1998 and 1997 are as follows (in thousands):

	1998	1997
Deferred tax assets:		
Loan loss reserves	$ 9,411	$ 7,525
Other reserves	(50)	651
Other	1,260	1,775
Total deferred tax assets	10,621	9,951
Deferred tax liabilities:		
Depreciation	527	1,252
Intangibles	92	167
Fair value adjustment, available for sale securities	3,970	2,075
Other	1,729	1,924
Total deferred tax liabilities	6,318	5,418
Net deferred assets	$ 4,303	$ 4,533

12. Commitments and Letters of Credit

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 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, 1998, the Banks had outstanding standby letters of credit in the amount of $45,606,000.

In addition, the Banks are committed as of December 31, 1998 to advance $161,830,000 on construction loans, $115,899,000 on home equity lines of credit and $52,023,000 on lines of credit. All other commitments total approximately $192,876,000. The Company anticipates no material losses as a result of these transactions.

13. Common Stock and Preferred Stock

At December 31, 1998, the Company's common stock had a par value of $1.5625. The Company had 50,000,000 shares authorized as of this date.

At December 31, 1997, the Company had 417,000 shares of Series C ESOP Cumulative Convertible Preferred Stock authorized and issued without par value (stated value of $1.00 per share), which were converted to the Company's common stock effective March 1, 1998 (see Note 14).

On October 16, 1992, the Company issued 776,875 shares of non-voting Series A 9% cumulative convertible preferred stock. Each share of the Series A preferred stock gave the holder thereof the option to purchase one share of common stock for $9.60 per share, subject to adjustment in certain events. During 1996, the Company exercised its option to redeem all outstanding shares of the Series A preferred stock. 30,000 of the redeemed shares were converted into 30,000 shares of non-convertible non-voting preferred stock, which were held in treasury by the Company at December 31, 1996, and then retired in 1997.

In conjunction with the redemption, approximately 727,000 shares of common stock were issued upon the exercise of the attached purchase options. Net proceeds to the Company were approximately $6,600,000.

On December 15, 1998, the Board of Directors declared a cash dividend of $0.22 for each share of common stock outstanding and a 5% stock dividend payable January 21, 1999 to stockholders of record on January 7, 1999. Payment of the stock dividend resulted in the issuance of 1,142,247 additional common shares and cash of $112,284 in lieu of fractional shares.

14. Earnings Per Share

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

<TABLE>
<CAPTION>

(dollars in thousands)	1998	1997	1996
	Year Ended December 31,		
<S>	<C>	<C>	<C>
Basic:			
Net income	$49,318	$40,325	$28,250
Preferred stock dividends		563	842
Net income applicable to common stock	$49,318	$39,762	$27,408
Average common shares outstanding	23,668	22,197	20,017
Net income per common share	$ 2.08	$ 1.79	$ 1.37
Diluted:			
Net income	$49,318	$40,325	$28,250
Additional ESOP contribution under the if-converted method		50	103
Net income applicable to common stock on a diluted basis	$49,318	$40,275	$28,147
Average common shares outstanding	23,668	22,197	20,017
Additional shares considered in diluted computation assuming:			
Exercise of stock options/rights	1,179	942	1,708
Conversion of preferred stock	104	647	647
Average common and common equivalent shares outstanding	24,951	23,786	22,372
Net income per common and common equivalent share	$ 1.98	$ 1.69	$ 1.26

</TABLE>

Effective March 1, 1998, the Trustees of the Company's Employee Stock Ownership Plan exercised their right to convert all 417,000 shares of Series C ESOP Cumulative Convertible Preferred Stock held by the ESOP into 849,062 shares of the Company's common stock.

15. Benefit Plans

Employee Stock Option Plan
The Company has the 1997 Employee Stock Option Plan (the Plan) for the officers and employees of the Company and its subsidiaries as well as a plan for its non-employee directors. The Plan authorizes the issuance of up to 3,445,000 shares of common stock (as adjusted for stock dividends) upon the exercise of options. 2,401,000 options have been issued under the Plan. The option price for options issued under the Plan 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. These options generally become exercisable to the extent of 25% annually beginning one year from the date of grant, although the amount exercisable beginning one year from the date of grant may be greater depending on the employees' length of service. The options expire not later than 10 years from the date of grant.

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

	Shares Under Option	Weighted Average Exercise Price
Balance at January 1, 1997	2,323,796	$ 12.67
Options granted	825,209	33.09
Options exercised	261,099	7.88
Options canceled	7,372	20.36
Balance at December 31, 1997	2,880,534	18.93
Balance at January 1, 1998	2,880,534	$ 18.93
Options granted	1,792,322	43.54
Options exercised	236,668	10.66
Options canceled	100,957	38.92
Balance at December 31, 1998	4,335,231	29.09

Information concerning options outstanding as of December 31, 1998 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 12/31/1998	Weighted Average Exercise Price
$3.00 to $18.50	1,341,512	5.50	$ 11.22	1,276,789	$ 11.09
$18.51 and greater	2,993,719	8.60	37.11	1,026,754	27.47

The Company has elected not to adopt the recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FAS 123), which requires a fair value based method of accounting for all employee stock compensation plans. The Company will continue to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations to account for its stock-based compensation plans. If the Company had accounted for stock options granted in 1998, 1997, and 1996 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):

	1998	1997	1996
Pro forma net income	$ 43,672	$ 38,558	$ 27,257
Pro forma net income per share:			
Basic	$ 1.85	$ 1.71	$ 1.32
Diluted	1.76	1.62	1.22

Due to the inclusion of only options granted after 1994, the pro forma effects of applying FAS 123 in 1998, 1997 and 1996 may not be representative of the pro forma impact in future years.

The fair value of options granted in 1998, 1997, and 1996 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 5.47% to 6.35%, dividend yields of' 3% to 4%, volatility factors of the expected market price of the Company's common stock of .215 to .309, and a weighted average expected life of the options of' four 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.

Employee Stock Ownership Plan
As of December 31, 1998, the Company maintains an Employee Stock Ownership Plan (ESOP) for the benefit of its officers and employees who meet age and service requirements. At December 31, 1997, the ESOP held 417,000 shares of Series C ESOP Cumulative Convertible Preferred Stock, purchased at a price of $18.00 per share. The Company guarantees a loan outstanding held by the ESOP. The loan is payable in quarterly installments with the final payment due January 28, 2000. The loan currently bears interest at a variable rate, although the rate can be fixed at future repricing dates in accordance with the loan agreement. The preferred stock was pledged as security for the loan and paid an annual dividend of $1.35 per share, which the ESOP applied to its obligations under the loan. Effective March 1, 1998, the Trustees of the ESOP exercised their right to convert all 417,000 shares of the preferred stock into 849,062 shares of the Company's common stock, a portion of which is pledged as security for the loan. Employer contributions are determined at the discretion of the Board of

Directors but will be sufficient to enable the ESOP to discharge current obligations, including interest, under the loan. The total contribution expense associated with the Plan for 1998, 1997 and 1996 was $1,134,000, $1,177,000 and $885,000, respectively.

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

16. 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, 1998 and 1997:

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial assets:				
Cash and cash equivalents	$ 245,352	$ 245,352	$ 167,900	$ 167,900
Mortgages held for sale			7,260	7,260
Trading securities	85,359	85,359	7,911	7,911
Investment securities	2,411,162	2,414,281	2,189,152	2,184,935
Loans (net)	1,904,954	1,946,031	1,390,028	1,416,151
Financial liabilities:				
Deposits	4,435,115	4,447,757	3,369,404	3,375,949
Other borrowed money	21,845	21,845	223,300	223,300
Obligation to ESOP	1,282	1,282	2,308	2,308
Long-term debt	80,500	84,939	80,500	85,266
Off-balance sheet liabilities:				
Standby letters of credit		$ 456		$ 186
Commitments to extend credit		749		520

</TABLE>

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

Cash and cash equivalents, mortgages 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. The carrying amount of accrued interest approximates its fair value.

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.

Obligation to ESOP: The fair value of the guarantee of the ESOP obligation is estimated using a discounted cash flow calculation that applies interest rates currently being offered to obligations of' a similar maturity.

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.

17. 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 (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Three Months Ended			
	December 31	September 30	June 30	March 31
<S>	<C>	<C>	<C>	<C>
1998				
Interest income	$76,002	$73,833	$71,554	$67,891
Interest expense	29,453	29,317	28,652	28,131
Net interest income	46,549	44,516	42,902	39,760
Provision for loan losses	1,419	1,669	1,569	1,210
Net investment securities gains	1,022	991	920	
Provision for federal and state income taxes	6,331	6,311	6,584	6,296
Net income	13,165	12,559	12,147	11,447
Net income applicable to common stock	13,165	12,559	12,147	11,447
Net income per common share:				
Basic	$ 0.55	$ 0.53	$ 0.51	$ 0.49
Diluted	0.52	0.50	0.49	0.47
1997				
Interest income	$65,375	$64,315	$59,148	$55,339
Interest expense	26,735	26,735	22,694	20,873
Net interest income	38,640	37,580	36,454	34,466
Provision for loan losses	574	1,142	1,326	1,626
Net investment securities gains	568	1,717		
Provision for federal and state income taxes	5,166	5,719	5,558	5,149
Net income	10,480	10,377	10,034	9,434
Net income applicable to common stock	10,339	10,236	9,894	9,293
Net income per common share:				
Basic	$ 0.46	$ 0.46	$ 0.45	$ 0.42
Diluted	0.44	0.43	0.42	0.40

</TABLE>

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

Balance Sheets

	December 31,	
(dollars in thousands)	1998	1997
Assets		
Cash	$ 20,840	$ 62,457

Securities available for sale	14,575	11,451
Securities held to maturity		41
Investment in subsidiaries	342,949	254,407
Other assets	10,253	10,042
	$388,617	$338,398
Liabilities		
Other liabilities	$ 6,119	$ 4,830
Trust Capital Securities	57,500	57,500
Long-term debt	23,000	23,000
Obligation to Employee Stock Ownership Plan (ESOP)	1,282	2,308
	87,901	87,638
Stockholders' equity		
Common stock	35,958	25,309
Series C preferred stock		7,506
Capital in excess of par or stated value	211,737	167,529
Retained earnings	55,927	54,348
	303,622	254,692
Less commitment to ESOP	1,282	2,308
Less treasury stock	1,624	1,624
Total stockholders' equity	300,716	250,760
	$388,617	$338,398

Statements of Income

<TABLE>
<CAPTION>

	Year Ended December 31		
(dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Income:			
Dividends from subsidiaries	$ 18,357	$ 14,448	$ 11,406
Interest income	293	248	728
Other	2,098	491	173
	20,748	15,187	12,307
Expenses:			
Interest expense	7,259	4,961	2,025
Operating expenses	2,428	2,426	1,911
	9,687	7,387	3,936
Income before income taxes and equity in undistributed income of subsidiaries	11,061	7,800	8,371
Income tax benefit	(2,479)	(2,141)	(975)
	13,540	9,941	9,346
Equity in undistributed income of subsidiaries	35,778	30,384	18,904
Net income	49,318	40,325	28,250
Dividends on preferred stock		563	842
Net income applicable to common stock	$ 49,318	$ 39,762	$ 27,408

</TABLE>

Statements of Cash Flows

<TABLE>
<CAPTION>

	Year Ended December 31,		
(dollars in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Operating activities:			
Net income	$ 49,318	$ 40,325	$ 28,250
Adjustments to reconcile net income to net cash provided by operating activities:			

Undistributed income of subsidiaries	(35,778)	(30,384)	(18,904)
Gains on sales of securities available for sale		(301)	
(Increase) decrease in other assets	(211)	(1,329)	137
Increase in other liabilities	1,699	359	1,428
Net cash provided by operating activities	15,028	8,670	10,911
Investing activities:			
Investment in subsidiaries	(40,253)	(2,000)	(3,000)
Proceeds from sale of securities available for sale		1,090	
Purchase of equity securities	(4,308)	(5,636)	(1,572)
Other	51	(50)	69
Net cash used by investing activities	(44,510)	(6,596)	(4,503)
Financing activities:			
Tax benefit from ESOP dividends		197	197
Proceeds from issuance of common stock under dividend reinvestment plan	7,427	4,259	3,397
Cash dividends	(21,563)	(12,484)	(8,430)
Proceeds from exercise of stock options	2,001	2,617	743
Proceeds from issuance of long-term debt		57,500	
Net cash (used) provided by financing activities	(12,135)	52,089	(4,093)
(Decrease) increase in cash and cash equivalents	(41,617)	54,163	2,315
Cash and cash equivalents at beginning of year	62,457	8,294	5,979
Cash and cash equivalents at end of year	$ 20,840	$ 62,457	$ 8,294
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 7,089	$ 4,809	$ 1,926
Income taxes	27,626	21,377	11,905

</TABLE>

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 Shore, and Commerce North can declare dividends in 1999 without additional approval of approximately $36,352,000, $9,322,000, $8,178,000, and $8,552,000, respectively, plus an additional amount equal to each bank's net profit for 1999 up to the date of any such dividend declaration.

The Federal Reserve Act requires the extension of credit by Commerce NJ, Commerce PA, Commerce Shore, and Commerce North 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, 1998 and 1997, the Company complies with these guidelines.

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.

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, 1998, that the Company and its subsidiaries meet all capital adequacy requirements to which they are subject.

Commerce Bancorp, Inc. and Subsidiaries Notes to
Consolidated Financial Statements

The following table presents the Company's and Commerce NJ's risk-based and leverage capital ratios at December 31, 1998 and 1997:

<TABLE>
<CAPTION>

			Per Regulatory Guidelines			
	Actual		Minimum		"Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 1998						
Company						
Risk based capital ratios:						
Tier I	$346,397	12.98%	$106,717	4.00%	$160,075	6.00%
Total capital	391,206	14.66	213,433	8.00	266,791	10.00
Leverage ratio	346,397	7.36	141,127	3.00	235,211	5.00
Commerce NJ						
Risk based capital ratios:						
Tier 1	$190,578	11.44%	$ 66,657	4.00%	$ 99,985	6.00%
Total capital	207,908	12.48	133,314	8.00	166,642	10.00
Leverage ratio	190,578	6.51	87,889	3.00	146,481	5.00
December 31, 1997						
Company						
Risk based capital ratios:						
Tier I	$299,191	15.66%	$ 76,439	4.00%	$114,658	6.00%
Total capital	343,452	17.97	152,878	8.00	191,097	10.00
Leverage ratio	299,191	7.81	114,971	3.00	191,619	5.00
Commerce NJ						
Risk based capital ratios:						
Tier 1	$161,621	12.55%	$ 51,494	4.00%	$ 77,241	6.00%
Total capital	175,617	13.64	102,988	8.00	128,735	10.00
Leverage ratio	161,621	6.27	77,270	3.00	128,784	5.00

</TABLE>

Commerce Bancorp, Inc. and Subsidiaries Notes to
Consolidated Financial Statements

19. Segment Reporting

The Company operates one reportable segment of business, Community Banks, which includes Commerce NJ, Commerce PA, Commerce Shore, and Commerce North. Through its Community Banks, the Company provides a broad range of retail and commercial banking services, and corporate trust services. Parent/Other and other includes the holding company, Commerce Insurance, CCMI, and Commerce Capital Trust I.

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

<TABLE>
<CAPTION>

	1998			1997			1996		
	Community Banks	Parent/ Other	Total	Community Banks	Parent/ Other	Total	Community Banks	Parent/ Other	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net interest income	$ 180,064	$ (6,337)	$ 173,727	$ 151,853	$ (4,713)	$ 147,140	$ 126,711	$ (1,298)	$ 125,413
Provision for loan losses	5,867		5,867	4,668		4,668	4,857		4,857
Net interest income after provision	174,197	(6,337)	167,860	147,185	(4,713)	142,472	121,854	(1,298)	120,556
Noninterest income	51,096	37,851	88,947	40,354	17,020	57,374	31,403	1,373	32,776
Noninterest expense	149,378	32,589	181,967	123,724	14,205	137,929	106,217	2,814	109,031
Income (loss) before income taxes	75,915	(1,075)	74,840	63,815	(1,898)	61,917	47,040	(2,739)	44,301
Income tax expense (benefit)	25,537	(15)	25,522	22,386	(794)	21,592	16,907	(856)	16,051

Net income (loss)	$ 50,378	$ (1,060)	$ 49,318	$ 41,429	$ (1,104)	$ 40,325	$ 30,133	$ (1,883)	$ 28,250
Average assets (in millions)	$3,899,219	$470,878	$4,370,097	$3,240,260	$328,307	$3,568,567	$2,759,209	$195,642	$2,954,851

</TABLE>

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.

Commerce Bancorp, Inc. and Subsidiaries Report of Independent Auditors

The Board of Directors and Stockholders
Commerce Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Commerce Bancorp, Inc. and Subsidiaries as of December 31, 1998 and 1997 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, 1998. 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 did not audit the financial statements of Independence Bancorp, Inc. a wholly-owned subsidiary, which statements reflect net interest income in 1996 constituting 13.6% of the related consolidated total. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Independence Bancorp, Inc., is based solely on the reports of other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Bancorp, Inc. and Subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Philadelphia, Pennsylvania
January 26, 1999

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements and related Prospectuses (Form S-3 No. 333-73421 and No. 33-40465, and Form S-4 No. 333-10771) of Commerce Bancorp, Inc. and in the Registration Statements (Forms S-8 No. 33-82742, No. 333-57497, and No. 33-82740) pertaining to the Stock Option Plans and Employee Stock Purchase Plan of Commerce Bancorp, Inc. of our report dated January 26, 1999 with respect to the consolidated financial statements of Commerce Bancorp, Inc. and Subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
March 25, 1999

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