15 YEARS SERVING CENTRAL PENNSYLVANIA

Pennsylvania Commerce Bancorp

2000 Annual Report

Pennsylvania Commerce Bancorp, Inc.
Selected Financial Data

	Year Ended December 31				
(dollars in thousands except per share data)	**2000**	1999	1998	1997	1996
BALANCE SHEET DATA:					
Total assets	**$ 480,086**	$ 378,913	$ 319,323	$ 239,829	$ 198,282
Loans held for sale	**5,329**	5,301	5,641	6,816	12,953
Loans receivable (gross)	**290,252**	216,105	167,121	134,459	103,739
Securities available for sale	**92,921**	84,652	96,993	48,512	43,088
Securities held to maturity	**33,812**	29,039	11,493	12,239	13,524
Federal funds sold	**22,800**	0	11,900	14,325	3,850
Deposits	**446,583**	348,546	297,737	220,224	182,572
Long-term debt and other borrowed money	**0**	8,300	0	0	1,000
Trust preferred securities	**5,000**	0	0	0	0
Stockholders' equity	**26,668**	20,378	20,445	18,318	13,275
INCOME STATEMENT DATA:					
Net interest income	**$ 17,477**	$ 14,676	$ 11,276	$ 9,308	$ 7,851
Provision for loan losses	**1,050**	762	542	150	90
Noninterest income	**5,362**	4,558	4,061	2,740	1,700
Noninterest operating expenses	**16,189**	13,756	11,471	9,078	7,079
Income before income taxes	**5,600**	4,716	3,324	2,820	2,382
Net income	**3,714**	3,103	2,218	1,892	1,602
PER COMMON SHARE DATA:					
Net income: *Basic*	**$ 2.09**	$ 1.76	$ 1.25	$ 1.15	$ 1.07
Diluted	**1.96**	1.64	1.15	1.04	1.01
Book value	**14.65**	11.20	11.30	10.12	8.53
SELECTED PERFORMANCE RATIOS:					
Return on average assets	**0.88 %**	0.89 %	0.80 %	0.91 %	0.94 %
Return on average stockholders' equity	**16.59**	15.18	11.50	11.86	12.77
Net interest margin	**4.49**	4.59	4.49	4.92	5.05
SELECTED LIQUIDITY AND CAPITAL RATIOS:					
Average loans to average deposits	**65.12 %**	60.24 %	60.26 %	63.83 %	69.29 %
Stockholders' equity to total year-end assets	**5.55**	5.38	6.40	7.64	6.70
Risk-based capital: *Tier 1*	**9.90**	9.91	10.83	12.20	11.44
Total	**11.04**	11.12	12.02	13.36	13.29
Leverage ratio	**6.92**	6.28	6.50	7.85	7.10
ASSET QUALITY:					
Net charge-offs to average loans outstanding	**0.06 %**	0.08 %	0.01 %	0.11 %	(0.05) %
Non-performing loans to total year-end loans	**0.29**	0.32	0.16	0.43	0.37
Non-performing assets to total year-end assets	**0.18**	0.18	0.09	0.35	0.19
Allowance for loan losses to total year-end loans	**1.29**	1.31	1.34	1.26	1.62
Allowance for loan losses to non-performing loans	**448.02**	415.35	808.70	290.92	436.27

Contents

Welcome To
America's Most Convenient Bank®
Online Banking
Locations and Hours
Personal Banking
Business Banking
Online Trading
Inside Commerce
Serving Central Pennsylvania

Personal Banking
Freedom of choice! No gimmicks. No packages. Simply the best deals in town.
Checking
Savings & Money Market
Mortgages
Electronic Banking
IRAs
Consumer Loans
Special Services
Certificates of Deposit

Commerce Bank
MAC

Dear Shareholders, Employees, Customers, and Friends:

The year 2000 marked the 15th anniversary of Commerce Bank. When we opened in 1985 with one branch in Camp Hill, we were determined to offer more to our local communities than the traditional banks. We promised a relentless commitment to providing customers in Central Pennsylvania with convenient, unsurpassed quality service. Now, 15 years – and 14 branches – later, consumers surveyed by Harrisburg Magazine named us “Simply the Best Bank of 2000.”

The Directors, management and staff of Pennsylvania Commerce Bancorp, Inc. are pleased to report on our financial results for this remarkable year of 2000.

A Record Breaking Year

Commerce Bank/Harrisburg produced another year of record earnings and total revenues in 2000, as well as an all-time high in staff expansion. The Company’s strong retail model, focused on gathering low-cost core deposits, continues to drive increased profitability in an industry where little or no deposit growth is the norm.

Every year since 1988, we have been able to consistently report increased earnings and superior financial returns to our shareholders. We are pleased that we can, once again, report such earnings for the year 2000.

- Assets increased by 27% to $480 million.
- Deposits rose by $98 million – exceeding $446 million – and representing a 28% increase over 1999.
- Loans increased 34%, or $74.2 million, for a total of $295 million.
- Revenues were up 19%, reaching $22.8 million.
- Net income grew 20% to $3.7 million.
- Net income per share on a diluted basis was $1.96 – a 20% increase.
- Stock dividend of 5% declared on common stock outstanding – marks 8th consecutive year a dividend of 5% has been paid.
- Stockholders’ equity rose to $26.7 million, an increase of $6.3 million or 31%.
- Market price of Commerce common stock increased 30% on the NASDAQ Small-Cap market, closing at $25.95 per share.

Proud of Our Accomplishments

We are proud of our accomplishments in the year 2000. We opened our 12th branch office in June in Cedar Cliff. The completion of our Palmyra branch in October, marked not only the opening of our 13th branch, but our initial entry into Lebanon County. October was a busy month. We also held groundbreaking ceremonies for our 14th branch in East Pennsboro Township. The addition of our Palmyra branch means Commerce Bank/Harrisburg now services customers in Cumberland, Dauphin, Lebanon and York Counties.

Our online banking service also experienced significant growth in 2000. Commerce Online now has reached a household penetration rate of 27% — the highest in America. We see this as further proof that the Commerce model continues to combine the best in branch and electronic banking in one unique retail strategy.

The employees of Commerce Bank/Harrisburg were key to our success in 2000. Our employees continue to enhance our ability to provide the personalized, friendly service our customers have come to know and expect from Commerce. In 2000, we expanded our staff to 322 total employees – a 19% increase from 1999.

Looking Back to Look Forward

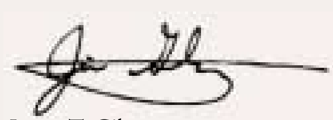
This Annual Report not only reports on our activities and accomplishments in 2000, but also takes a look back. By understanding and appreciating where we have been, we can continue to move forward to where we want to be.

And our goal is to continue our expansion in Central Pennsylvania. Our growth plan includes another dozen offices by 2005 and a work force of 750 employees – more than double our current size – with assets of $1 billion.

We have brought significant changes to retail banking in Central Pennsylvania since we opened our doors in 1985. We have gone from being the area’s “newest bank in 75 years” in 1985 to being “Simply the Best Bank” in 2000. We extend our thanks to our dedicated staff, shareholders, directors – and most importantly – our customers, for their support and continued contribution to Commerce’s growth and positive reputation.

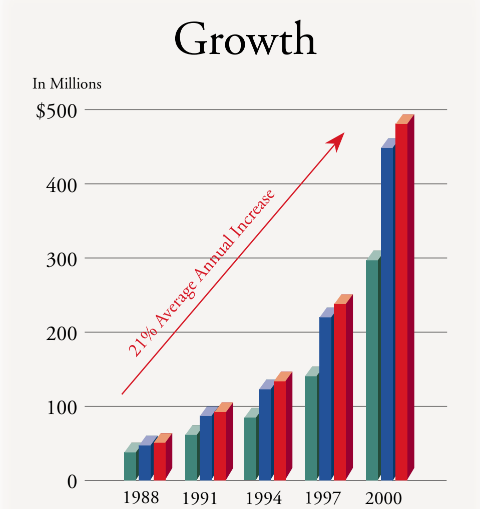
Sincerely,

Gary L. Nalbandian
Chairman Of The Board

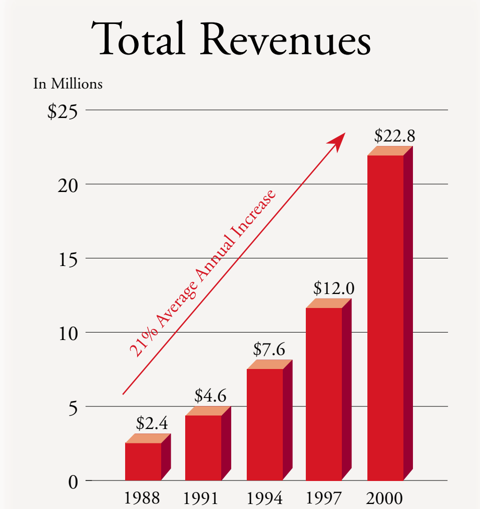


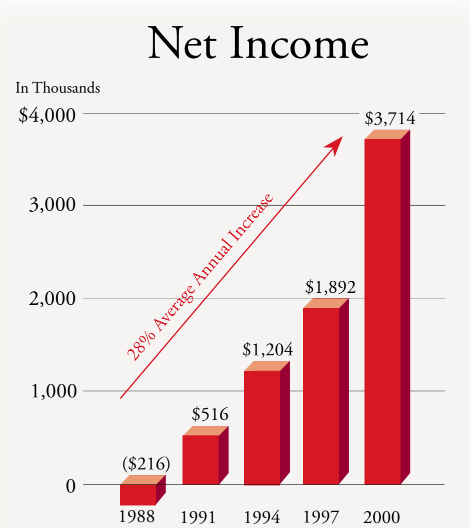
James T. Gibson
President/CEO

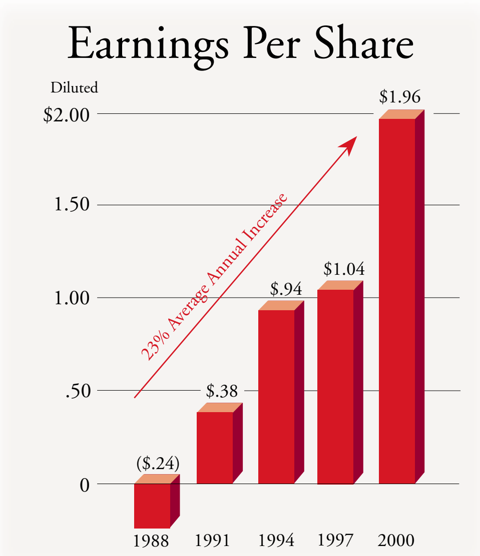
A Growth Company



	1988	1991	1994	1997	2000
LOANS	$37	$61	$ 84	$141	$296
DEPOSITS	$47	$87	$123	$220	$447
ASSETS	$50	$93	$133	$240	$480







Pennsylvania Commerce Bancorp

The first five years

1985

Celebrate grand opening of our first office at Erford Road & Senate Avenue in Camp Hill. Become the first new state-chartered bank in Cumberland County in 75 years.

Devote first year to building a solid foundation for our success. Exceed our projections with $11.5 million in year-end total assets.

Proudly welcome more than 2,300 customers during the first seven months of 1985.

1986

Achieve intense growth and prove to be a major new presence in the Harrisburg financial community. Total assets reach $26 million by year-end.

Welcome more than 5,000 new customers to the Commerce retail banking model.

Expand our capital base to keep pace with the rapid growth by offering and selling $1.3 million in new common stock.

1987

Provide real "hometown" banking to our customers by focusing on customer-oriented services such as free checking, longer hours, and friendly, personal service.

Open our second branch – Colonial Park on Route 22 – generating 2,500 new accounts for a healthy $6 million in new deposits in five months.

Momentum from two successful years and the opening of our second branch substantiates the potential of Harrisburg's East Shore area as a promising future growth target.

1988

Welcome James T. Gibson as the new President and CEO in August, who could position us for growth and prosperity.

Further expand our service-focused strategy with the opening of our Hampden Centre branch on Carlisle Pike in Hampden Township. The new branch yields $2 million in deposits during the first two months of operation.

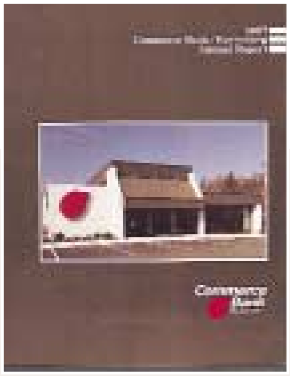
Experience another year of tremendous growth – approximately 34% — with total year-end assets of more than $50 million.

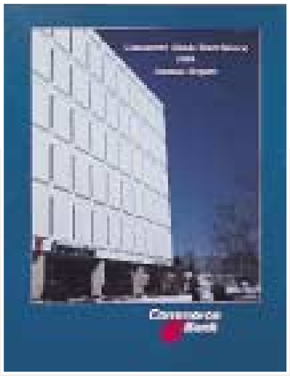
1989

Create a new Residential Mortgage Loan department to meet customers' needs for residential loans, while adding an important new profit center to the Bank.

Increase capital by $1.5 million by stockholders exercising 94% of the common stock warrants issued during our 1986 stock offering. This provides us with a comfortable 7.86% total capital ratio – well above the Federal guideline.

Noha Abdallah has been with the Commerce Bank/Harrisburg family for 11 years. Currently, Noha is Vice President of Branch Operations. She began her Commerce career as a Teller, where she first became known for her winning smile and *WOW!* Spirit.





The next five years

1990
Achieve 28% growth in our fifth anniversary year by staying focused on retail banking services valued by our customers – longer hours, free checking, convenient locations – further proving the soundness of our retail philosophy.

Increase earnings by 39%, from $253,000 in 1989 to $352,000 in 1990, despite a weak economy, falling interest rates and lower loan demand.

Enjoy a 20% increase – to $78 million – in total assets, compared to $64 million in 1989.

1991
Break ground at Paxton Square Shopping Center for our fourth branch. Gearing up for a May 1, 1992 grand opening.

Business continues to increase as customers embrace our retail banking model.

Year-end assets soar by 20% to $93 million, compared to 1990 total assets of $78 million.

1992
A pivotal year for Commerce Bank as we reach the $100 million milestone in total assets in June.

Open our fourth branch at Route 22 and Mountain Road in the Paxton Square Shopping Center in May.

Grow deposits to nearly $106 million, an increase of 22% over 1991 deposits. Reflects the growing strength of our retail strategy.

1993
Enjoy another record year as reflected by increases throughout the bank: deposits grow by 9% to $114 million and loans increase by 14% to $77 million.

Increase total assets by 8% to $122 million.

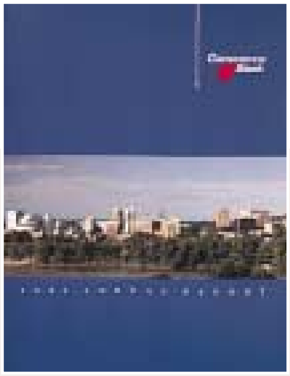
1994
Initiate Sunday banking hours, bringing seven-day branch banking to the Harrisburg area.

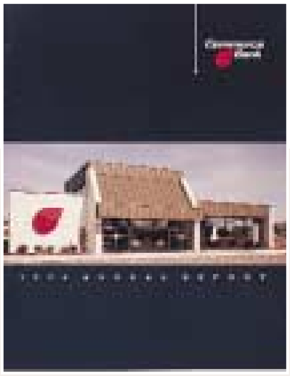
Open a new Management Information Services (Operations) center.

Register stock on the NASDAQ Small Cap Market in August, and convert to a national banking charter in October.

Increase net income 20% — from $1.0 million to $1.2 million.

Cedar Cliff Assistant Branch Manager Karin Nale (left) discusses new business account options with long-time Commerce customers Lee and Donna Zimmerman, owners of the J.S. Zimmerman Company, Inc. of Penbrook, Pennsylvania. The Zimmerman's peanut-based products are well-known in the area.





The Past Five Years

1995

Celebrate Commerce Bank's tenth anniversary on June 1, 1995.

Raise $2.2 million to support growth and expansion through a successful public offering. Issue a two-for-one stock split in August.

Open fifth Commerce Bank branch in November in Hummelstown, which helps push net income to $1.5 million and produces a 20% increase over 1994 earnings per share.

1996

Introduce "Commerce Online" to Commerce Bank customers – the banking industry's most versatile and easy to use PC-based online banking system.

Open two new branches on the same day in October – York Crossing and Queen Street; initial expansion into York County.

Initiate a full-service Bank-by-Phone system to provide customers with 24-hour continuous direct access to their accounts.

1997

Despite an industry standard of just 4%, Commerce On-Line household penetration reaches 12%.

Expand Cumberland and York County presence with opening of eighth and ninth branches in September at Simpson Ferry Road in Mechanicsburg and Prospect Street in York.

Surpass the $200 million mark in total assets – increasing 21% to $240 million.

1998

Reach a total of 11 branches with the opening of two new offices – Route 30 in York in April, and Route 74 in Carlisle in August.

Increase deposits by an amazing 35% for a total of $298 million. Loans also increase – up 22% to $173 million. Net income increases 17% to $2.2 million.

Eclipse $300 million in assets with a 33% increase to reach $319 million.

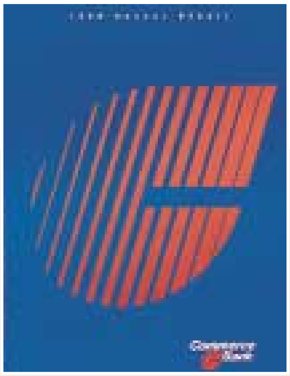
1999

Form Pennsylvania Commerce Bancorp, Inc. and reorganize Commerce into a one-bank holding company.

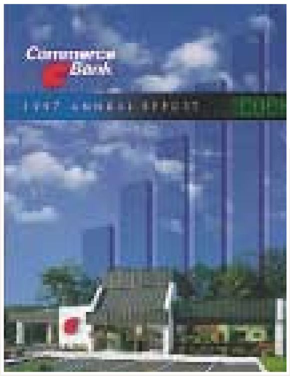
Receive Preferred Lender status from U.S. Small Business Association for efforts to meet needs of small – and emerging – businesses in Cumberland, Dauphin, York and Lebanon Counties. Recognized as one of the top five largest business and industry lenders in the state of Pennsylvania.

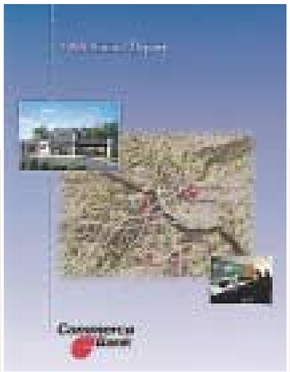
Introduce customers to our Website, *www.commercepc.com*, providing direct computer access to up-to-the-minute account information, ability to transfer funds, pay bills electronically and complete other transactions online.

Experience steady growth – deposits increase 17% to $349 million; loans jump to $221 million – a 28% increase; and, assets increase 19% to $379 million. Net income rises significantly to $3.1 million – a 40% increase, while net income per share increases 43% to $1.64 per share.



George Carlson, owner and President of Carlson Construction in Camp Hill (right) shows Commerce's Jim Ridd, Senior Vice President, Director of Commercial Real Estate Lending, the plans for one of Carlson's new homes in the Floribunda Heights development in Camp Hill, Pennsylvania.



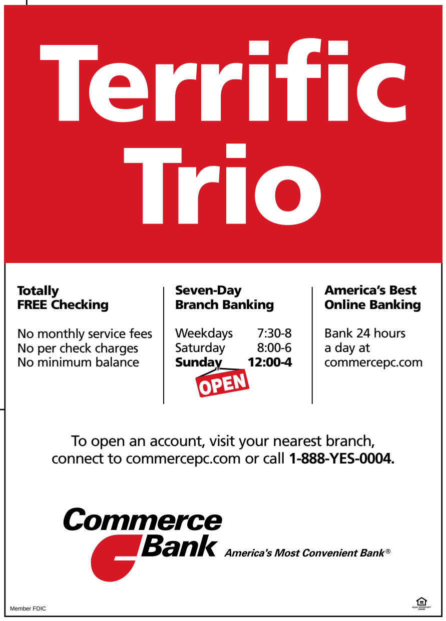


Quality and Convenience Highlight the Commerce Retail Experience

The Commerce "model" focuses on delivering the best possible retail experience. The survey of the readers of *Harrisburg Magazine*, which awarded Commerce Bank/Harrisburg "Simply the Best Bank of 2000", highlights the success of our model.

When we opened our doors on June 1, 1985, we were determined to provide a consumer friendly community bank. Today, with a network of 14 branches serving Harrisburg and Central Pennsylvania, we continue to offer the convenience, quality products and service our growing numbers of customers have come to expect.

Although many financial institutions continue to abandon branch banking and penalize customers with fee-based service, Commerce Bank remains committed to providing quality banking services whenever, wherever, and in whatever way best suits customers' needs.

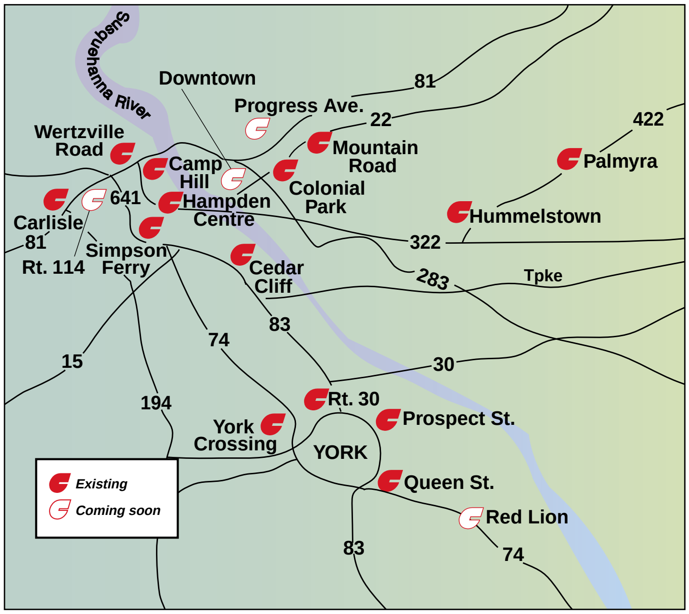


Visiting a Commerce Branch in Person

When customers enter any one of our 14 branches, they find friendly and courteous Tellers, and easy access to our Customer Service Representatives.

Our free coin counting machines are another popular amenity. The "Penny Arcade" machine counts pennies, nickels, dimes and quarters, and prints a final receipt which can be taken to a Teller to be exchanged for cash or deposited directly into an account. Unlike the change counting machines at supermarkets, there is no charge at the "Penny Arcade."

Customers also can get the same personalized, friendly experience from our drive-thru Tellers as they do when they come into the branch. And, they have access to the same hallmark products and services. All of our branches are equipped with drive-thru windows – making the Commerce Bank experience even more convenient!



Visiting a Commerce Branch Electronically

Our commitment to be "America's Most Convenient Bank" is exemplified not just by our seven-day branch banking, the longest business hours in the region, Penny Arcades and drive-thru access, but through our Internet branch located at *www.commercepc.com* and our 24-hour Bank-By-Phone service.

We offer our electronic delivery channels as another convenient means of accessing our products and services – other banks use them to discourage branch banking. We believe our electronic services enhance the branch banking experience.

Commerce-Online – our online branch – has achieved a household penetration rate of 27%. When customers visit Commerce On-Line, they can:

- Access up-to-the-minute account balances
- Transfer funds in real-time between Commerce accounts
- Review account history
- Pay an unlimited number of bills electronically for just $5 per month
- Trade stocks
- Re-order checks
- Place stop payment orders

In addition, customers can access their Commerce accounts via our popular telephone banking service. Customers who dial 1-800-YES-2003 can obtain account information, open a new account, transfer funds or apply for a loan. And, more importantly, the customer can speak to a Customer Service Representative seven days a week, 24 hours a day, by calling 1-888-YES-0004.

Commerce Debit Card

Commerce customers can use our convenient Debit Card in multiple ways – in Harrisburg and Central Pennsylvania or in locations around the world.

The multi-function debit card enables our customers to use automated teller machines or make purchases wherever MAC®, or VISA®, is accepted. So a customer can purchase groceries at the local supermarket with his debit card and have it automatically deducted from his account, while another customer uses her card to make a purchase in London.

Penny Arcades continue to be a popular part of the Commerce Bank/ Harrisburg experience.

WOW! The Customer

Behind all of our products and services is the *WOW! The Customer* philosophy – exceed customer expectations. Commerce delivers a consistent level of unsurpassed service that turns customers into loyal fans.

Commerce encourages employees to do whatever it takes to deliver a truly memorable service experience each and every time they interact with a customer. We cultivate the *WOW! The Customer* philosophy through an employee recognition program that salutes and rewards outstanding performers with an annual celebration that spotlights the best of the best!

Lending

The Lending Relationship

As a local bank, Commerce provides customers with the advantage of working directly with locally-based lenders. We know the market. And our lenders are empowered to make prompt decisions regarding financing needs — free of the time-consuming, impersonal and bureaucratic approval processes that are prominent at so many other banks.

Our approach to lending focuses on building long-term relationships and providing quality service. We are large enough to support customer needs, yet small enough to know our customers personally.

In the year 2000, loans increased 34%, or $74.2 million, for a total of $295.6 million – up from $221 million. We believe the significant increase is a good indication of our continuing commitment to the credit needs of Commerce's market areas. This growth reflects widespread increases in commercial as well as consumer loan categories.

Consumer Lending

Commerce Bank provides a variety of personal loans and residential mortgages. Consumers receive competitive rates and flexible terms – and they can apply in-person, online, or by phone.

Consumer loan products include:

• Personal Loans & Lines of Credit

• Home Equity Loans & Lines of Credit

• Auto & Manufactured Home Loans

• Education Loans

• Fixed and Adjustable Rate Mortgages

We also work with our customers to develop Alternative Financing Programs tailored to meet their individual needs. These services can include FHA financing and low down-payment financing as well as other options.

Dr. Timothy Farrell, Vice President/Treasurer, and Dr. C. Ronald Duncan, President, Quantum Imaging & Therapeutic Associates, Inc. show Commerce Bank's Steven P. Welty, Vice President for the York Region, a list of locations set for the mobile PET unit Commerce helped to finance.

Commercial Lending

Our commercial lending business continues to grow and expand.

Commerce is a Preferred Lender for the Small Business Administration (SBA) in Pennsylvania. We were awarded this status because of our continuing efforts to meet the needs of small and emerging businesses in Cumberland, Dauphin, York and Lebanon Counties. As a Preferred SBA Lender, we can expedite the processing of SBA loan applications. Our SBA Preferred lender status also gives us the ability to meet the needs of most businesses that do not have access to conventional funding sources.

We continue to expand our small- to medium-sized business lending services. During 2000, we also reinforced our position as a leading provider of financing for the commercial real estate market in the Harrisburg and Central Pennsylvania area.

Board of Directors

From left to right: Gary L. Nalbandian, Howell C. Mette, Douglas S. Gelder, Alan R. Hassman, James T. Gibson, James R. Adair, Samir J. Srouji, MD, Peter J. Ressler, Michael A. Serluco. Not pictured: Vernon W. Hill, II.

Gary L. Nalbandian
Chairman
Pennsylvania Commerce Bancorp, Inc.
Co-owner/President
Commercial Industrial Realty Co.

Vernon W. Hill, II
Vice-Chairman
Pennsylvania Commerce Bancorp, Inc.
Chairman & President
Commerce Bancorp, Inc.

James T. Gibson
President/CEO
Pennsylvania Commerce Bancorp, Inc.

James R. Adair
President/CEO
Alexander Constructors, Inc.

Douglas S. Gelder
Owner/President
DSG Development

Alan R. Hassman
Owner/Operator
Seven McDonald's
Restaurant Locations

Howell C. Mette
Senior Partner
Mette, Evans & Woodside

Peter J. Ressler *(Secretary to the Board)*
Attorney
Mette, Evans & Woodside

Michael A. Serluco
Owner
Consolidated Properties

Samir J. Srouji, MD
Owner
Plastic Surgery, P.C.

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

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

2000 Overview

In 2000, the Company continued its strong financial performance by posting record levels of total assets, deposits and loans. Total assets grew by $101 million, or 27%, to $480 million and total deposits increased $98 million, or 28%, to $447 million. Total loans also experienced strong growth of $74 million, or 34%, in 2000 from $221 million to $295 million.

Net income was up 20% in 2000 to $3.7 million from $3.1 million for 1999 and total revenues increased by 19% to a record level of $22.8 million. Diluted net income per common share increased 20% to $1.96 from $1.64 per share in 1999 (after adjusting for a 5% common stock dividend declared in January 2001).

In June, the Company opened a new branch at 1120 Carlisle Road, Camp Hill, Pennsylvania and another new branch in October in the Palmyra Shopping Center on Route 422 in Palmyra, Pennsylvania. This brings the Bank's total number of full-service branches to 13. The October opening was the introduction of the Bank into a new market in Lebanon County. During the fourth quarter of 2000, the Bank began construction of its fourteenth branch in East Pennsboro Township, Enola, Pennsylvania. Grand opening ceremonies were held on March 31, 2001.

Results of Operations

Average Balances and Average Interest Rates

Table 1 on the following page sets forth balance sheet items on a daily average basis for the years ended December 31, 2000, 1999 and 1998 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2000, average interest earning assets were $389.5 million, an increase of $69.8 million, or 22%, over 1999. This was the result of an increase in the average balance of securities of $7.6 million and an increase in the average balance of loans receivable of $59.6 million. The growth was funded primarily by an increase in the average balance of deposits of $67.6 million. The growth in interest earning assets was also partly funded by an increase in long-term debt, reflecting the issuance of $5 million of Trust Capital Securities in June 2000.

The yield on total interest earning assets increased by 46 basis points in 2000 to 8.16%. The increase resulted primarily from increased yields in the loan and investment portfolios due to the overall level and timing of changes in general market interest rates during 2000 as compared to 1999. The Federal Reserve Board (FRB) raised short-term market interest rates three times in the first half of 2000 for a total increase of 100 basis points (bps). This followed three 25 bp increases by the FRB in the second half of 1999. As a result, the company experienced higher yields on interest earning assets in 2000 over 1999 as well as a higher cost of funds in 2000 over the prior year.

The aggregate cost of interest-bearing liabilities increased 62 basis points in 2000 to 4.43% from 3.81% in 1999. The average rate paid on savings deposits increased by 100 basis points, from 2.90% in 1999 to 3.90% in 2000 and the average rate paid on time deposits was 5.17%, up 13 basis points over 1999. The average rate paid on interest checking accounts increased from 3.76% in 1999 to 3.90% in 2000. The average rate paid on public funds time deposits increased by 143 basis points in 2000. The majority of the Company's public funds are deposits of the Commonwealth of Pennsylvania and local school districts and municipalities. These deposits are repriced at maturity based upon an average of rates paid for comparable time deposits by several financial institutions in the Central Pennsylvania market.

The Company's aggregate cost of funding sources increased 56 basis points in 2000 to 3.67% over 3.11%. This is the result of an increase in the average rate paid on total interest bearing deposits as well as the issuance of long-term debt, which bears interest at a higher rate than the Company's deposits.

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

TABLE 1

(dollars in thousands)	2000			Year Ended December 31, 1999			1998		
Earning Assets	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Securities:									
Taxable	$121,833	$ 8,025	6.59%	$114,992	$ 7,405	6.44%	$ 84,056	$ 5,593	6.65%
Tax-exempt	795	44	5.51	0	0	0.00	150	7	4.61
Total securities	122,628	8,069	6.58	114,992	7,405	6.44	84,206	5,600	6.65
Federal funds sold	11,707	760	6.49	9,129	447	4.83	12,420	658	5.23
Loans receivable:									
Mortgage and construction	178,937	15,852	8.86	136,325	11,685	8.57	110,033	9,836	8.94
Commercial loans and lines of credit	47,747	4,691	9.82	36,267	3,254	8.97	23,539	2,193	9.32
Consumer	26,640	2,293	8.61	22,629	1,806	7.98	20,755	1,709	8.23
Tax-exempt	1,833	109	5.94	365	20	5.52	415	23	5.52
Total loans receivable	255,157	22,945	8.99	195,586	16,765	8.57	154,742	13,761	8.89
Total earning assets	$389,492	$31,774	8.16%	$319,707	$24,617	7.70%	$251,368	$20,019	7.96%
Sources of Funds									
Interest-bearing deposits:									
Regular savings	$108,131	$ 4,219	3.90%	$ 78,465	$ 2,272	2.90%	$ 69,959	$ 2,378	3.40%
Interest checking	8,696	339	3.90	9,779	368	3.76	27,842	750	2.69
Money market	71,764	2,288	3.19	49,855	1,111	2.23	11,081	249	2.25
Time deposits	104,983	5,422	5.17	107,928	5,444	5.04	89,452	4,880	5.46
Public funds time	25,833	1,688	6.54	14,105	721	5.11	8,835	486	5.49
Total interest-bearing deposits	319,407	13,956	4.37	260,132	9,916	3.81	207,169	8,743	4.22
Short-term borrowings	696	41	5.91	460	25	5.35	0	0	0.00
Long-term debt	2,708	300	11.07	0	0	0.00	0	0	0.00
Total interest-bearing liabilities	322,811	14,297	4.43	260,592	9,941	3.81	207,169	8,743	4.22
Noninterest-bearing funds (net)	66,681			59,115			44,199		
Total sources to fund earning assets	$389,492	14,297	3.67	$319,707	9,941	3.11	$251,368	8,743	3.48
Net interest income and margin		$17,477	4.49%		$14,676	4.59%		$11,276	4.49%
Other Balances									
Cash & due from banks	$ 14,806			$ 12,740			$ 11,787		
Other assets	18,734			16,122			14,746		
Total assets	423,032			348,569			277,901		
Noninterest-bearing demand deposits	72,413			64,082			49,636		
Other liabilities	5,419			3,459			1,816		
Stockholders' equity	22,389			20,436			19,280		

Notes: Nonaccrual loans have been included in the average loan balances. Securities include securities available for sale and securities held to maturity. Securities available for sale are carried at amortized cost for purposes of calculating the average rate received on taxable securities above. Yields on tax-exempt securities are not computed on a taxable equivalent basis.

Net Interest Income and Net Interest Margin

Net interest income is the difference between interest income earned on assets and interest expense incurred on liabilities used to fund those assets. Interest earning assets primarily include loans and securities. Liabilities used to fund such assets include deposits and borrowed funds. Changes in net interest income and margin result from the interaction between the volume and composition of earning assets, related yields and associated funding costs.

Net interest income for 2000 increased $2.8 million, or 19%, over 1999 to $17.5 million. Interest income on earning assets totaled $31.8 million, an increase of $7.2 million, or 29%, over 1999. The majority of this increase was related to volume increases in the securities and loans receivable portfolios. Interest expense for 2000 increased by $4.4 million, or 44%, to $14.3 million from $9.9 million.

Changes in net interest income are frequently measured by two statistics: net interest rate spread and net interest margin. Net interest rate spread is the difference between the average rate earned on earning assets and the average rate incurred on interest-bearing liabilities. Net interest margin represents the difference between interest income, including net loan fees earned, and interest expense, reflected as a percentage of average earning assets. The Company's net interest rate spread decreased from 3.89% in 1999 to 3.73% in 2000 and the net interest margin decreased 10 basis points from 4.59% to 4.49%.

Table 2 demonstrates the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

TABLE 2

	2000 v. 1999 Increase (Decrease) Due to Changes in [1]			1999 v. 1998 Increase (Decrease) Due to Changes in [1]		
(in thousands)	**Volume**	**Rate**	**Total**	Volume	Rate	Total
Interest on securities:						
Taxable	**$ 448**	**$ 172**	**$ 620**	$1,988	$(176)	$1,812
Tax-exempt	**44**	**0**	**44**	(7)	0	(7)
Federal funds sold	**161**	**152**	**313**	(161)	(50)	(211)
Interest on loans receivable:						
Mortgage and construction	**3,772**	**395**	**4,167**	2,256	(407)	1,849
Commercial	**1,129**	**308**	**1,437**	1,143	(82)	1,061
Consumer	**344**	**143**	**487**	149	(52)	97
Tax-exempt	**87**	**2**	**89**	(3)	0	(3)
Total interest income	**5,985**	**1,172**	**7,157**	5,365	(767)	4,598
Interest expense:						
Regular savings	**1,162**	**785**	**1,947**	244	(350)	(106)
Interest checking	**(43)**	**14**	**(29)**	(680)	298	(382)
Money market plus	**698**	**479**	**1,177**	864	(2)	862
Time deposits	**(162)**	**140**	**(22)**	940	(376)	564
Public funds	**765**	**202**	**967**	269	(34)	235
Short-term borrowings	**13**	**3**	**16**	25	0	25
Long-term debt	**300**	**0**	**300**	0	0	0
Total interest expense	**2,733**	**1,623**	**4,356**	1,662	(464)	1,198
Net increase (decrease)	**$3,252**	**$ (451)**	**$2,801**	$3,703	$(303)	$3,400

[1] *Changes due to both volume and rate have been allocated to volume changes.*

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

Noninterest Income

Noninterest income for 2000 increased by $804,000, or 18%, over 1999 to $5.4 million. The increase was due primarily to increased "core" other operating income, which rose $1.0 million, or 25%, from 1999. This increase was attributable to service charges and fees associated with servicing a higher volume of deposit and loan accounts. Included in total noninterest income were gains of $370,000 in 2000 and $654,000 in 1999 on the sale of residential, student, and Small Business Administration loans. Also included in noninterest income were net securities gains of $1,000 for 1999.

Noninterest Expenses

Noninterest expenses totaled $16.2 million for 2000, an increase of $2.4 million, or 18%, over 1999. Staffing levels, occupancy, furniture and equipment, and related expenses increased as a result of opening two full service branches in Summer and Fall 2000. A comparison of noninterest expense for certain categories for 2000 and 1999 is presented below.

Salary expenses and employee benefits, which represent the largest component of noninterest expenses, increased by $1.3 million, or 21%, in 2000 over 1999. This increase was consistent with an increase in the level of full-time equivalent employees from 231 at December 31, 1999 to 266 at year-end 2000. The increased level of expenses includes the impact of salary and benefit costs associated with the additional staff for the two new branch offices opened in June and October 2000.

Occupancy expenses totaled $1.8 million in 2000, an increase of $131,000, or 8%, over 1999 while furniture and equipment expenses increased by $155,000, or 17%, to $1.1 million. The impact of the two branch offices opened in 2000 contributed to the increases in occupancy and furniture and equipment expenses in 2000 over 1999. Increased equipment depreciation is another contributing factor to the increase in furniture and equipment expenses. The depreciation increase is a result of an upgrade of computer equipment for platform personnel at the Bank's other 11 branches.

Advertising and marketing expenses were $1.5 million for 2000, an increase of $192,000, or 15%, over 1999. The increase was primarily the result of increased advertising efforts in each of the Company's markets. The Company entered into the Lebanon County market with the opening of the Palmyra Branch in October 2000. Going forward, the Company will continue to have multiple markets in which to advertise its products.

Data processing expenses increased by $28,000, or 3%, in 2000 over 1999. The increase was due to costs associated with processing additional transactions as a result of growth in the number of accounts serviced offset by reduced data transmission and telephone costs. The reduced costs were the result of renegotiated contracts with telecommunications vendors.

Postage and supplies expenses of $659,000 were $130,000, or 25%, higher than the prior year. The increase in postage expenses resulted from the growth in the number of account statements mailed to customers. The increase in supplies expense was a result of increased usage of such items related to additional staff levels as well as an increase in the number of accounts serviced.

Audits, regulatory fees, and assessments for 2000 increased by $88,000, or 34%, from 1999. The primary reasons were the increase in the yearly assessment by the Office of the Comptroller of the Currency for examinations and the Federal Deposit Insurance Corporation. Both assessment calculations, which are based on deposit size, continue to increase as the Company's deposit balances grow.

Other noninterest expenses totaled $2.4 million for 2000, compared to $2.0 million for 1999. The majority of this increase was due to increased provisions for non-credit related losses and increased expenses associated with the processing of coin for the Penny Arcade Coin counters, installed at our branches during 2000, offered at no charge to all customers and non-customers.

The Company's current strategic plan calls for the construction of three additional new branches in 2001. The costs associated with these planned offices will continue to result in higher levels of staff, facilities, and related expenses in 2001 and in future periods.

One key measure used to monitor progress in controlling overhead expenses is the ratio of net noninterest expenses to average assets. Net noninterest expenses equal noninterest expenses (excluding other real estate expenses) less noninterest income (exclusive of non-recurring gains). This ratio equaled 2.64% for 2000, compared to 2.75% for 1999. Another productivity measure is the operating efficiency ratio. This ratio expresses the relationship of noninterest expenses (excluding other real estate expenses) to net interest income plus noninterest income (excluding non-recurring gains). For 2000, the operating efficiency ratio was 71.9%, compared to 73.0% for 1999.

Provision for Federal Income Taxes

The provision for federal income taxes was $1.9 million for 2000, compared to $1.6 million for 1999. The effective tax rate, which is the ratio of income tax expense to income before taxes, was 34% in 2000 and in 1999. Reference should be made to Note 11 of the *Notes to Consolidated Financial Statements* for an additional analysis of the provision for income taxes for 2000 and 1999.

In accordance with Statement of Financial Accounting Standard No. 109 (SFAS No. 109), "Accounting for Income Taxes", income taxes are accounted for under the liability method. Under the liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement and tax bases of existing assets and liabilities.

At December 31, 2000, deferred tax assets amounted to $1.6 million and deferred tax liabilities amounted to $315,000. Deferred tax assets are realizable primarily through carryback of existing deductible temporary differences to recover taxes paid in prior years, and through future reversal of existing taxable temporary differences.

Net Income and Net Income Per Share

Net income for 2000 rose to a record $3.7 million, an increase of $611,000, or 20%, over the $3.1 million recorded in 1999. This increase was due to an increase in net interest income of $2.8 million and an increase in noninterest income of $804,000, offset by an increase in the provision for loan losses of $288,000, an increase in noninterest expenses of $2.4 million, and an increase of $273,000 in the provision for income taxes.

Basic earnings per common share, after adjusting for a 5% common stock dividend declared in January 2001, increased by 19% to $2.09 per share, compared to $1.76 in 1999. Diluted earnings per common share were $1.96 for 2000 and $1.64 for 1999 after adjusting for the 5% common stock dividend declared in January 2001. Reference should be made to Note 13 in the *Notes to Consolidated Financial Statements* for an analysis of earnings per share.

Return on Average Assets and Average Equity

Return on average assets (ROA) measures the Company's net income in relation to its total average assets. The Company's ROA for 2000 was 0.88%, compared to 0.89% in 1999.

For purposes of calculating ROA, average assets have been adjusted to exclude the effect of net unrealized gains (losses) on securities available for sale.

Return on average equity (ROE) indicates how effectively the Company can generate net income on the capital invested by its stockholders. ROE is calculated by dividing net income by average stockholders' equity. For purposes of calculating ROE, average stockholders' equity includes the effect of unrealized gains (losses), net of income taxes, on securities available for sale. Reference should be made to Note 3 in the *Notes to Consolidated Financial Statements* for an analysis of securities available for sale. The Company's ROE for 2000 was 16.59%, compared to 15.18% for 1999.

Results of Operations

1999 versus 1998

Net income for 1999 was $3.1 million, an increase of $885,000, or 40%, over the $2.2 million recorded in 1998.

Basic earnings per common share, after adjusting for a 5% common stock dividend declared in January 2001 and 2000, increased by 41% to $1.76 per share, compared to $1.25 per common share for 1998. Diluted earnings per common share were $1.64 for 1999 and $1.15 for 1998 after adjusting for the 5% common stock dividends declared in January 2001 and 2000.

Net interest income for 1999 was $14.7 million, up $3.4 million, or 30%, over 1998. Interest income on earning assets totaled $24.6 million, an increase of $4.6 million, or 23%, over 1998. Interest expense for 1999 increased by $1.2 million, or 14%, to $9.9 million from $8.7 million.

The Company's net interest rate spread increased to 3.89% in 1999 from 3.74% in 1998 and the net interest margin increased by 10 basis points from 4.49% to 4.59%.

Noninterest income for 1999 increased by $476,000, or 12%, over 1998 to $4.5 million. Included in noninterest income for 1999 were gains of $654,000 compared to $500,000 in 1998. Also included in noninterest income were securities gains of $1,000 for 1999 and $386,000 for 1998.

Noninterest expenses totaled $13.7 million for 1999, an increase of $2.3 million, or 20%, over 1998. The full-year impact of the two branch offices opened in 1998 contributed to the increases in noninterest expenses in 1999 over 1998.

Salary expenses and employee benefits increased by $1.1 million, or 22%, in 1999 over 1998. This increase was consistent with the increase in the level of full-time equivalent employees from 206 at December 31, 1998 to 231 at year-end 1999.

Occupancy expenses totaled $1.7 million in 1999, an increase of $203,000, or 14%, over 1998, while furniture and equipment expenses increased by $90,000, or 11%, to $937,000.

Advertising and marketing expenses were $1.3 million for 1999, an increase of $214,000, or 20%, over 1998. Data processing expenses increased by $164,000, or 21%, in 1999 over 1998. Postage and supplies expenses of $529,000 were $58,000, or 12%, higher than the prior year.

Audits, regulatory fees, and assessments for 1999 increased by $60,000, or 30%, from 1998. Other noninterest expenses totaled $2.0 million for 1999, compared to $1.6 million for 1998. The increase was attributable to increased telephone expenses and loan expenses.

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

Financial Condition

Securities

Securities are purchased and sold as part of the overall asset and liability management function at Pennsylvania Commerce Bancorp, Inc. The classification of all securities is determined at the time of purchase. Securities expected to be held for an indefinite period of time are classified as securities available for sale and are carried at fair value. Decisions by management to purchase or sell these securities are based on an assessment of financial and economic conditions, including changes in prepayment risks and interest rates, liquidity needs, capital adequacy, collateral requirements for pledging, alternative asset and liability management strategies, tax considerations, and regulatory requirements.

Securities are classified as held to maturity if, at the time of purchase, management has both the intent and ability to hold the securities until maturity. Securities held to maturity are carried at amortized cost. Sales of securities in this portfolio should only occur in unusual and rare situations where significant unforeseeable changes in circumstances may cause a change in intent. Examples of such instances would include deterioration in the issuer's creditworthiness that is evidently supportable and significant or a change in tax law that eliminates or reduces the tax-exempt status of interest (but not the revision of marginal tax rates applicable to interest income). Held to maturity securities cannot be sold based upon any of the decisions used to sell securities available for sale as listed above. Reference should be made to Note 3 in the *Notes to Consolidated Financial Statements* for further analysis of the Company's securities portfolio.

The Company's securities portfolio, which includes both the available for sale and held to maturity securities, consists primarily of U.S. Government agency and mortgage-backed obligations. These securities have very little, if any, credit risk because they are either backed by the full faith and credit of the U.S. Government or their principal and interest payments are guaranteed by an agency of the U.S. Government. These investment securities carry fixed rate coupons that do not change over the life of the securities. Since most securities are purchased at premiums or discounts, their yield and average life 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 securities portfolio will lengthen or shorten the period in which the premium or discount must be amortized or accreted, thus affecting the Company's securities yields.

At December 31, 2000, the weighted average life of the Company's securities portfolio was 6.8 years compared to 5.4 years at December 31, 1999. The weighted average life of the portfolio is calculated by estimating the average rate of repayment of the underlying collateral of the security. U.S. Government mortgage-backed obligations historically experience repayment rates in excess of the scheduled repayments, causing a shorter weighted average life of the security. The Company's securities portfolio contained no "high-risk" securities or derivatives as of December 31, 2000 or 1999.

Securities available for sale increased by $4.7 million in 2000 (excluding the effect of unrealized gains or losses) primarily as a result of purchases of $12.2 million, offset by principal repayments and maturities of $7.3. The securities available for sale portfolio is comprised of U.S. Treasury securities, U.S. Government Agency securities, mortgage-backed securities, corporate debt securities, and equity securities. At December 31, 2000, the unrealized losses on securities available for sale included in stockholders' equity totaled $676,000, net of tax, compared to unrealized losses of $3.0 million, net of tax, at December 31, 1999. The weighted average maturity of the securities available for sale portfolio was 6.9 years at December 31, 2000, with a weighted average yield of 6.75%.

During 2000, securities held to maturity increased by $4.8 million as a result of purchases of $7.4 million of mortgage-backed securities offset by principal repayments of $2.5 million. The securities held in this portfolio include U.S. Government Agency securities, and mortgage-backed securities. The weighted average maturity of the securities held to maturity portfolio was 6.5 years at December 31, 2000, with a weighted average yield of 6.57%.

The contractual maturity distribution and weighted average yield of the Company's available for sale and held to maturity portfolios at December 31, 2000 are summarized in Table 3. Weighted average yield is calculated by dividing income within each maturity range by the outstanding amount of the related investment and has not been tax effected on tax-exempt obligations.

Table 3

December 31, 2000 *(in thousands)*	Due Under 1 Year Amount	Yield	Due 1-5 Years Amount	Yield	Due 5-10 Years Amount	Yield	Due Over 10 Years Amount	Yield	Total Amount	Yield
Available for Sale										
U.S. Government:										
Treasury securities	$1,000	5.83%	$1,005	6.13%					$ 2,005	5.98%
Agency obligations			6,002	6.64	$10,991	7.09%	$14,000	6.75%	30,993	6.85
Agency mortgage-backed obligations			284	6.17	6,560	6.91	48,692	6.64	55,536	6.67
Corporate debt securities							3,123	7.76	3,123	7.76
Equity securities							2,288	6.73	2,288	6.73
Total available for sale	$1,000	5.83%	$7,291	6.53%	$17,551	7.02%	$68,103	6.72%	$93,945	6.75%
Held to Maturity										
U.S. Government:										
Agency obligations			$3,998	6.11%	$ 2,484	6.61%	$ 1,960	6.86%	$ 8,442	6.42%
Municipal obligations							1,000	5.55	1,000	5.55
Agency mortgage-backed obligations			1,404	5.80	7,751	6.78	15,215	6.68	24,370	6.66
Total held to maturity	$ 0	0.00%	$5,402	6.01%	$10,235	6.74%	$18,175	6.64%	$33,812	6.57%

Note: Securities available for sale are carried at amortized cost in the table above for purposes of calculating the weighted average yield received on such securities.

Loan Portfolio

The following table summarizes the composition of the loan portfolio of the Company by type as of December 31, for each of the years 1996 through 2000.

Table 4

	December 31,				
(in thousands)	**2000**	1999	1998	1997	1996
Commercial real estate, construction and land development loans	**$158,707**	$120,008	$ 81,949	$ 76,339	$ 63,872
Residential real estate mortgage loans	**41,314**	34,681	31,694	21,414	13,060
Tax-exempt loans	**2,786**	342	395	442	784
Commercial, industrial and other business loans	**31,490**	21,228	19,614	9,231	7,642
Consumer loans	**30,691**	22,764	20,868	17,839	9,768
Lines of credit	**25,264**	17,082	12,601	9,194	8,613
Total loans	**$290,252**	$216,105	$167,121	$134,459	$103,739

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

The Company manages risk associated with its loan portfolio through diversification, underwriting policies and procedures that 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. Construction loans are primarily used for residential single family properties. Financing is provided against firm agreements of sale, with speculative construction normally limited to one or two samples per project.

The commercial loan portfolio is comprised primarily of amortizing loans to small businesses in the Southern Central Pennsylvania market area. Business assets, personal guarantees, and/or personal assets of the borrower generally secure these loans. The consumer loan portfolio is comprised primarily of student loans and loans secured by first and second mortgage liens on residential real estate. The Company's loan portfolio is generally nonhomogeneous in that the loans have different interest rates, repayment options, maturities, collateral requirements, etc.

During 2000, total loans increased by $74.2 million from $221.4 million at December 31, 1999, to $295.6 million at December 31, 2000, including $5.3 million of loans held for sale on December 31, 2000 and December 31, 1999. The loans held for sale represent student loans the Company's management intends to sell and reinvest in higher yielding loans and securities. The increase in loans receivable in 2000 was primarily in commercial real estate, lines of credit and real estate construction and land development. Loans receivable represented 65% of total deposits and 60% of total assets at December 31, 2000, excluding the loans held for sale, compared to 62% and 57%, respectively, at December 31, 1999.

The maturity ranges of the loan portfolio and the amounts of loans with predetermined interest rates and floating interest rates in each maturity range, as of December 31, 2000, are presented in the following table.

Concentrations of Credit Risk

The largest portion of loans, 55%, on the Company's balance sheet is for commercial real estate related loans. The Company's commercial real estate loan portfolio is principally to borrowers throughout Cumberland, Dauphin, Lebanon, and York counties of Pennsylvania where it has full-service branch locations. Commercial real estate, construction, and land development loans aggregated $158.7 million at December 31, 2000, compared to $120.0 million at December 31, 1999. Commercial real estate loans are collateralized by the related project (principally office building, multi-family residential, land development, and other properties) and the Company generally requires loan-to-value ratios of no greater than 80%. Collateral requirements

TABLE 5

	December 31, 2000			
(in thousands)	Due Under One Year	Due 1–5 Years	Due Over Five Years	Total
Real estate:				
Commercial mortgage	$13,803	$32,663	$ 81,462	$127,928
Construction and land development	15,709	9,639	5,431	30,779
Residential mortgage	1,473	7,121	32,720	41,314
Tax-exempt	241	1,754	791	2,786
	31,226	51,177	120,404	202,807
Commercial	8,284	17,780	5,426	31,490
Consumer	13,757	12,201	4,733	30,691
Lines of credit	25,264	0	0	25,264
Total loans	$78,531	$81,158	$130,563	$290,252
Interest rates:				
Predetermined	$29,880	$64,829	$121,138	$215,847
Floating	48,651	16,329	9,425	74,405
Total loans	$78,531	$81,158	$130,563	$290,252

on such loans are determined on a case-by-case basis based on managements' credit evaluations of the respective borrowers.

Loan and Asset Quality

Total non-performing assets (non-performing loans and other real estate) at December 31, 2000, were $875,000, or 0.18%, of total assets as compared to $716,000, or 0.18%, of total assets at December 31, 1999. Other real estate owned totaled $42,000 as of December 31, 2000, and $12,000 as of December 31, 1999. The Company's loan portfolio has continued to perform extremely well over the past few years. Total delinquent loans (those loans 30 days or more delinquent) as a percentage of total loans were 0.31% at December 31, 2000, compared to 0.38% at December 31, 1999. The Company generally places a loan on nonaccrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory and the loan is past due 90 days or more, unless the loan is both well-secured and in the process of collection.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. Management has established an allowance for loan losses that they believe is adequate for estimated losses in the current loan portfolio. Based on an evaluation of the loan portfolio, management presents a quarterly review of the allowance for loan losses to the Board of Directors, indicating any changes in the allowance since the last review and any recommendations as to adjustments in the allowance. In making the 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 loans charged-off for the period, the amount of non-performing loans and related collateral security, and the evaluation of the loan portfolio by external loan review. These factors led to decisions in all periods presented to provide amounts greater than net charge-offs. Charge-offs occur when loans are deemed to be uncollectible.

The Company recorded provisions of $1.0 million to the allowance for loan losses for 2000 compared to $762,000 for 1999. During 2000, net charge-offs amounted to $159,000, or 0.06%, of average loans outstanding for the year, compared to $153,000, or 0.08%, of average loans outstanding for 1999. The allowance for loan losses decreased as a percentage of loans receivable from 1.31% of total loans outstanding at December 31, 1999, to 1.29% of total loans outstanding. The following table summarizes information regarding non-performing loans and non-performing assets as of December 31, 1996 through 2000.

TABLE 6

	December 31,				
(dollars in thousands)	**2000**	1999	1998	1997	1996
Nonaccrual loans:					
Commercial	**$300**	$119	$227	$ 53	$ 78
Consumer	**162**	244	23	3	59
Real estate: Construction	**0**	0	0	0	0
Mortgage	**371**	321	25	528	249
Total nonaccrual loans	**833**	684	275	584	386
Loans past due 90 days or more	**0**	20	1	0	0
Restructured loans	**0**	0	0	0	0
Total non-performing loans	**833**	704	276	584	386
Other real estate	**42**	12	11	264	0
Total non-performing assets	**$875**	$716	$287	$848	$386
Non-performing loans to total loans	**0.29%**	0.32%	0.16%	0.43%	0.37%
Non-performing assets to total assets	**0.18%**	0.18%	0.09%	0.35%	0.19%
Interest income received on nonaccrual loans	**$ 52**	$ 38	$ 5	$ 37	$ 29
Interest income that would have been recorded under the original terms of the loans	**$ 96**	$ 66	$ 22	$ 53	$ 41

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

The table below sets forth information regarding the Company's provision and allowance for loan losses.

TABLE 7

	Year Ended December 31,				
(dollars in thousands)	**2000**	1999	1998	1997	1996
Balance at beginning of year	**$2,841**	$2,232	$1,699	$1,684	$1,544
Provisions charged to operating expenses	**1,050**	762	542	150	90
Recoveries of loans previously charged-off:					
Commercial	**6**	8	4	5	62
Consumer	**8**	4	3	1	3
Real estate	**0**	1	0	1	0
Total recoveries	**14**	13	7	7	65
Loans charged-off:					
Commercial	**1**	150	2	51	2
Consumer	**95**	10	14	84	13
Real estate	**77**	6	0	7	0
Total charged-off	**173**	166	16	142	15
Net charge-offs (recoveries)	**159**	153	9	135	(50)
Balance at end of year	**$3,732**	$2,841	$2,232	$1,699	$1,684
Net charge-offs (recoveries) to average loans outstanding	**0.06%**	0.08%	0.01%	0.11%	(0.05)%
Allowance for loan losses to year-end loans	**1.29%**	1.31%	1.34%	1.26%	1.62 %

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 credit losses may occur. The total allowance is available to absorb losses from any segment of loans.

TABLE 8

	Allowance for Loan Losses at December 31,									
	2000		1999		1998		1997		1996	
(dollars in thousands)	**Amount**	**% Gross Loans**	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans
Commercial loans and lines of credit	**$ 178**	**19.20%**	$ 155	17.73%	$ 400	19.28%	$ 233	13.70%	$ 274	15.67%
Consumer	**143**	**10.57**	224	10.53	150	12.49	225	13.27	180	9.42
Real estate, construction and land development:										
Commercial	**3,286**	**54.61**	2,335	55.69	1,582	49.27	970	57.10	1,105	62.32
Residential	**125**	**15.62**	127	16.05	100	18.96	271	15.93	125	12.59
Total	**$3,732**	**100.00%**	$2,841	100.00%	$2,232	100.00%	$1,699	100.00%	$1,684	100.00%

Deposits

Total deposits averaged $391.8 million for 2000, an increase of $67.6 million, or 21%, over the 1999 average of $324.2 million. The average balance on noninterest-bearing demand deposits increased in 2000 by $8.3 million, or 13%, compared to the prior year. The average total balance of all savings account products was $108.1 million, a $29.7 million, or 38%, increase over the average balance for 1999. The average balance of interest-bearing demand accounts (money market and interest checking accounts) for 2000 increased by $20.8 million, or 35%, over the average balance for the prior year. The average balance of all time deposits in 2000 was $130.8 million, an increase of $8.8 million, or 7%, over the average balance for 1999.

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, convenient branch locations, extended hours of operation, quality service, and active marketing. Core deposits, which consist of all deposits other than public certificates of deposits, increased $87.8 million, or 26%, in 2000 over 1999.

The remaining maturity for certificates of deposit of $100,000 or more as of December 31, 2000 is presented in Table 9.

TABLE 9

(in thousands)	**2000**
3 months or less	**$41,554**
3 to 6 months	**4,771**
6 to 12 months	**7,541**
Over 12 months	**13,515**
Total	**$67,381**

Total deposits at December 31, 2000, were $446.6 million, up $98.0 million, or 28%, over total deposits of $348.5 million at December 31, 1999. The average balances and weighted average rates paid on deposits for 2000, 1999 and 1998 are presented in Table 10.

TABLE 10

	Year Ended December 31,					
(dollars in thousands)	**2000 Average Balance/Rate**		1999 Average Balance/Rate		1998 Average Balance/Rate	
Demand deposits:						
Noninterest-bearing	**$ 72,413**		$ 64,082		$ 49,636	
Interest-bearing (money market and checking)	**80,460**	**3.26%**	59,634	2.48%	38,923	2.57%
Savings	**108,131**	**3.90**	78,465	2.90	69,959	3.40
Time	**130,816**	**5.44**	122,033	5.05	98,287	5.46
Total deposits	**$391,820**		$324,214		$256,805	

Interest Rate Sensitivity

The management of interest rate sensitivity seeks to avoid fluctuating net interest margins and to provide consistent net interest income through periods of changing interest rates.

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. Table 11 shows the GAP position for the Company as of December 31, 2000.

TABLE 11

	December 31, 2000					
(in thousands)	1 – 90 Days	91 – 180 Days	181 – 365 Days	1 – 5 Years	Beyond 5 Years	Total
Interest earning assets:						
Loans receivable	$ 85,331	$ 5,954	$ 8,855	$ 65,106	$125,284	$290,530
Securities	3,436	3,436	7,872	55,057	55,010	124,811
Federal funds sold	22,800	0	0	0	0	22,800
Total interest earning assets	111,567	9,390	16,727	120,163	180,294	438,141
Interest-bearing liabilities:						
Transaction accounts	48,275	13,739	27,478	83,442	37,642	210,576
Trust Preferred securities	0	0	0	0	5,000	5,000
Time deposits	55,783	12,049	21,595	61,003	0	150,430
Total interest-bearing liabilities	104,058	25,788	49,073	144,445	42,642	366,006
Period GAP	7,509	(16,398)	(32,346)	(24,282)	137,652	$ 72,135
Cumulative GAP	$ 7,509	$ (8,889)	$(41,235)	$(65,517)	$ 72,135	

Management believes 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 interest 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 income sensitivity will be considered acceptable if overall net income volatility in a plus or minus 200 basis point scenario is within 15% of net income in a flat rate scenario in the first year and 30% using a two year planning window. At December 31, 2000, the Company's income simulation model indicates net income would increase 1.7% and 3.7% in the first year and over a two year time frame, respectively, if rates decreased as described above, as compared to an increase of 3.9% and 3.7%, respectively, at December 31, 1999. The model projects that net income would decrease by 0.4% and increase by 0.3% in the first year and over a two year time frame, respectively, if rates increased as described above, as compared to a decrease of 8.6% and 9.5%, respectively, at December 31, 1999. All of these forecasts are within an acceptable level of interest rate risk per the policies established by ALCO.

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, 2000, the market value of equity indicates an acceptable level of interest rate risk.

Liquidity

Liquidity management involves the Company's ability to generate cash or otherwise obtain funds at reasonable rates to support asset growth and reduce assets to meet deposit withdrawals, to maintain reserve requirements, and to otherwise operate the Company on an ongoing basis. Liquidity sources from asset categories are provided primarily by cash, federal funds sold, and the cash flow from the amortizing securities and loan portfolios. The primary source of liquidity from liability categories is the generation of additional core deposit balances. As previously mentioned, total core deposits increased by $87.8 million, or 26%, in 2000.

Additionally, the Company has established secondary sources of liquidity consisting of federal funds lines of credit, repurchase agreements, and borrowing capacity at the Federal Home Loan Bank which can be drawn upon if needed. As of December 31, 2000, the total potential liquidity for the Company through these secondary sources was $130 million. In view of the primary and secondary sources as previously mentioned, management believes the Company is capable of meeting its anticipated liquidity needs.

Short-Term Borrowings

Short-term borrowings, or other borrowed money, which consists of securities sold under agreement to repurchase and federal funds purchased, were used occasionally in 2000 and 1999 to meet short-term liquidity needs. For 2000, other borrowed money averaged $696,000 as compared to $460,000 in 1999. The average rate paid on the Company's short-term borrowings was 5.91% during 2000 and 5.35% in 1999. At December 31, 2000, short-term borrowings totaled $0 and $8.3 million at December 31, 1999. During 1999, these funds were used to purchase additional cash to have on hand throughout the branch network as preparation for possible customer demands for large sums of cash close to year-end related to Year 2000 (Y2K) fears. Subsequent to year-end, cash on hand was reduced to normal levels and the borrowed funds were repaid.

Stockholders' Equity and Capital Adequacy

At December 31, 2000, stockholders' equity totaled $26.7 million, up 31% over stockholders' equity at December 31, 1999. SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", requires that unrealized gains or losses, net of the tax effect, on securities classified available for sale be reflected as a separate component of stockholders' equity. As a result, stockholders' equity at December 31, 2000 included $676,000 unrealized losses, net of income taxes, on securities available for sale. Excluding these unrealized losses, gross stockholders' equity increased by $3.9 million, or 17%, from $23.4 million at December 31, 1999, to $27.3 million at December 31, 2000, principally as a result of retained net income.

Risk-based capital provides the basis for which all 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 common stockholders' equity and qualifying perpetual preferred stock together with related surpluses and retained earnings. Total capital may be comprised of total Tier 1 capital plus limited life preferred stock, qualifying debt instruments, and the allowance for loan losses.

Table 12 provides a comparison of the Company's risk-based capital ratios and leverage ratios to the minimum regulatory requirements for the periods indicated.

At December 31, 2000, the consolidated capital levels of the Company and of the subsidiary bank (Commerce) met the definition of a "well capitalized" 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%.

TABLE 12

	Actual December 31,		**For Capital**	**To Be Well-Capitalized Under Prompt Corrective**
	2000	1999	**Adequacy Purposes**	**Action Provisions**
Total Capital	**11.04%**	11.12%	8.00%	10.00%
Tier 1 Capital	**9.90**	9.91	4.00	6.00
Leverage ratio (to average assets)	**6.92**	6.28	4.00	5.00

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

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 quarter (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.

Year 2000

The Company is not aware of any problems resulting from Year 2000 issues, either with its internal systems or the products and services of third parties (including loan and deposit customers). The total cost of the entire Year 2000 compliance process, including internal and external personnel and any required hardware or software modifications was approximately $100,000.

Forward-Looking Statements

The Company may from time to time make written or oral "forward-looking statements," including statements contained in the Company's filings with the Securities and Exchange Commission (including this 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 rate, 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 statements, whether written or oral, that may be made from time to time by or on behalf of the Company.

Impact of Inflation and Changing Prices

Interest rates have a more significant impact on the Company's performance than do the effects of general levels of inflation, since most of the Company's assets and liabilities are monetary in nature. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services as measured by the Consumer Price Index. The liquidity and maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

Consolidated Balance Sheets

(in thousands, except share amounts)	December 31, 2000	1999
Assets		
Cash and due from banks	$ 16,849	$ 27,490
Federal funds sold	22,800	0
Cash and cash equivalents	39,649	27,490
Securities, available for sale at fair value	92,921	84,652
Securities, held to maturity at cost (fair value 2000: $33,661; 1999: $27,877)	33,812	29,039
Loans, held for sale (fair value 2000: $5,409; 1999: $5,380)	5,329	5,301
Loans receivable:		
Real estate:		
Commercial mortgage	127,931	101,550
Construction and land development	30,776	18,458
Residential mortgage	41,314	34,681
Tax-exempt	2,786	342
Commercial business	31,490	21,228
Consumer	30,691	22,764
Lines of credit	25,264	17,082
	290,252	216,105
Less: Allowance for loan losses	3,732	2,841
Net loans receivable	286,520	213,264
Premises and equipment, net	16,637	14,408
Accrued interest receivable	2,936	2,105
Other assets	2,282	2,654
Total assets	**$480,086**	$378,913
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 85,577	$ 69,495
Interest-bearing	361,006	279,051
Total deposits	446,583	348,546
Accrued interest payable	834	567
Other liabilities	1,001	1,122
Long-term debt	5,000	0
Other borrowed money	0	8,300
Total liabilities	453,418	358,535
Stockholders' Equity:		
Preferred stock – Series A noncumulative; $10.00 par value; 1,000,000 shares authorized; 40,000 shares issued and outstanding	400	400
Common stock – $1.00 par value; 10,000,000 shares authorized; (issued and outstanding 2000: 1,749,045; 1999: 1,644,313)	1,749	1,644
Surplus	20,861	18,196
Retained earnings	4,334	3,137
Accumulated other comprehensive income (loss)	(676)	(2,999)
Total stockholders' equity	26,668	20,378
Total liabilities and stockholders' equity	**$480,086**	$378,913

See accompanying notes

Consolidated Statements of Income

(in thousands, except per share amounts)	Year Ended December 31, **2000**	1999	1998
Interest Income			
Loans receivable, including fees:			
Taxable	**$22,836**	$16,745	$13,738
Tax-exempt	**109**	20	23
Securities:			
Taxable	**8,025**	7,405	5,593
Tax-exempt	**44**	0	7
Federal funds sold	**760**	447	658
Total interest income	**31,774**	24,617	20,019
Interest Expense			
Deposits	**13,956**	9,916	8,743
Other	**341**	25	0
Total interest expense	**14,297**	9,941	8,743
Net interest income	**17,477**	14,676	11,276
Provision for loan losses	**1,050**	762	542
Net interest income after provision for loan losses	**16,427**	13,914	10,734
Noninterest Income			
Service charges and other fees	**4,564**	3,538	2,897
Other	**428**	365	278
Gain on sale of securities available for sale	**0**	1	386
Gain on sale of loans	**370**	654	500
Total noninterest income	**5,362**	4,558	4,061
Noninterest Expenses			
Salaries and employee benefits	**7,485**	6,180	5,048
Occupancy	**1,782**	1,651	1,448
Furniture and equipment	**1,092**	937	847
Advertising and marketing	**1,451**	1,259	1,045
Data processing	**964**	936	772
Postage and supplies	**659**	529	471
Audits, regulatory fees and assessments	**348**	260	200
Other	**2,408**	2,004	1,640
Total noninterest expenses	**16,189**	13,756	11,471
Income before income taxes	**5,600**	4,716	3,324
Provision for federal income taxes	**1,886**	1,613	1,106
Net income	**$ 3,714**	$ 3,103	$ 2,218
Net Income per Common Share			
Basic	**$2.09**	$1.76	$1.25
Diluted	**1.96**	1.64	1.15

See accompanying notes

Consolidated Statements of Stockholders' Equity

(in thousands)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
December 31, 1997	**$400**	**$1,475**	**$14,407**	**$1,708**	**$ 328**	**$18,318**
Comprehensive income:						
Net income	–	–	–	2,218	–	2,218
Change in unrealized gains (losses) on securities, net of reclassification adjustment	–	–	–	–	(114)	(114)
Total comprehensive income						2,104
Dividends declared on preferred stock	–	–	–	(80)	–	(80)
Common stock issued under stock option plans	–	8	38	–	–	46
Income tax benefit of stock options exercised	–	–	64	–	–	64
5% common stock dividend and cash paid in lieu of fractional shares	–	74	2,219	(2,300)	–	(7)
December 31, 1998	**400**	**1,557**	**16,728**	**1,546**	**214**	**20,445**
Comprehensive income:						
Net income	–	–	–	3,103	–	3,103
Change in unrealized gains (losses) on securities, net of reclassification adjustment	–	–	–	–	(3,213)	(3,213)
Total comprehensive income (loss)						(110)
Dividends declared on preferred stock	–	–	–	(80)	–	(80)
Common stock issued under stock option plans	–	6	61	–	–	67
Income tax benefit of stock options exercised	–	–	8	–	–	8
Common stock issued under employee stock purchase plan	–	1	19	–	–	20
Common stock issued under dividend reinvestment and stock purchase plan	–	2	29	–	–	31
5% common stock dividend and cash paid in lieu of fractional shares	–	78	1,351	(1,432)	–	(3)
December 31, 1999	**400**	**1,644**	**18,196**	**3,137**	**(2,999)**	**20,378**
Comprehensive income:						
Net income	–	–	–	3,714	–	3,714
Change in unrealized gains (losses) on securities, net of reclassification adjustment	–	–	–	–	2,323	2,323
Total comprehensive income						6,037
Dividends declared on preferred stock	–	–	–	(80)	–	(80)
Common stock issued under stock option plans	–	13	71	–	–	84
Income tax benefit of stock options exercised	–	–	30	–	–	30
Common stock issued under employee stock purchase plan	–	–	6	–	–	6
Common stock issued under dividend reinvestment and stock purchase plan	–	9	210	–	–	219
5% common stock dividend and cash paid in lieu of fractional shares	–	83	2,348	(2,437)	–	(6)
December 31, 2000	**$400**	**$1,749**	**$20,861**	**$4,334**	**$ (676)**	**$26,668**

See accompanying notes.

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2000	1999	1998
Operating Activities			
Net income	**$ 3,714**	$ 3,103	$ 2,218
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**1,050**	762	542
Provision for depreciation and amortization	**1,202**	1,119	1,040
Deferred income taxes	**(281)**	(185)	(183)
Amortization of securities premiums and accretion of discounts, net	**193**	311	225
Net gain on sale of securities available for sale	**0**	(1)	(386)
Proceeds from sales of loans	**19,813**	38,913	59,425
Loans originated for sale	**(19,705)**	(38,339)	(57,750)
Gains on sales of loans and other real estate owned	**(370)**	(654)	(522)
Stock granted under stock purchase plan	**6**	20	0
(Increase) decrease in accrued interest receivable and other assets	**(1,345)**	106	(362)
(Decrease) increase in accrued interest payable and other liabilities	**143**	548	(83)
Net cash provided by operating activities	**4,420**	5,703	4,164
Investing Activities			
Securities held to maturity:			
Proceeds from principal repayments and maturities	**2,608**	2,517	4,703
Purchases	**(7,398)**	(20,105)	(3,998)
Securities available for sale:			
Proceeds from principal repayments and maturities	**7,343**	14,484	19,306
Proceeds from sales	**0**	5,357	22,141
Purchases	**(12,268)**	(12,638)	(89,900)
Proceeds from sale of loans receivable	**6,449**	9,847	0
Net increase in loans receivable	**(80,521)**	(58,563)	(32,648)
Proceeds from sale of premises and equipment	**743**	0	0
Purchases of premises and equipment	**(4,174)**	(2,107)	(3,151)
Net cash used by investing activities	**(87,218)**	(61,208)	(83,547)
Financing Activities			
Net increase in demand, interest checking, money market, and savings deposits	**68,145**	41,681	39,213
Net increase in time deposits	**29,892**	9,128	38,300
Net increase (decrease) in other borrowed money	**(8,300)**	8,300	0
Proceeds from Issuance of Trust preferred securities	**5,000**	0	0
Proceeds from common stock options exercised	**84**	67	46
Proceeds from common stock purchase and dividend reinvestment plan	**219**	31	0
Cash dividends on preferred stock and cash in lieu of fractional shares	**(83)**	(87)	(85)
Net cash provided by financing activities	**94,957**	59,120	77,474
Increase (decrease) in cash and cash equivalents	**12,159**	3,615	(1,909)
Cash and cash equivalents at beginning of year	**27,490**	23,875	25,784
Cash and cash equivalents at year-end	**$39,649**	$27,490	$23,875

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 2000

1. Significant Accounting Policies

Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of Pennsylvania Commerce Bancorp, Inc. (the Company) and its wholly-owned subsidiary Commerce Bank/Harrisburg, N.A. (Commerce or Bank). All material intercompany transactions have been eliminated. The Holding Company was formed July 1, 1999 and is subject to regulation of the Federal Reserve Bank.

The company is a one-bank holding company headquartered in Camp Hill, Pennsylvania and provides full banking services through its subsidiary Commerce Bank. Commerce operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The area served by the Bank is principally South Central Pennsylvania.

Estimates

The financial statements are prepared in conformity with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect reported amounts of assets and liabilities and require disclosure of contingent assets and liabilities. In the opinion of management, all adjustments considered necessary for fair presentation have been included and are of a normal, recurring nature. Actual results could differ from those estimates.

Securities

Securities classified as held to maturity are those debt securities that the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over the estimated average life of the securities.

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the estimated average life of the securities. Equity securities are comprised of stock in the Federal Reserve Bank and the Federal Home Loan Bank.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors.

Notes to Consolidated Financial Statements

This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Loans Held for Sale

Loans held for sale are largely comprised of student loans that the Company originates with the intention of selling in the future. These loans are carried at the lower of cost or estimated fair value.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted through the provision for income taxes for the effects of changes in tax laws and rates on the date of enactment.

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is charged to operations over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Depreciation and amortization are determined on the straight-line method.

Per Share Data

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method. Per share amounts have been adjusted to give retroactive effect to stock dividends declared through January 19, 2001.

Off Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded on the balance sheet when they become payable by the borrower to the Company.

Cash Flow Information

For purposes of the statements of cash flows, the Company considers cash and due from banks and federal funds sold as cash and cash equivalents. Generally, federal funds are purchased and sold for one-day periods. Cash paid during the years ended December 31, 2000, 1999, and 1998 for interest was $14.0 million, $9.9 million, and $8.7 million respectively. Income taxes paid totaled $2.15 million, $1.70 million, and $1.15 million in 2000, 1999, and 1998, respectively.

Recently Issued FASB Statements

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (as amended by Statement Nos. 137 and 138), "Accounting for Derivative Instruments and Hedging Activities". This statement and its amendments establish accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts, and require that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure them at fair value. The Statement requires that changes in the fair value of derivatives be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The Company adopted the Statement on January 1, 2001. The adoption of the statement did not have a significant impact on the financial condition or results of operations of the Company.

In September 2000, the Financial Accounting Standards Board issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This Statement replaces SFAS No. 125 of the same name. It revises the standards of securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. This Statement is to be applied prospectively with certain exceptions. Other than these exceptions, earlier or retroactive application of its accounting provision is not permitted. The adoption of the Statement is not expected to have a significant impact on the Company.

Segment Reporting

Commerce acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branches, the Company offers a full array of commercial and retail financial services.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial and retail operations of the Company. As such, discrete financial information is not available and segment reporting would not be meaningful.

Reclassifications

Certain amounts in the 1999 and 1998 financial statements have been reclassified to conform with the 2000 presentation format. Such reclassifications had no impact on the Company's net income.

2. Restrictions on Cash and Due From Bank Accounts

The Bank is required to maintain average reserve balances with the Federal Reserve Bank. The average amount of those reserve balances maintained for 2000 and 1999 was approximately $909,000 and $1.2 million, respectively.

3. Securities

The amortized cost and fair value of securities are summarized in the following tables.

	December 31, 2000			
(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale				
U.S. Treasury securities	$ 2,005	$ 14	$ 0	$ 2,019
U.S. Government Agency securities	30,993	73	(500)	30,566
Mortgage-backed securities	55,536	45	(669)	54,912
Corporate debt securities	3,123	13	0	3,136
Subtotal	91,657	145	(1,169)	90,633
Equity securities	2,288	0	0	2,288
Total	$ 93,945	$ 145	$ (1,169)	$ 92,921
Held to Maturity				
U.S. Government Agency securities	$ 8,442	$ 23	$ (44)	$ 8,421
Municipal securities	1,000	10	0	1,010
Mortgage-backed securities	24,370	76	(216)	24,230
Total	$ 33,812	$ 109	$ (260)	$ 33,661

	December 31, 1999			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Treasury securities	$ 2,005	$ 0	$ (10)	$ 1,995
U.S. Government Agency securities	23,999	0	(1,575)	22,424
Mortgage-backed securities	57,908	1	(2,697)	55,212
Corporate debt securities	3,154	0	(263)	2,891
Subtotal	87,066	1	(4,545)	82,522
Equity securities	2,130	0	0	2,130
Total	$ 89,196	$ 1	$ (4,545)	$ 84,652
Held to Maturity				
U.S. Government Agency securities	$ 5,998	$ 0	$ (159)	$ 5,839
Mortgage-backed securities	23,041	0	(1,003)	22,038
Total	$ 29,039	$ 0	$ (1,162)	$ 27,877

The amortized cost and fair value of debt securities at December 31, 2000 by contractual maturity are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Held to Maturity		Available for Sale	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 0	$ 0	$ 1,000	$ 1,004
Due after one year through five years	3,998	3,997	7,007	7,001
Due after five years through ten years	2,484	2,480	10,991	11,002
Due after ten years	2,960	2,954	17,123	16,714
	9,442	9,431	36,121	35,721
Mortgage-backed securities	24,370	24,230	55,536	54,912
Total	$ 33,812	$ 33,661	$ 91,657	$ 90,633

There were no sales of securities available for sale in 2000. Gross gains of $8,000 and gross losses of $7,000 were realized on sales of securities available for sale in 1999. Gross gains of $395,000 and gross losses of $9,000 were realized on sales of securities available for sale in 1998.

At December 31, 2000 and 1999, securities with a carrying value of $87.0 million and $43.1 million respectively were pledged to secure public deposits and for other purposes as required or permitted by law.

4. Loans Receivable and Allowance for Loan Losses

Certain directors and executive officers of the Company, including their associates and companies, have loans with the Bank. Such loans were made in the ordinary course of business at the Bank's normal credit terms including interest rate and collateralization, and do not represent more than a normal risk of collection. Total loans to these persons and companies amounted to approximately $7.8 million and $4.9 million at December 31, 2000 and 1999, respectively. During 2000, $5.1 million of new loans were made and repayments totaled $2.2 million.

The following is a summary of the transactions in the allowance for loan losses.

	Year Ended December 31,		
(in thousands)	**2000**	1999	1998
Balance at beginning of year	**$2,841**	$2,232	$1,699
Provision charged to expense	**1,050**	762	542
Recoveries	**14**	13	7
Loans charged off	**(173)**	(166)	(16)
Balance at end of year	**$3,732**	$2,841	$2,232

Information with respect to impaired loans as of and for the year ended December 31 is as follows:

(in thousands)	**2000**	1999	1998
Recorded investment:			
Requiring an allowance for loan losses	**$ 0**	$ 0	$ 0
Not requiring an allowance for loan losses	**833**	684	275
Total	**$833**	$684	$275
Average recorded investment	**$512**	$686	$234
Interest income recognized	**52**	38	7

5. Loan Commitments and Standby Letters of Credit

Loan commitments are made to accommodate the financial needs of Commerce's customers. Standby letters of credit commit the Bank to make payments on behalf of customers when certain specified future events occur. They primarily are issued to facilitate the customers' normal course of business transactions. Historically, almost all of the Bank's standby letters of credit expire unfunded.

Both types of lending arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Bank's normal credit policies. Collateral (e.g., securities, receivables, inventory, and equipment) is obtained based on management's credit assessment of the customer.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The Bank's maximum exposure to credit loss for loan commitments (unfunded loans and unused lines of credit, including home equity lines of credit) and standby letters of credit outstanding were as follows:

	December 31,	
(in thousands)	**2000**	1999
Commitments to grant loans	**$ 1,620**	$ 4,330
Unfunded commitments of existing loans	**62,407**	46,376
Standby letters of credit	**10,318**	2,863
Total	**$74,345**	$53,569

6. Concentrations of Credit Risk

The Company's loan portfolio is principally to borrowers throughout Cumberland, Dauphin, York, and Lebanon counties of Pennsylvania where it has full-service branch locations. Commercial real estate loans and loan commitments for commercial real estate projects aggregated $181 million at December 31, 2000.

Commercial real estate loans are collateralized by the related project (principally office buildings, multifamily residential, land development, and other properties) and the Company generally requires loan-to-value ratios of no greater than 80%. Collateral requirements on such loans are determined on a case-by-case basis based on management's credit evaluations of the respective borrowers.

7. Bank Premises, Equipment and Leases

A summary of premises and equipment is as follows:

	December 31,	
(in thousands)	**2000**	1999
Land	**$ 3,152**	$ 3,842
Buildings	**11,796**	9,290
Leasehold improvements	**1,666**	1,576
Furniture, fixtures, and equipment	**6,301**	4,793
	22,915	19,501
Less accumulated depreciation and amortization	**6,278**	5,093
	$16,637	$14,408

Land, buildings, and equipment are leased under noncancelable operating lease agreements that expire at various dates through 2021. Total rental expense for operating leases in 2000, 1999, and 1998 was $739,000, $673,000, and $602,000, respectively. At December 31, 2000, future minimum lease payments for noncancelable operating leases are payable as follows:

(in thousands)	
2001	$ 873
2002	699
2003	652
2004	646
2005	475
Thereafter	3,844
Total minimum lease payments	$ 7,189

8. Deposits

The composition of deposits is as follows:

	December 31,	
(in thousands)	**2000**	1999
Demand	**$ 85,577**	$ 69,495
Interest checking and money market	**93,885**	70,546
Savings	**116,691**	87,967
Time certificates $100,000 or more	**67,381**	51,519
Other time certificates	**83,049**	69,019
	$446,583	$348,546

At December 31, 2000, the scheduled maturities of time deposits are as follows:

(in thousands)	
2001	$ 89,428
2002	24,932
2003	30,022
2004	4,307
2005	1,741
	$150,430

9. Other Borrowed Money

The Bank has a line of credit commitment from the Federal Home Loan Bank (FHLB) for borrowings up to $104 million. No amounts were outstanding on this line as of December 31, 2000 and 1999. Certain qualifying assets of the Bank collateralize the line. At December 31, 1999, other borrowed money consisted of $5.3 million of federal funds purchased and $3.0 million of securities sold under agreements to repurchase, which were overnight funds. Securities with a fair value of $3.1 million were pledged as collateral for the securities sold under agreements to repurchase as of December 31, 1999.

10. Long-term Debt

On June 15, 2000, the Company issued $5,000,000 of 11% Trust Capital Securities to Commerce Bancorp, Inc. through Commerce Harrisburg Capital Trust I (the Trust), a newly formed Delaware business trust subsidiary. The Trust Capital Securities evidence a preferred ownership interest in the Trust, of which the Company owns 100% of the common equity. The proceeds from the issuance of the Trust Capital Securities were invested in substantially similar Junior Subordinated Debt of the Company. The Company unconditionally guarantees the Trust Capital Securities. 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 15, 2030. The Trust Capital Securities may be redeemed in whole or in part at the option of the Company on or after June 15, 2010 at 105.50% of the principal plus accrued interest, if any. The redemption price declines by 0.55% on June 15 of each year from 2011 through 2020 at which time the securities may be redeemed at 100% of the principal plus accrued interest, if any, to the date fixed for redemption, subject to certain conditions. All $5,000,000 of the Trust Capital Securities qualify as Tier 1 regulatory capital purposes.

11. Income Taxes

A reconciliation of the provision for income taxes and the amount that would have been provided at statutory rates is as follows:

	Year Ended December 31,		
(in thousands)	**2000**	1999	1998
Provision at statutory rate on pre-tax income	$1,904	$1,603	$1,130
Tax-exempt income on loans and investments	(52)	(6)	(9)
Other	34	16	(15)
	$1,886	$1,613	$1,106

The components of income tax expense are as follows:

	Year Ended December 31,		
(in thousands)	**2000**	1999	1998
Current	$2,167	$1,798	$1,289
Deferred	(281)	(185)	(183)
	$1,886	$1,613	$1,106

The components of the net deferred tax assets were as follows:

	December 31,	
(in thousands)	**2000**	1999
Deferred tax assets:		
Allowance for loan losses	$1,236	$ 934
Unrealized losses on securities	348	1,545
Other	20	3
Total deferred tax assets	1,604	2,482
Deferred tax liabilities:		
Premises and equipment	(236)	(226)
Prepaid expenses	(79)	(51)
Total deferred tax liabilities	(315)	(277)
Net deferred tax assets	$1,289	$2,205

Income taxes of $0, $0, and $131,000 were recognized on net securities gains in 2000, 1999, and 1998, respectively.

12. Stockholders' Equity

At December 31, 2000, Commerce Bancorp, Inc., owned 40,000 shares of the Company's Series A $10 par value noncumulative nonvoting preferred stock and warrants that entitle the holder to purchase 124,105 shares (adjusted for common stock dividends) of the Company's common stock, exercisable at $8.05 per share (adjusted for common stock dividends), in the event of a "change in control" (as defined in the Warrant Agreement). Such warrants are fully transferable and expire on October 7, 2008. None of these warrants were exercised during 2000 or 1999. The preferred stock is redeemable at the option of the Company at the price of $25 per share plus any unpaid dividends. Dividends on the preferred stock are payable quarterly at a rate of $2 per share per annum (see Note 15).

During the 4^{th} quarter of 1999, the Company implemented a dividend reinvestment and stock purchase plan. Holders of common stock may participate in the plan in which reinvested dividends and voluntary cash payments of up to $5,000 per quarter (subject to change) may be reinvested in additional common shares at a 3% discount (subject to change) from the current market price. Employees who have been continuously employed for at least one year are also eligible to participate in the plan under the same terms as listed above for shareholders. A total of 9,031 and 1,527 common shares were issued pursuant to this plan in 2000 and in 1999 respectively. At December 31, 2000, the Company had reserved approximately 489,000 common shares to be issued in connection with the plan.

On January 21, 2000, the Board of Directors declared a 5% common stock dividend payable on February 18, 2000, to stockholders of record on February 4, 2000. Payment of the stock dividend resulted in the issuance of 78,342 additional common shares.

On January 19, 2001, the Board of Directors declared a 5% common stock dividend payable on February 16, 2001, to stockholders of record on February 2, 2001. Payment of the stock dividend will result in the issuance of 83,492 additional common shares.

All common stock and per share data included in these financial statements have been restated for these stock dividends.

13. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share.

(in thousands except per share amounts)	For the Year Ended December 31, 2000			1999			1998		
	Income	**Shares**	**Per Share Amount**	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic earnings per share:									
Net income	$ 3,714			$ 3,103			$ 2,218		
Preferred stock dividends	(80)			(80)			(80)		
Income available to common stockholders	3,634	1,736	$2.09	3,023	1,720	$1.76	2,138	1,713	$1.25
Effect of dilutive securities:									
Stock options		118			124			140	
Diluted earnings per share:									
Income available to common stockholders plus assumed conversions	$ 3,634	1,854	$1.96	$ 3,023	1,844	$1.64	$ 2,138	1,853	$1.15

Options to purchase 39,718 shares of common stock at $24.68, options to purchase 44,499 shares at $24.84, options to purchase 69,170 shares at $28.10, options to purchase 9,308 shares at $23.45, and options to purchase 9,308 shares of common stock at $26.78 were outstanding during 2000. They were not included in the computation of diluted EPS for the year ended December 31, 2000, because the options' exercise price was greater than the average market price of the common shares.

Options to purchase 48,899 shares of common stock at $24.84, options to purchase 41,055 shares at $24.68 and options to purchase 9,308 shares of common stock at $26.78 were outstanding during 1999. They were not included in the computation of diluted EPS for the year ended December 31, 1999, because the options' exercise price was greater than the average market price of the common shares.

No options were excluded from the computation of diluted EPS for the year ended December 31, 1998.

14. Stock Option Plans

The 1996 Employee Stock Option Plan covers 255,560 authorized shares of common stock reserved for issuance upon exercise of options granted or available for grant to officers and key employees and will expire on December 31, 2005. The Plan provides that the option price of qualified incentive stock options will be fixed by the Board of Directors, but will not be less than 100% of the fair market value of the stock at the date of grant. In addition, the Plan provides that the option price of nonqualified stock options (NQSO's) also will be fixed by the Board of Directors, however for NQSO's the option price may be less than 100% of the fair market value of the stock at the date of grant. Options granted are exercisable one year after the date of grant, subject to certain vesting provisions, and expire ten years after the date of grant.

In 2000, the Company's shareholders approved the adoption of the 2001 Directors' Stock Option Plan. The Plan commences January 1, 2001 and replaces the 1990 Directors' Stock Option Plan which expired December 31, 2000. The Plan covers 105,000 authorized shares of common stock reserved for issuance upon exercise of options granted or available for grant to directors and will expire on December 31, 2010. Under the Company's Directors' Stock Option Plan, each Director of the Company who is not regularly employed on a salaried basis by the Company shall be entitled to an option to acquire 1,551 shares of the Company's common stock during each year in which the Director serves on the Board. The Plan provides that the option price will be fixed by the Board of Directors, but will not be less than 100% of the fair market value of the stock on the date of the grant. Options granted are exercisable from the earlier of (1) one year after the date of the option grant, or (2) the date of a change in control of the Bank.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee and director stock options. Under APB 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro-forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that statement. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 1999, and 1998 respectively: risk-free interest rates of 5.7%, 6.0% and 4.5%; volatility factors of the expected market price of the Company's common stock of .48, .24, and .25; weighted-average expected life of the options of 10 years; and no cash dividends.

For purposes of pro-forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro-forma information is presented in the following table.

	Year Ended December 31,		
(in thousands)	**2000**	1999	1998
Net income:			
As reported	**$3,714**	$3,103	$2,218
Pro-forma	**3,106**	2,570	1,694
Reported earnings per share:			
Basic	**$2.09**	$1.76	$1.25
Diluted	**1.96**	1.64	1.15
Pro-forma earnings per share:			
Basic	**$1.74**	$1.45	$0.94
Diluted	**1.63**	1.35	0.87

Stock options transactions under the Plans were as follows:

	Year Ended December 31,					
	2000		1999		1998	
	Options	**Weighted Avg. Exercise Price**	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding at beginning of year	**384,741**	**$15.02**	331,632	$13.70	280,618	$11.03
Granted	**80,053**	**26.56**	66,975	21.88	63,879	24.57
Exercised	**(13,435)**	**6.21**	(6,945)	9.71	(10,047)	5.90
Forfeited	**(13,332)**	**22.54**	(6,921)	24.08	(2,818)	11.27
Outstanding at end of year	**438,027**	**$17.17**	384,741	$15.02	331,632	$13.70
Exercisable at December 31	**339,915**	**$14.54**				
Options available for grant at December 31	**14,229**					
Weighted-average fair value of options granted during the year		**$15.82**		$ 9.87		$10.42

Exercise prices for options outstanding as of December 31, 2000 are presented in the following table.

	As of December 31, 2000				
	Options Outstanding	Weighted Avg. Exercise Price	Weighted Avg. Contractual Life	Options Exercisable	Weighted Avg. Exercise Price
Options with exercise prices ranging from $4.83 to $10.00	162,246	$ 6.80	3.6 Years	162,246	$ 6.80
Options with exercise prices ranging from $10.01 to $20.00	51,748	15.93	6.8 Years	42,440	15.91
Options with exercise prices ranging from $20.01 to $28.10	224,033	24.97	8.6 Years	135,229	23.40
Total options outstanding with exercise prices ranging from $4.83 to $28.10	438,027	$17.17	6.7 Years	339,915	$14.54

15. Regulatory Matters

Regulatory authorities restrict the amount of cash dividends the Bank can declare without prior regulatory approval. Presently, the Bank cannot declare a cash dividend in excess of its accumulated retained earnings.

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible 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 and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The 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 the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2000, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2000, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following table presents the Bank's risk-based and leverage capital amounts and ratios at December 31, 2000 and 1999. The consolidated capital ratios are not materially different to the Bank's capital ratios.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2000						
Risked based capital ratios:						
Total capital	$36,088	11.04%	≥ $26,139	≥ 8.0%	≥ $32,674	≥ 10.0%
Tier 1 capital	32,356	9.90	≥ 13,069	≥ 4.0	≥ 19,604	≥ 6.0
Leverage ratio	32,356	6.92	≥ 18,700	≥ 4.0	≥ 23,374	≥ 5.0
As of December 31, 1999						
Risked based capital ratios:						
Total capital	$26,218	11.12%	≥ $18,864	≥ 8.0%	≥ $23,580	≥ 10.0%
Tier 1 capital	23,377	9.91	≥ 9,432	≥ 4.0	≥ 14,148	≥ 6.0
Leverage ratio	23,377	6.28	≥ 14,894	≥ 4.0	≥ 18,618	≥ 5.0

16. Employee Benefit Plan

The Company has established a 401(k) Retirement Savings Plan for all of its employees who meet eligibility requirements. Employees may contribute up to 15% of their salary to the Plan. The Company will provide a discretionary matching contribution for up to 6% of each employee's salary. For 2000, 1999, and 1998, the Company's matching contribution was established at 25% of the employees' salary deferral. The amount charged to expense was $42,000, $31,000, and $62,000 in 2000, 1999, and 1998, respectively.

17. Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income are components of comprehensive income.

The only comprehensive income item that the Company presently has is unrealized gains (losses) on securities available for sale. The federal income taxes allocated to the unrealized gains (losses) are presented in the table below. The reclassification adjustments included in comprehensive income are also presented.

	Year Ended December 31,		
(in thousands)	**2000**	1999	1998
Unrealized holding gains (losses) arising during the year	$ 3,520	$(4,868)	$ 214
Less reclassification adjustment for gains (losses) included in net income	0	1	386
Net unrealized gains (losses)	3,520	(4,869)	(172)
Tax (expense) benefit	(1,197)	1,656	58
Net of tax amount	$ 2,323	$(3,213)	$ (114)

18. Commitments and Contingencies

The Company has entered into a land lease for the premises located in the East Penn Center, on Wertzville Road in East Pennsboro Township, Cumberland County, Pennsylvania. The Company is constructing a full-service branch on this land to be opened in Spring 2001. The land lease commenced June 26, 2000 and has an initial term of 20 years. In addition, the Company has the option to renew the land lease for four additional 5-year terms. Initial annual rent payments equal $55,000 and will commence March 1, 2001. Rent is subject to change on terms set forth in the lease agreement.

The Company has entered into a lease for office space located in Carlisle, Pennsylvania. The Company opened a loan production office in the premises on January 1, 2001. The lease commenced December 2000 and has an initial term of 2 years. In addition, the Company has the option to renew the lease for three additional 1-year terms. Initial annual rent payments, which total $11,120, began on January 1, 2001. Rent is subject to change based on terms set forth in the lease agreement.

In addition, the Company is also subject to certain routine legal proceedings and claims arising in the ordinary course of business. It is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the Company's financial position and results of operations.

19. Related Party Transactions

Commerce Bancorp, Inc. (a 9.05% shareholder of common stock and 100% shareholder of Series A preferred stock of the Company), through a subsidiary (Commerce Bank, N.A., a national bank located in Cherry Hill, New Jersey), provides various services to the Company. These services include maintenance to the branch LAN network, loan review services, MAC/VISA card processing, data processing, and advertising support. Insurance premiums and commissions which are paid to a subsidiary of Commerce Bancorp, Inc, are included in the total amount paid. The Company paid approximately $414,000, $344,000, and $325,000 for services provided by Commerce Bancorp, Inc. during 2000, 1999, and 1998, respectively. The Company routinely sells loan participations to Commerce Bank, N.A. and at December 31, 2000, approximately $11.6 million of these participations were outstanding. A director of the Company is Chairman of the Board of Commerce Bank, N.A. The Company obtained interior design services for $76,000, $16,000, and $17,000 in 2000, 1999, and 1998, respectively, from a business owned by the spouse of the director. Additionally, the business received commissions of approximately

$54,000, $21,000, and $66,000 in 2000, 1999, and 1998, respectively, on furniture and facility purchases made directly by the Company. The Company leases land for one of its branches from a limited partnership in which the director is a 20% limited partner. Total payments on the land lease for 2000, 1999 and 1998 were $50,000. The Company engaged a company owned by the director to prepare the building sites for the branches constructed in 1998. Total payments made in 1998 were $20,000.

A law firm in which a director of the Company is a partner received professional fees totaling $137,000, $149,000, and $104,000 during 2000, 1999, and 1998, respectively.

The Company leases land for a billboard owned by the Company from a director. Total payments on the land lease for 2000, 1999, and 1998 were $24,000.

The Company paid commissions for real estate services to a company owned by the Chairman of the Board of the Company of $48,000, $65,000, and $0 in 2000, 1999, and 1998 respectively.

20. Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The Company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:

Cash and cash equivalents:

The carrying amounts reported approximate those assets' fair value.

Securities:

Fair values of 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 Receivable

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 analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximate their fair values.

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 amount of this debt approximates its fair value.

Long-term Debt

The fair values for long-term debt were estimated using the interest rate currently available from the related party that holds the existing debt.

Off-balance Sheet Instruments

Fair values for the Company's off-balance sheet instruments 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.

The carrying amounts and fair values of the Company's financial instruments as of December 31 are presented in the following table.

	2000		1999	
(in thousands)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 39,649	$ 39,649	$ 27,490	$ 27,490
Securities	126,733	126,582	113,691	112,529
Loans, net (including loans held for sale)	291,849	287,228	218,565	216,984
Accrued interest receivable	2,936	2,936	2,105	2,105
Financial liabilities:				
Deposits	$ 446,583	$ 448,622	$ 348,546	$ 348,891
Other borrowed money	0	0	8,300	8,300
Long-term debt	5,000	5,471	0	0
Accrued interest payable	834	834	567	567
Off-balance sheet instruments:				
Standby letters of credit	$ 0	$ 0	$ 0	$ 0
Commitments to extend credit	0	0	0	0

21. 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 presentaton (in thousands, except per share amounts):

	Three Months Ended			
	December 31	September 30	June 30	March 31
2000				
Interest income	$ 8,917	$ 8,465	$ 7,554	$ 6,838
Interest expense	4,210	3,939	3,285	2,863
Net interest income	4,707	4,526	4,269	3,975
Provision for loan losses	285	255	255	255
Net investment securities gains	0	0	0	0
Provision for federal income taxes	568	472	444	402
Net income	1,064	1,014	863	773
Net income per share:				
Basic	$ 0.59	$ 0.57	$ 0.49	$ 0.44
Diluted	0.56	0.53	0.46	0.41
1999				
Interest income	$ 6,689	$ 6,424	$ 5,923	$ 5,581
Interest expense	2,769	2,528	2,360	2,284
Net interest income	3,920	3,896	3,563	3,297
Provision for loan losses	160	232	190	180
Net investment securities gains	0	0	0	1
Provision for federal income taxes	487	480	330	316
Net income	935	923	636	609
Net income per share:				
Basic	$ 0.55	$ 0.52	$ 0.35	$ 0.34
Diluted	0.51	0.49	0.33	0.31

Notes to Consolidated Financial Statements

22. Condensed Financial Statements of Parent Company

Balance Sheets

(in thousands)	**December 31, 2000**	December 31, 1999
ASSETS		
Cash	**$ 12**	$ 0
Investment in subsidiaries:		
Banking subsidiary	**31,680**	20,378
Non-banking subsidiary	**200**	0
Other assets	**63**	0
Total Assets	**$31,955**	$20,378
LIABILITIES		
Long-term debt	**$ 5,000**	$ 0
Other liabilities	**287**	0
Total Liabilities	**5,287**	0
STOCKHOLDERS' EQUITY		
Preferred stock	**400**	400
Common stock	**1,749**	1,644
Surplus	**20,861**	18,196
Retained earnings	**4,334**	3,137
Accumulated other comprehensive loss	**(676)**	(2,999)
Total stockholders' equity	**26,668**	20,378
Total Liabilities & Stockholders' Equity	**$31,955**	$20,378

Statements of Income

(in thousands)	**Year Ended December 31, 2000**	For the Period July 1 to December 31, 1999
Income:		
Dividends from bank subsidiary	$ 393	$ 40
Interest income	12	0
	405	40
Expenses:		
Interest expense	312	0
Other	187	0
	499	0
Income (loss) before income taxes (benefit) and equity in undistributed net income of subsidiaries	(94)	40
Income taxes (benefit)	165	0
Income (loss) before equity in undistributed net income of subsidiaries	71	40
Equity in undistributed net income of bank subsidiary	3,643	1,818
Net income	$ 3,714	$ 1,858

Statements of Cash Flows

(in thousands)	**Year Ended December 31, 2000**	For the Period July 1 to December 31, 1999
Operating Activities:		
Net Income	$ 3,714	$ 1,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of financing costs	5	0
Increase in other liabilities	287	0
Equity in undistributed net income of bank subsidiary	(3,643)	(1,818)
Net cash (used) provided by operating activities	363	40
Investing Activities:		
Investment in bank subsidiary	(5,303)	(57)
Investment in nonbank subsidiary	(200)	0
Net cash used by investing activities	(5,503)	(57)
Financing Activities:		
Proceeds from common stock options exercised	84	26
Proceeds from issuance of long term debt	5,000	0
Proceeds from issuance of common stock under stock purchase plan	219	31
Costs of issuing long term debt	(68)	0
Cash dividends on preferred stock and cash in lieu of fractional shares	(83)	(40)
Net cash provided by financing activities	5,152	17
Increase in cash and cash equivalents	12	0
Cash and cash equivalents at beginning of the year	0	0
Cash and cash equivalents at end of year	$ 12	$ 0

Independent Auditor's Report

To the Board of Directors
Pennsylvania Commerce Bancorp, Inc.
Camp Hill, Pennsylvania

We have audited the accompanying consolidated balance sheets of Pennsylvania Commerce Bancorp, Inc. and its subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Commerce Bancorp, Inc. and its subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Harrisburg, Pennsylvania
February 2, 2001

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Corporate Information

Headquarters

Pennsylvania Commerce Bancorp, Inc.
100 Senate Avenue
Camp Hill, PA 17011

Annual Shareholders' Meeting

Pennsylvania Commerce Bancorp, Inc.'s annual shareholders' meeting will be held on Friday, May 18, 2001 at 9:00 am at the following location:

West Shore Country Club
100 Brentwater Road
Camp Hill, PA 17011

Contacts

Analysts, portfolio managers, and others seeking financial information about Pennsylvania Commerce Bancorp, Inc. should contact:

Mark A. Zody
Chief Financial Officer
at (717) 975-5630

News media representatives and others seeking general corporate information should contact:

James T. Gibson, President/CEO, or
Gary L. Nalbandian, Chairman
at (717) 975-5630

Shareholders seeking assistance with stock records should contact:

Deborah Miller
Shareholder Relations
at (717) 972-2870

Dividend Reinvestment and Stock Purchase Plan

Pennsylvania Commerce Bancorp, Inc. offers its shareholders a convenient plan to increase their investment in the Company. Through the Dividend Reinvestment and Stock Purchase Plan, holders of common stock may have their dividends and voluntary cash payments of up to $5,000 per quarter (subject to change) reinvested in additional common shares at a 3% discount (subject to change) from the market price and without brokerage fees, commissions, or service charges. Shareholders not enrolled in this plan, as well as brokers and custodians who hold stock for clients, may receive a plan prospectus and enrollment card by contacting Deborah Miller at (717) 972-2870.

Annual Report and Form 10-K

Additional copies of Pennsylvania Commerce Bancorp, Inc.'s Annual Report and Form 10-K are available without charge by writing:

Pennsylvania Commerce Bancorp, Inc.
Shareholder Relations
100 Senate Avenue
Camp Hill, PA 17011

NASDAQ Symbol

Shares of Pennsylvania Commerce Bancorp, Inc. common stock are traded nationally under the symbol **COBH** in the Over-The-Counter Small Cap Market and are listed in NASDAQ Quotations.

Common Stock Prices

The following table sets forth the prices for which common stock has traded during the last two (2) fiscal years on the NASDAQ Small Cap Market. The prices per share have been adjusted to reflect common stock dividends of 5% with record dates of February 2, 2001 and February 4, 2000. As of December 31, 2000, there were approximately 400 holders of record of the Company's common stock.

	Sales Price	
Quarter Ended:	High	Low
March 31, 2000	$ 24.76	$ 15.82
June 30, 2000	22.98	20.48
September 30, 2000	25.71	21.43
December 31, 2000	27.86	22.14
March 31, 1999	$ 27.44	$ 24.40
June 30, 1999	26.08	24.04
September 30, 1999	24.38	20.41
December 31, 1999	22.68	19.05

Transfer and Dividend Paying Agent/Registrar

Pennsylvania Commerce Bancorp, Inc.
100 Senate Avenue
Camp Hill, PA 17011

Cumberland County

Camp Hill Branch
100 Senate Avenue
Camp Hill, PA 17011
717/972-2875

Hampden Centre Branch
4860 Carlisle Pike
Mechanicsburg, PA 17055
717/975-7546

Simpson Ferry Branch
5032 Simpson Ferry Road
Mechanicsburg, PA 17055
717/766-6800

Carlisle Branch
65 Ashland Avenue
Carlisle, PA 17013
717/240-2665

Cedar Cliff Branch
1120 Carlisle Road
Camp Hill, PA 17011
717/909-3200

Wertzville Road Branch
742 Wertzville Road
Enola, PA 17025
717/909-6700

Dauphin County

Colonial Park Branch
4700 Jonestown Road
Harrisburg, PA 17109
717/540-7676

Mountain Road Branch
6071 Allentown Boulevard
Harrisburg, PA 17112
717/540-7605

Hummelstown Branch
600 Walton Avenue
Hummelstown, PA 17036
717/566-4400

Lebanon County

Palmyra Branch
903 East Main Street
Palmyra, PA 17078
717/832-0800

York County

Queen Street Branch
2160 South Queen Street
York, PA 17402
717/747-0700

York Crossing Branch
2100 York Crossing Drive
York, PA 17404
717/767-7700

Prospect Street Branch
1098 Haines Road
York, PA 17402
717/840-9257

Route 30 Branch
55 Arsenal Road
York, PA 17404
717/852-9292