Pennsylvania Commerce Bancorp

2001 Annual Report

America's Most Convenient Bank®

Pennsylvania Commerce Bancorp, Inc.
Selected Financial Data

(dollars in thousands except per share data)	Year Ended December 31 **2001**	2000	1999	1998	1997
BALANCE SHEET DATA:					
Total assets	**$ 609,890**	$ 480,086	$ 378,913	$ 319,323	$ 239,829
Loans held for sale	**7,661**	5,329	5,301	5,641	6,816
Loans receivable (gross)	**342,674**	290,252	216,105	167,121	134,459
Securities available for sale	**107,315**	92,921	84,652	96,993	48,512
Securities held to maturity	**103,349**	33,812	29,039	11,493	12,239
Federal funds sold	**4,300**	22,800	0	11,900	14,325
Deposits	**561,738**	446,583	348,546	297,737	220,224
Long-term debt and other borrowed money	**0**	0	8,300	0	0
Trust preferred securities	**13,000**	5,000	0	0	0
Stockholders' equity	**32,593**	26,668	20,378	20,445	18,318
INCOME STATEMENT DATA:					
Net interest income	**$ 22,054**	$ 17,477	$ 14,676	$ 11,276	$ 9,308
Provision for loan losses	**1,469**	1,050	762	542	150
Noninterest income	**6,607**	5,362	4,558	4,061	2,740
Noninterest operating expenses	**20,512**	16,189	13,756	11,471	9,078
Income before income taxes	**6,680**	5,600	4,716	3,324	2,820
Net income	**4,448**	3,714	3,103	2,218	1,892
PER COMMON SHARE DATA:					
Net income: *Basic*	$ **2.36**	$ 1.99	$ 1.67	$ 1.19	$ 1.10
Diluted	**2.14**	1.87	1.56	1.10	.99
Book value	**16.77**	13.95	10.67	10.76	9.64
SELECTED PERFORMANCE RATIOS:					
Return on average assets	**0.82 %**	0.88 %	0.89 %	0.80 %	0.91 %
Return on average stockholders' equity	**14.85**	16.59	15.18	11.50	11.86
Net interest margin	**4.40**	4.49	4.59	4.49	4.92
SELECTED LIQUIDITY AND CAPITAL RATIOS:					
Average loans to average deposits	**63.25 %**	65.12 %	60.24 %	60.26 %	63.83 %
Stockholders' equity to total year-end assets	**5.35**	5.55	5.38	6.40	7.64
Risk-based capital: *Tier 1*	**10.22**	9.90	9.91	10.83	12.20
Total	**11.78**	11.04	11.12	12.02	13.36
Leverage ratio	**7.33**	6.92	6.28	6.50	7.85
ASSET QUALITY:					
Net charge-offs to average loans outstanding	**0.21 %**	0.06 %	0.08 %	0.01 %	0.11 %
Non-performing loans to total year-end loans	**0.26**	0.29	0.32	0.16	0.43
Non-performing assets to total year-end assets	**0.15**	0.18	0.18	0.09	0.35
Allowance for loan losses to total year-end loans	**1.33**	1.29	1.31	1.34	1.26
Allowance for loan losses to non-performing loans	**518.72**	448.02	415.35	808.70	290.92

Cover: Aerial photo of Harrisburg courtesy of Office of the Mayor Stephen R. Reed.

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Harrisburg Magazine Readers' Poll
2001 Simply the best

In 2001, Commerce Bank was voted "Simply The Best" Bank in the Harrisburg area – for the second year in a row – in a poll conducted by *Harrisburg Magazine*.

And, the *Central Penn Business Journal* has recognized Commerce Bank as one of the "Top 50 Fastest Growing Companies" – the only company to be recognized as such for five years in a row.

Wertzville Road Branch, Enola


Week One


Week Three


Week Six


Week Seven


Week Nine


Week Eleven


Week Thirteen


Grand Opening – Week Fourteen

Dear Shareholders, Employees, Customers, and Friends:

These are exciting times at Commerce Bank!

Commerce continues its aggressive expansion throughout central Pennsylvania as other banks face an onslaught of mergers and acquisitions – with many of the most familiar disappearing. In much the way the American spirit prevailed over the terrible tragedy that marked 2001 in our nation, Commerce continues its mission to be "America's Most Convenient Bank." We applaud our dedicated staff and their ability to deliver that "whatever it takes" philosophy to meet Customer needs.

As a member of the Commerce Bancorp (NYSE Symbol: CBH) network of banks, headquartered in Cherry Hill, New Jersey, we are able to take advantage of the technical, operational and marketing/branding support of one of the nation's most dynamic financial services companies to enhance our capabilities as a local bank.

The Directors, management and staff of Pennsylvania Commerce Bancorp, Inc. are pleased to report on our financial results for 2001.

A Milestone Recorded: $600 Million in Assets

In November of 2001, Commerce reached a significant milestone: our assets hit the $600 million mark. Through the aggressive expansion plan we have designed, we anticipate increasing our total assets to $1.5 billion by 2006.

Commerce shareholders continue to benefit from the Company's strong performance, evidenced by a 10-year average annual return on shareholder value of 32%. The Company's stock price increased 44% during 2001. Clearly, the Commerce retail model – where exceeding Customers' expectations is our driving force – endures.

We would like to share with you some of the financial highlights for the year 2001:

- Assets increased by 27% to $610 million.
- Deposits rose by $115 million to $562 million – representing a 26% increase over 2000 deposits.
- Loans increased 18%, or $54 million, to a total of $346 million.
- Revenues increased 25%, reaching $28.7 million.
- Net income grew 20%, from $3.7 million to $4.4 million.
- Diluted net income per share was $2.14 – a 14% increase over 2000.
- A stock dividend of 5% declared on Common Stock Outstanding marked the 9th consecutive year a 5% dividend has been paid.
- Stockholder equity rose to $32.6 million, an increase of $5.9 million or 22%.
- Market price of Commerce Common Stock increased 44% on the NASDAQ Small Cap Market, closing at $35.52 per share (as adjusted for the 5% dividend).

Expanding "America's Most Convenient Bank"

We announced a number of exciting developments in 2001, including our plans to triple both the number of our branches – to 38 – and the size of our workforce by 2006.

We are bringing "America's Most Convenient Bank" to downtown Harrisburg. We are planning a grand opening celebration of our Harrisburg branch at 101 North Second Street in Spring 2002.

A key step toward fulfilling our expansion goal is the creation of the Reading Region. Our plans for Reading include two branch openings in 2002, with continued expansion in 2003. We anticipate these branches will form the foundation for a 10-branch region by 2006, and we are seeking other sites throughout Berks County where the branches will be managed and operated by local staff.

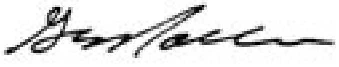
In Spring 2001, we opened our Wertzville Road branch in Enola and, in mid-October, we opened our fifth branch office in the York Region – in Red Lion at the Windsor Commons Shopping Center. We also have plans underway for five new offices in the next two years at prime locations in the Harrisburg region:

- The Camp Hill Mall
- Progress Avenue
- Linglestown Road
- Derry Street
- Rt. 114 in Silver Spring Township

Looking Ahead

At Commerce Bank, we always are looking ahead – not content to rest on our current success – but to ensure we are positioned to continue to exceed our Customers' expectations. I recently took on the additional duties of President and CEO to ensure we remain committed to our mission as a "local" bank – "America's Most Convenient Bank."

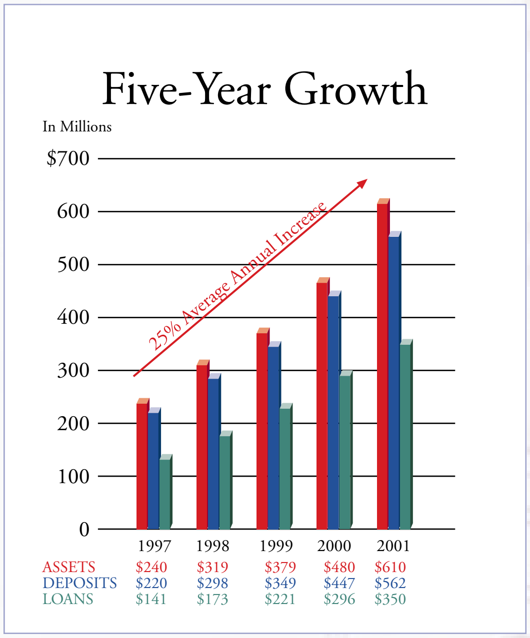
In a year that has given Commerce Bank so much success, we would like to thank our staff, directors, shareholders, and especially our Customers for their ongoing support.

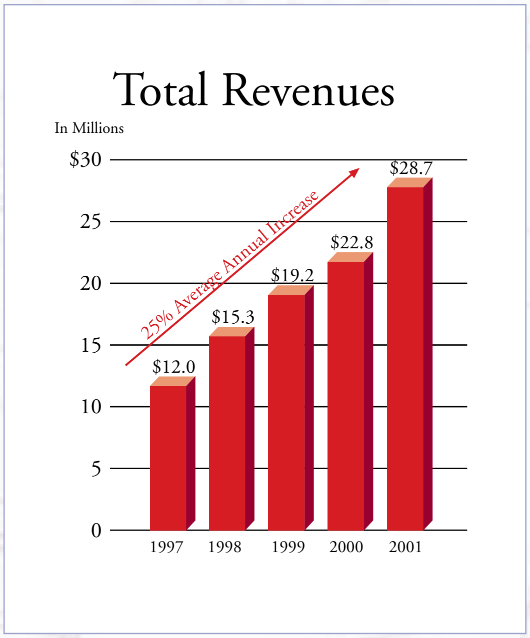


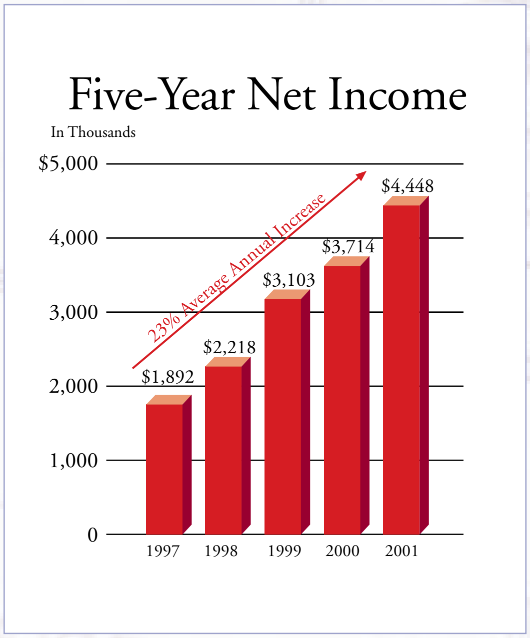
Gary L. Nalbandian
Chairman Of The Board,
President and CEO

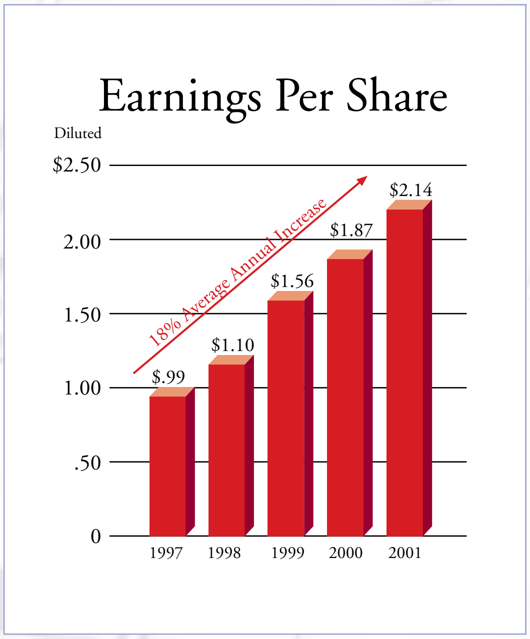
March 27, 2002

A Growth Company





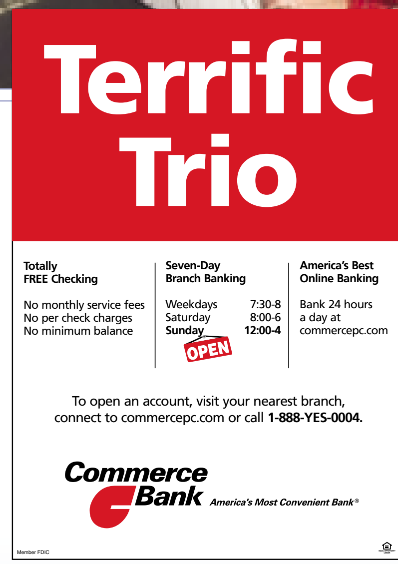




Pennsylvania Commerce Bancorp

Karin Nale, Cedar Cliff Branch Manager, and Customer Pete Postupack review Mr. Postupack's account. Mr. Postupack maintains both business and personal accounts at the Cedar Cliff branch; he is the owner of Pete's Bridge Street Motors.

Retail Banking



Providing a Foundation of Superior Products

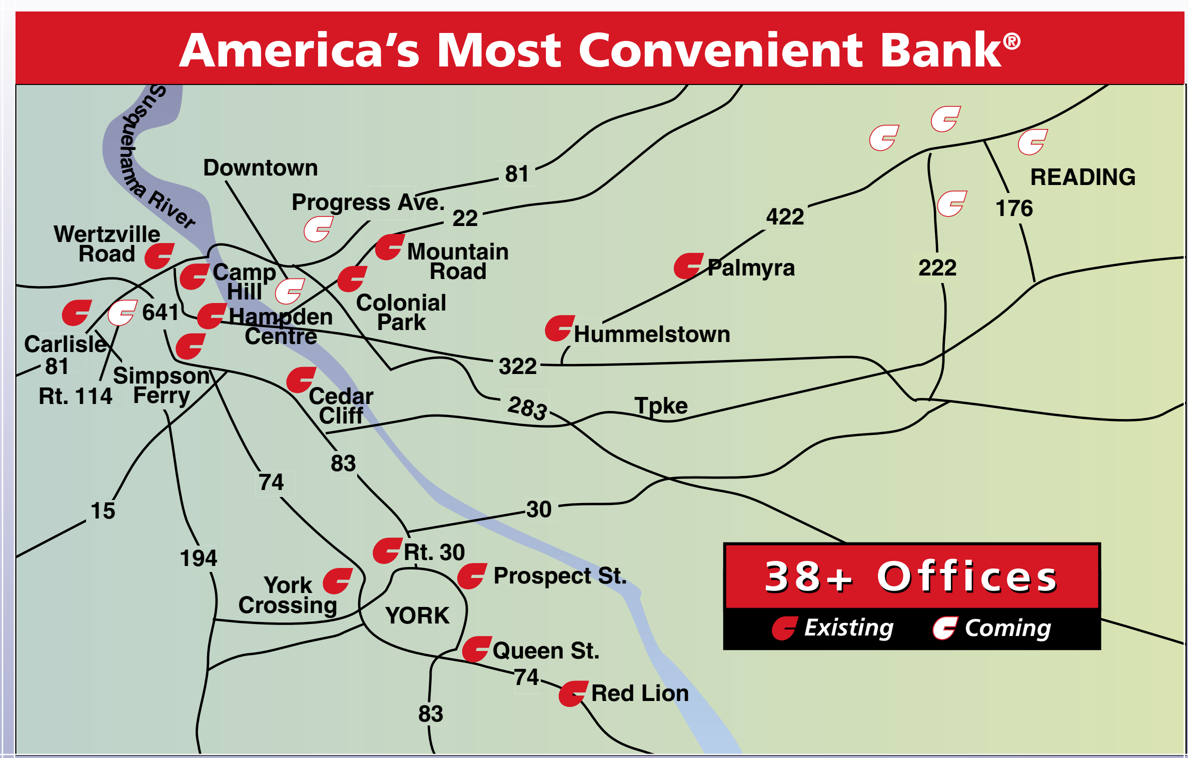
Commerce is committed to building the best bank in central Pennsylvania – a community bank that exceeds Customers' expectations for products and for service, every way, every day.

Our unique approach to banking enables Customers to bank with us whenever, wherever and in whatever way best suits their needs.

Commerce Bank's hallmark services include:

- Seven-day branch banking
- Free personal checking
- America's Best Online Banking at Commerce OnLine
- 24-hour bank-by-phone service at 1-888-YES-0004
- *Free **Penny Arcade*** coin counting machines

Our retail model comprises the best practices of the nation's leading retailers. And, unlike many other banks, Commerce continues to welcome Customers to our branches. We don't force our Customers to use remote delivery channels.



Retail Banking (continued)

Building Our Brand — One Brick at a Time

The story at Commerce Bank continues to be growth. We expanded our reach to Customers in 2001 by opening two new branches – on Wertzville Road in Enola, Cumberland County and in Red Lion in the York area. Work on our first branch in downtown Harrisburg is progressing. We plan to welcome Customers at the new location in Spring 2002.

And, as we look to the future, Commerce plans to bring "America's Most Convenient Bank" to Reading and Berks County – with two new branches opening in 2002.

Like other successful retailers, we use our distinctively designed branches to build brand awareness. Throughout central Pennsylvania, our easily recognizable branches have become synonymous with extraordinary convenience, superior products and outstanding service.

At a time when most banks are experiencing little or no growth, Commerce continued generating dramatic increases during 2001:

- Commerce branch deposits – comparable to same store sales in the retail industry – grew by 25%
- Core deposits grew by 24% to $525 million
- Average branch size increased to $42.5 million

WOW! the Customer

Accessing Unsurpassed Customer Service

The keystone of Commerce Bank is its *"WOW! The Customer"* philosophy. Commerce employees have established a reputation for providing service that exceeds their Customers' expectations, doing whatever it takes to meet their Customers' needs – every time.

We keep the Commerce spirit and *"WOW! The Customer"* philosophy fresh and vibrant through extensive employee recognition programs that salute and reward those employees who turn Customers into loyal Commerce fans.

Our annual company-wide *"WOW!"* Awards celebration salutes the "best of the best" Commerce employees, and helps to reinforce the importance of the *"WOW! the Customer"* culture.

Enhancing Customer Convenience

Commerce takes pride in providing Customers with exemplary service and superior products – no matter which delivery channel they use.

One of the products Commerce Customers utilize consistently is the Commerce Check Card – a multi-function debit/ATM card. The Commerce Check Card gives Customers another convenient way to conduct their banking. Check Card holders can use automated teller machines nationwide, or make purchases wherever VISA® or MAC® is accepted.

Some Customers also find the banking convenience they seek through our Internet branch at ***commercepc.com***. Commerce OnLine – our online branch – has achieved a household penetration rate of 27%. A visit to Commerce OnLine enables Customers to:

- Review their total relationship – deposits, loans, even credit cards
- Access up-to-the-minute account balances
- Transfer funds between Commerce Bank accounts
- Pay bills electronically
- Reorder checks
- Place stop payment orders
- Download to Quicken® or Money©

Commerce provides another popular convenience – our *free* coin counting machines, the ***Penny Arcade***. Recognizing that many banks no longer accept loose change – Customer or not – Commerce began installing the Penny Arcade machines in our branches in early 2000.

Conveniently located next to the Teller counter, the Penny Arcade accepts and counts loose change. The machine provides a receipt which can be taken to a Teller to be exchanged for cash or deposited into an account. No fees are deducted – whether the person using the Penny Arcade is a Customer or not.

- In 2001, Commerce processed more than $4.2 million in change from nearly 50,000 people through its Penny Arcade machines.
- More than one-third of all of those using the Penny Arcades were not Commerce Customers – at the time.

John and Jayne Miller (right) of New Cumberland, show Getty Wilson, Residential Loan Officer (left), the view from the front porch of their new home – financed with a construction loan from Commerce Bank. Mr. Miller owns Alfred's Victorian in Middletown.

Retail Lending

Being "America's Most Convenient Bank" goes well beyond simply meeting the deposit needs of our Customers. As a local bank, Commerce understands the importance of credit Customers may require.

Commerce provides various personal loans and residential mortgages with competitive rates and flexible terms.

Our retail loan products include:

• Personal Loans and Lines of Credit

• Home Equity Loans & Lines of Credit

• Auto & Manufactured Home Loans

• Education Loans

• Fixed and Adjustable Rate Mortgages

Our Customers can apply in person, online, or by phone. Commerce's trained loan officers work with our Customers to identify the loan that best meets their needs.

In 2001:

• Retail loans exceeded $36 million

• Residential mortgages increased 24%

Fulfilling the American Dream – Residential Mortgages

Commerce continues to be a leader in construction and permanent residential mortgages throughout central Pennsylvania. Commerce understands that part of the American Dream is home ownership, and we try to provide the kind of assistance that enables Customers to fulfill that dream.

Commerce offers a number of mortgage products:

• Conventional Fixed Rate Mortgages

• Adjustable Rate Mortgages (ARM)

• Combination Mortgages

• Temporary Buydown (ARM Alternative Mortgage Plan)

• FHA Mortgages

• Construction Loans

Although each mortgage is unique, we work to obtain mortgage approvals within 48 hours. Pre-approvals for mortgages also are available.

• In 2001, the residential mortgage group originated $80 million in residential mortgages – a one-year record.

Meeting Education Needs

No matter what type of loan, Commerce works to ensure the product is appropriate and meets the Customers' needs.

There are a number of ways, for example, that Commerce can help parents pay for their own education or that of their children. Through our deferred interest loans, we can help bring the cost of higher education within reach for students and parents.

Don Shade, Vice President/Director of Retail Lending, explains college financing options available from Commerce to parents and students.

Kurt Krieger (middle), President of KKFit, Inc. and operator of Gold's Gym, discusses some loan terms with Kristin Lombardi, SBA Commercial Loan Officer, and Tom Sauer, Vice President/Commercial Loan Officer.

Commercial Banking

Whether you are a one-person business or a large corporation, Commerce can meet your needs.

Small businesses grow with Commerce Bank!

We continue to be a Preferred Lender for the Small Business Administration (SBA) in Pennsylvania. As a Preferred Lender, Commerce can expedite the processing of SBA loan applications. We can meet the needs of most businesses that may not have access to conventional funding sources.

In 2001:

- Commerce underwrote 43 SBA loans
- Commerce provided $6 million in SBA financing

Through our SBA partnership, Commerce is able to offer the SBA 7(A) Guaranteed Loan Program to provide qualified small businesses with the capital financing they need to grow.

Commerce also provides other types of business loans and financing programs.

Commerce's experienced lenders work with our business Customers to ensure we develop a credit strategy that is right for their company – loans, lines of credit, leases, letters of credit – whatever the Customer needs.

Commerce provides competitive rates, quick approvals, and flexible terms, as well as the benefit of working with experienced lenders who live in the area and know the local market.

The Cash Management services we offer utilize the latest technological developments to provide flexibility while ensuring the control necessary to achieve the best possible return. Our products and services include:

- Online Banking
- Direct Deposit Payroll
- Accounting Reconcilement
- Lock Box Services
- Escrow Account Services
- Time Deposits and Investment Accounts
- Interest Bearing Accounts
- Merchant Card Processing
- Corporate Credit Cards

Senior Executive Vice President/Chief Lending Officer Rory Ritrievi and Colleen Ensinger, Vice President/Commercial Loan Officer (right) watch as Susan Pyatt, CNMT and Robert A. Skotnicki, D.O., FACC of Associated Cardiologists PC of Harrisburg, show them a readout on an EKG.

Dr. Linda J. Biggs, East Pennsboro Area School District Superintendent, Craig Robbins (middle), East Pennsboro Area High School Principal, and Ken Miller, VP/Government Banking Officer, review the ongoing construction at East Pennsboro High School.

Government Banking

Commerce Bank has developed the special skills, technology and expertise necessary to effectively partner with governmental bodies to meet their unique financial challenges.

Since 1998, our Government Banking services have grown at a yearly rate of 82%. And, in 2001, Government Banking:

- Exceeded $100 million in deposits
- Implemented more than $25 million in loans

Commerce works with numerous government bodies throughout central Pennsylvania:

- Municipalities
- School Districts
- Municipal Water, Sewer and Utility Authorities
- County Governments and Authorities
- Community and State Colleges and Universities
- State Governments and Authorities
- Police and Fire Services

We are committed to providing our Government Banking Customers with the "ultimate service" through the development of a relationship that offers information, insight and guidance as well as providing financial strategic support.

We offer a host of products and services designed to offer flexibility, convenience and competitive rates. Our Government Banking services include retail banking for Customers' employees, cash management, corporate trust services and public finance capabilities.

We also provide specialized Corporate Trust Services to a variety of government institutions, including Bond Trustee, Bond Registrar and Paying Agent, Escrow Agent and Custodian.

In conjunction with Commerce Bancorp's public finance group – Commerce Capital – we customize programs to meet our government Customers' specific needs. We have significant experience in capital financing techniques and how those are applied to meet the unique demands of government organizations.

- Short-term Financing – bond and tax anticipation notes
- Long-term Bonds – refinancing/refunding and standard bond issues, certificates of participation or lease revenue bonds
- Debt Underwriting and Financial Advisory Services

Ken Miller (left), Vice President Government Banking, Dave A. Rauer, Manchester Township Manager, Jane E. Heilman, Secretary, Cheryl Thoman, AVP/Retail Marketing Manager, and Steve Welty (right), York Regional Vice President, discuss ongoing expansion plans.

Community Commitment

Commerce is proud to be a member of the communities we serve in Cumberland, Dauphin, Lebanon and York Counties. As a local Bank, we are committed to being actively involved in these local communities. Such involvement is a vital element of our philosophy.

Sharing Our Community History

As a locally based bank, Commerce believes in preserving the heritage of those communities that have contributed to the growth of the region. We have embarked on a unique program to promote the rich culture and history of the central Pennsylvania region through custom-made wall murals in our branches.

In some cases, the mural depicts an historic event or a moment in time. But in each case, the mural captures a piece of the community, depicting key locations significant to the people and communities where the branches are located.

To find the archival treasures that become part of the branches, we enlist the aid of township libraries, historical societies and other organizations. They help choose an intriguing photo for display.

The mural at the Red Lion branch on Cape Horn Road was created from a 1917 photo, provided by the Red Lion Historical Society, of families and friends bidding farewell to men drafted to fight in World War I as they left the Red Lion Train Station.

The 7.5-foot by 13.5-foot wall murals are created by colorizing and enhancing old black and white photographs. Photos are digitally processed by computer and printed on heavy-duty 3M Controltac paper. The printed paper is then applied like wallpaper.

Penny Arcade Offers Giving Opportunities

Commerce Bank's ***Penny Arcade*** coin counting machines have been used by several service and charitable organizations to raise funds for their activities.

In the wake of the World Trade Center and Pentagon tragedies, Commerce Bank donated $5,000 to kick off its "Coins for Caring" campaign to aid the relief efforts of the American Red Cross. Coins for Caring enabled anyone to use the Penny Arcade coin counting machines to donate their change to the American Red Cross through a special account set up by Commerce.

Commerce also opened its Penny Arcade to the YWCA of Greater Harrisburg and encouraged everyone to donate their spare change to the Y's "Small Change Big Difference Challenge" to help women, children and families in crisis.

Giving Back to the Community

One of the many ways we express our community involvement is through the Commerce Bank Corporate Fund. The Corporate Fund was created to formalize the Bank's commitment to invest in the communities where we conduct our business and serve our Customers.

During 2001, the Commerce Bank Corporate Fund donated in excess of $157,000 to local and regional charities and community service organizations throughout central Pennsylvania.

From neighborhood Little Leagues and high school yearbooks, to the United Way and other regional non-profit organizations, our efforts support area communities on many different levels. Most of our support focuses on civic, social improvement, health and human services, regional economic redevelopment, artistic, cultural, and educational efforts.

Cheryl Thoman, AVP/Retail Marketing Manager and Ken Miller, Vice President Government Banking (right) present a check on behalf of Commerce Bank to members of the York Area Regional Police Department: (from left) Sergeant Jay Dauch aux., Sergeant Galen Stabley, and Chief Thomas Goss.

Commerce's strong commitment to the central Pennsylvania region was exemplified in 2001 by Corporate Fund contributions to numerous community-based activities and sponsorships:

- The Red Lion Recreation Commission
- Central Pennsylvania Chapter of the National Multiple Sclerosis Society
- York Punkin Chunkin' & Fall Festival
- Annual Hershey Track & Field Event
- March of Dimes WalkAmerica

Steve Welty, York Regional Vice President, Cheryl Thoman, AVP/Retail Marketing Manager, Dave A. Rauer, Manchester Township Manager, and Debra K. McCune, Office Supervisor, stand before a scoreboard donated by Commerce Bank at the Manchester Township Municipal Building.

Providing Additional Support

Officers and employees from throughout Commerce are active in, and lend their expertise to, numerous service organizations, charitable groups and activities, and business and professional organizations.

In many cases, Commerce has gone the "extra mile" not only by providing financial support, but additional services to particular organizations or for specific activities.

Board of Directors

Standing (from left to right): Michael A. Serluco, Howell C. Mette, Douglas S. Gelder, James R. Adair, Alan R. Hassman, Samir J. Srouji, MD, Peter J. Ressler. Seated: Gary L. Nalbandian, Vernon W. Hill, II.

Gary L. Nalbandian
Chairman, President and CEO
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 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.

2001 Overview

In 2001, the Company continued its strong financial performance by posting record levels of total assets, deposits and loans. Total assets grew by $130 million, or 27%, to $610 million and total deposits increased $115 million, or 26%, to $562 million. Total loans also experienced strong growth of $55 million, or 19%, in 2001 from $295 million to $350 million.

Net income was up 20% in 2001 to $4.4 million from $3.7 million for 2000 and total revenues increased by 25% to a record level of $28.7 million. Diluted net income per common share increased 14% to $2.14 from $1.87 per share in 2000 (after adjusting for a 5% common stock dividend declared in January 2002).

In April, the Company opened a new branch at 742 Wertzville Road, Enola, Pennsylvania and another new branch in October at 3109 Cape Horn Road, Red Lion, Pennsylvania. This brings the Bank's total number of full-service branches to 15. The Bank began construction of its sixteenth branch in an existing building at 101 North Second Street, City of Harrisburg, Pennsylvania. The Company plans Grand opening ceremonies for this branch in the first half of 2002.

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, 2001, 2000 and 1999 and presents the daily average interest rates earned on assets and the daily average interest rates paid on liabilities for such periods. During 2001, average interest-earning assets were $501.1 million, an increase of $111.6 million, or 29%, over 2000. This was the result of an increase in the average balance of investment securities of $44.1 million, an increase in the average balance of fed funds sold of $5.7 million, and an increase in the average balance of loans receivable of $61.8 million. The growth in the average balance of interest earning assets was funded primarily by an increase in the average balance of deposits (including noninterest bearing demand deposits) of $109.3 million. The growth in interest-earning assets was also partly funded by an increase in long-term debt, reflecting the issuance of $8 million of Trust Capital Securities in September 2001.

The yield on total interest-earning assets decreased by 53 basis points in 2001 from 8.16% to 7.63%. The decrease resulted primarily from decreased yields in the loan and investment portfolios due to the overall level and timing of changes in general market interest rates during 2001 as compared to 2000. The Federal Reserve Board (FRB) lowered short-term market interest rates eleven times in 2001 for a total decrease of 475 basis points (bps). As a result, the Company experienced lower yields on interest-earning assets in 2001 from 2000 as well as a lower cost of funds in 2001 over the prior year.

The aggregate cost of interest-bearing liabilities decreased 55 basis points in 2001 from 4.43% in 2000 to 3.88% in 2001. The average rate paid on savings deposits decreased by 95 basis points, from 3.90% in 2000 to 2.95% in 2001. The average rate paid on interest checking accounts decreased from 3.90% in 2000 to 2.07% in 2001. The average rate paid on public funds time deposits decreased 151 basis points in 2001. The majority of the Company's public funds are deposits of 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 average rate paid on money market accounts was 2.25%, a decrease of 94 basis points from 2000. The average rate paid on time deposits was 5.64%, up 47 basis points over 2000. This increase in the average rate paid on time deposits is a result of the promotional time deposits offered during the grand openings of new branches in June 2000, October 2000, and April 2001 before short term interest rates significantly decreased.

The Company's aggregate cost of funding sources decreased 44 basis points in 2001 from 3.67% to 3.23%. This is the result of a decrease in the average rate paid on total interest bearing deposits offset by 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

	Year Ended December 31,								
(dollars in thousands)	**2001**			2000			1999		
Earning Assets	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Securities:									
Taxable	**$165,013**	**$10,860**	**6.58%**	$121,833	$ 8,025	6.59%	$114,992	$ 7,405	6.44%
Tax-exempt	**1,743**	**94**	**5.38**	795	44	5.51	0	0	0.00
Total securities	**166,756**	**10,954**	**6.57**	122,628	8,069	6.58	114,992	7,405	6.44
Federal funds sold	**17,399**	**641**	**3.68**	11,707	760	6.49	9,129	447	4.83
Loans receivable:									
Mortgage and construction	**212,117**	**18,013**	**8.49**	178,937	15,852	8.86	136,325	11,685	8.57
Commercial loans and lines of credit	**69,815**	**5,810**	**8.32**	47,747	4,691	9.82	36,267	3,254	8.97
Consumer	**32,305**	**2,709**	**8.39**	26,640	2,293	8.61	22,629	1,806	7.98
Tax-exempt	**2,711**	**120**	**4.43**	1,833	109	5.94	365	20	5.52
Total loans receivable	**316,948**	**26,652**	**8.41**	255,157	22,945	8.99	195,586	16,765	8.57
Total earning assets	**$501,103**	**$38,247**	**7.63%**	$389,492	$31,774	8.16%	$319,707	$24,617	7.70%
Sources of Funds									
Interest-bearing deposits:									
Regular savings	**$141,350**	**$ 4,168**	**2.95%**	$108,131	$ 4,219	3.90%	$ 78,465	$ 2,272	2.90%
Interest checking	**7,955**	**165**	**2.07**	8,696	339	3.90	9,779	368	3.76
Money market	**100,394**	**2,261**	**2.25**	71,764	2,288	3.19	49,855	1,111	2.23
Time deposits	**126,389**	**7,133**	**5.64**	104,983	5,422	5.17	107,928	5,444	5.04
Public funds time	**33,642**	**1,693**	**5.03**	25,833	1,688	6.54	14,105	721	5.11
Total interest-bearing deposits	**409,730**	**15,420**	**3.76**	319,407	13,956	4.37	260,132	9,916	3.81
Short-term borrowings	**330**	**13**	**3.94**	696	42	5.91	460	25	5.35
Long-term debt	**7,082**	**760**	**10.73**	2,708	299	11.07	0	0	0.00
Total interest-bearing liabilities	**417,142**	**16,193**	**3.88**	322,811	14,297	4.43	260,592	9,941	3.81
Noninterest-bearing funds (net)	**83,961**			66,681			59,115		
Total sources to fund earning assets	**$501,103**	**16,193**	**3.23**	$389,492	14,297	3.67	$319,707	9,941	3.11
Net interest income and margin		**$22,054**	**4.40%**		$17,477	4.49%		$14,676	4.59%
Other Balances									
Cash & due from banks	**$ 18,904**			$ 14,806			$ 12,740		
Other assets	**20,951**			18,734			16,122		
Total assets	**540,958**			423,032			348,569		
Noninterest-bearing demand deposits	**91,352**			72,413			64,082		
Other liabilities	**2,508**			5,419			3,459		
Stockholders' equity	**29,956**			22,389			20,436		

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 2001 increased $4.6 million, or 26%, over 2000 to $22.1 million. Interest income on earning assets totaled $38.2 million, an increase of $6.5 million, or 20%, over 2000. The majority of this increase was related to volume increases in the securities and loans receivable portfolios offset slightly by lower interest rates on interest earning assets. Interest expense for 2001 increased by $1.9 million, or 13%, to $16.2 million from $14.3 million. This increase was primarily related to increases in the Company's level of deposits and long-term debt, offset partially by lower interest rates on most deposit products.

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 increased to 3.75% in 2001 from 3.73% in 2000 and the net interest margin decreased 9 basis points from 4.49% to 4.40%.

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

	2001 v. 2000 Increase (Decrease) Due to Changes in [(1)]			2000 v. 1999 Increase (Decrease) Due to Changes in [(1)]		
(in thousands)	**Volume**	**Rate**	**Total**	Volume	Rate	Total
Interest on securities:						
Taxable	**$2,847**	**$ (12)**	**$2,835**	$ 448	$ 172	$ 620
Tax-exempt	**51**	**(1)**	**50**	44	0	44
Federal funds sold	**210**	**(329)**	**(119)**	161	152	313
Interest on loans receivable:						
Mortgage and construction	**2,823**	**(662)**	**2,161**	3,772	395	4,167
Commercial	**1,835**	**(716)**	**1,119**	1,129	308	1,437
Consumer	**475**	**(59)**	**416**	344	143	487
Tax-exempt	**39**	**(28)**	**11**	87	2	89
Total interest income	**8,280**	**(1,807)**	**6,473**	5,985	1,172	7,157
Interest expense:						
Regular savings	**976**	**(1,027)**	**(51)**	1,162	785	1,947
Interest checking	**(15)**	**(159)**	**(174)**	(43)	14	(29)
Money market plus	**647**	**(674)**	**(27)**	698	479	1,177
Time deposits	**1,218**	**493**	**1,711**	(162)	140	(22)
Public funds	**395**	**(390)**	**5**	765	202	967
Short-term borrowings	**(15)**	**(13)**	**(28)**	13	3	16
Long-term debt	**451**	**9**	**460**	300	0	300
Total interest expense	**3,657**	**(1,761)**	**1,896**	2,733	1,623	4,356
Net increase (decrease)	**$4,623**	**$ (46)**	**$4,577**	$3,252	$ (451)	$2,801

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

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Noninterest Income

Noninterest income for 2001 increased by $1.2 million, or 23%, over 2000 to $6.6 million. The increase was due primarily to increased "core" other operating income 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 $354,000 in 2001 and $370,000 in 2000 on the sale of residential, student, and Small Business Administration loans. Also included in noninterest income were net securities gains of $52,000 for 2001 and $0 for 2000.

Noninterest Expenses

Noninterest expenses totaled $20.5 million for 2001, an increase of $4.3 million, or 27%, over 2000. Staffing levels, occupancy, furniture and equipment, and related expenses increased as a result of opening two full service branches in Spring and Fall 2001. A comparison of noninterest expense for certain categories for 2001 and 2000 is presented below.

Salary expenses and employee benefits, which represent the largest component of noninterest expenses, increased by $2.0 million, or 27%, in 2001 over 2000. This increase was consistent with an increase in the level of full-time equivalent employees from 266 at December 31, 2000 to 334 at year-end 2001. 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 April and October 2001.

Occupancy expenses totaled $2.1 million in 2001, an increase of $351,000, or 20%, over 2000 while furniture and equipment expenses increased by $310,000, or 28%, to $1.4 million. The full year impact of the two branch offices opened in 2000 along with two additional branches opened in 2001, contributed to the increases in occupancy and furniture and equipment expenses in 2001 over 2000. 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 all Commerce locations during the fourth quarter of 2000 and the first quarter of 2001.

Advertising and marketing expenses were $1.7 million for 2001, an increase of $271,000, or 19%, over 2000. The increase was primarily the result of increased advertising efforts in each of the Company's markets. The Company's markets include Lebanon, Dauphin, Cumberland, and York County. The Company will continue to have multiple markets in which to advertise its products.

Data processing expenses increased by $349,000, or 36%, in 2001 over 2000. The increase was due to costs associated with processing additional transactions as a result of growth in the number of accounts serviced.

Postage and supplies expenses of $846,000 were $187,000, or 28%, 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 2001 increased by $53,000, or 15%, from 2000. 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 $3.2 million for 2001, compared to $2.4 million for 2000. The increase was due primarily to:

- Additional telephone and data line expenses for new locations, increased call volume to the 24-hour 800 telephone service by customers to access a Bank representative, and increased expenses associated with customer usage of the online banking and check card products.
- Loan expenses due to the growth in loan production.
- Increased correspondent bank charges as a result of an increase in transaction volume.

The Company's current strategic plan calls for the construction of four additional new branches in 2002. The costs associated with these planned offices will continue to result in higher levels of staff, facilities, and related expenses in 2002 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 2.60% for 2001, compared to 2.64% for 2000. 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 2001 and 2000, the operating efficiency ratio was 71.9%.

Provision for Federal Income Taxes

The provision for federal income taxes was $2.2 million for 2001, compared to $1.9 million for 2000. The effective tax rate, which is the ratio of income tax expense to income before taxes, was 33% in 2001 and 34% in 2000. 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 2001 and 2000.

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, 2001, deferred tax assets amounted to $1.6 million and deferred tax liabilities amounted to $371,000. 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 2001 rose to a record $4.4 million, an increase of $734,000, or 20%, over the $3.7 million recorded in 2000. This increase was due to an increase in net interest income of $4.5 million and an increase in noninterest income of $1.2 million, offset by an increase in the provision for loan losses of $419,000, an increase in noninterest expenses of $4.3 million, and an increase of $346,000 in the provision for income taxes.

Basic earnings per common share, after adjusting for a 5% common stock dividend declared in January 2002, increased by 19% to $2.36 per share, compared to $1.99 in 2000. Diluted earnings per common share were $2.14 for 2001 and $1.87 for 2000 after adjusting for the 5% common stock dividend declared in January 2002. 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 2001 was 0.82%, compared to 0.88% in 2000.

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 2001 was 14.85%, compared to 16.59% for 2000.

Results of Operations

2000 versus 1999

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.

Basic earnings per common share, after adjusting for a 5% common stock dividend declared in January 2002 and 2001, increased by 19% to $1.99 per share, compared to $1.67 in 1999. Diluted earnings per common share were $1.87 for 2000 and $1.56 for 1999 after adjusting for the 5% common stock dividend declared in January 2002 and 2001.

Net interest income for 2000 was $17.5 million, up $2.8 million, or 19%, over 1999. Interest income on earning assets totaled $31.7 million, an increase of $7.2 million, or 29%, over 1999. Interest expense for 2000 increased by $4.4 million, or 44%, to $14.3 million from $9.9 million.

The Company's net interest rate spread decreased from 3.89% in 1999 to 3.73% in 2000 and the net interest margin decreased by 10 basis points from 4.59% to 4.49% in 2000.

Noninterest income for 2000 increased by $804,000, or 18%, over 1999 to $5.4 million. Included in 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.

Noninterest expenses totaled $16.2 million for 2000, an increase of $2.4 million, 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.

Salary expenses and employee benefits 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.

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.

Advertising and marketing expenses were $1.5 million for 2000, an increase of $192,000, or 15%, over 1999. Data processing expenses increased by $28,000, or 3%, in 2000 over 1999. Postage and supplies expenses of $659,000 were $130,000, or 25%, higher than the prior year.

Audits, regulatory fees, and assessments for 2000 increased by $88,000, or 34%, from 1999. Other noninterest expenses totaled $2.4 million for 2000, compared to $2.0 million for 1999.

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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 investment securities portfolio 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 or are AAA rated. 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, 2001, the weighted average life of the Company's securities portfolio was 6.7 years compared to 6.8 years at December 31, 2000. The weighted average life of the portfolio is calculated by estimating the average rate of repayment of the underlying collateral of the security. 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, 2001 or 2000.

Securities available for sale increased by $14.4 million in 2001 (excluding the effect of unrealized gains or losses) primarily as a result of purchases of $64.8 million, offset by principal repayments and maturities of $43.6 and sales of $7.5 million. The securities available for sale portfolio is comprised of U.S. Treasury securities, U.S. Government Agency securities, mortgage-backed securities, AAA Whole Loan CMO securities, corporate debt securities, and equity securities. At December 31, 2001, the unrealized losses on securities available for sale included in stockholders' equity totaled $111,000, net of tax, compared to unrealized losses of $676,000, net of tax, at December 31, 2000. The weighted average maturity of the securities available for sale portfolio was 6.1 years at December 31, 2001, with a weighted average yield of 6.45%.

During 2001, securities held to maturity increased by $69.5 million as a result of purchases of $88.1 million offset by principal repayments of $18.6 million. The securities held in this portfolio include U.S. Government Agency securities, tax-exempt municipal bonds, AAA Whole Loan CMO securities, corporate debt securities and mortgage-backed securities. The weighted average maturity of the securities held to maturity portfolio was 7.2 years at December 31, 2001, with a weighted average yield of 6.37%.

The contractual maturity distribution and weighted average yield of the Company's available for sale and held to maturity portfolios at December 31, 2001 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, 2001 *(dollars 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	$1,001	6.13%							$ 1,001	6.13%
Agency obligations					$ 8,988	6.99%	$ 8,499	6.68%	17,487	6.84
Mortgage-backed obligations					5,193	6.47	72,076	6.18	77,269	6.20
Corporate debt securities							9,133	7.79	9,133	7.79
Equity securities							2,593	6.59	2,593	6.59
Total available for sale	$1,001	6.13%	$ 0	0.00%	$14,181	6.80%	$92,301	6.40%	$107,483	6.45%
Held to Maturity										
U.S. Government:										
Agency obligations			$ 999	6.30%	$ 1,999	6.56%	$ 2,989	7.00%	$ 5,987	6.74%
Municipal obligations							1,994	5.36	1,994	5.36
Mortgage-backed obligations			3,153	6.71	7,889	5.94	62,569	6.16	73,611	6.16
Corporate debt securities			2,011	6.37	11,114	6.74	8,632	7.60	21,757	7.04
Total held to maturity	$ 0	0.00%	$6,163	6.53%	$21,002	6.42%	$76,184	6.33%	$103,349	6.37%

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 1997 through 2001.

Table 4

	December 31,				
(in thousands)	**2001**	2000	1999	1998	1997
Commercial real estate, construction and land development loans	**$175,832**	$158,707	$120,008	$ 81,949	$ 76,339
Residential real estate mortgage loans	**48,415**	41,314	34,681	31,694	21,414
Tax-exempt loans	**2,676**	2,786	342	395	442
Commercial, industrial and other business loans	**42,399**	31,490	21,228	19,614	9,231
Consumer loans	**36,551**	30,691	22,764	20,868	17,839
Lines of credit	**36,801**	25,264	17,082	12,601	9,194
Total loans	**$342,674**	$290,252	$216,105	$167,121	$134,459

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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 single-family residential 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 2001, total loans increased by $54.7 million from $295.6 million at December 31, 2000, to $350.3 million at December 31, 2001, including $7.7 million of loans held for sale on December 31, 2001 and $5.3 million of loans held for sale on December 31, 2000. The loans held for sale represent student loans that Company's management intends to sell and reinvest in higher yielding loans and securities. The increase in loans receivable in 2001 was primarily in commercial real estate, lines of credit and real estate construction and land development. Loans receivable represented 61% of total deposits and 56% of total assets at December 31, 2001, excluding the loans held for sale, compared to 65% and 60%, respectively, at December 31, 2000.

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, 2001, are presented in the following table.

Concentrations of Credit Risk

The largest portion of loans, 42%, 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 $175.8 million at December 31, 2001, compared to $158.7 million at December 31, 2000. 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, 2001			
(in thousands)	Due Under One Year	Due 1–5 Years	Due Over Five Years	Total
Real estate:				
Commercial mortgage	$12,145	$35,305	$ 95,519	$142,969
Construction and land development	18,245	9,655	4,963	32,863
Residential mortgage	566	7,902	39,947	48,415
Tax-exempt	345	1,882	449	2,676
	31,301	54,744	140,878	226,923
Commercial	11,685	22,995	7,719	42,399
Consumer	14,912	14,112	7,527	36,551
Lines of credit	35,634	1,106	61	36,801
Total loans	$93,532	$92,957	$156,185	$342,674
Interest rates:				
Predetermined	$35,872	$71,829	$144,998	$252,699
Floating	57,660	21,128	11,187	89,975
Total loans	$93,532	$92,957	$156,185	$342,674

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, 2001, were $888,000, or 0.15%, of total assets as compared to $875,000, or 0.18%, of total assets at December 31, 2000. Other real estate owned totaled $12,000 as of December 31, 2001, and $42,000 as of December 31, 2000. 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 0.34% at December 31, 2001, compared to 0.31% at December 31, 2000. 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 expense in the form of a provision for loan losses and reduced by loan charge-offs net of recoveries. 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 $1.5 million to the allowance for loan losses for 2001 compared to $1.1 million for 2000. During 2001, net charge-offs amounted to $657,000, or 0.21%, of average loans outstanding for the year, compared to $159,000, or 0.06%, of average loans outstanding for 2000. The allowance for loan losses increased as a percentage of loans receivable from 1.29% of total loans outstanding at December 31, 2000, to 1.33% of total loans outstanding and provided coverage of 519% of non-performing loans. The following table summarizes information regarding non-performing loans and non-performing assets as of December 31, 1997 through 2001.

Table 6

	December 31,				
(dollars in thousands)	**2001**	2000	1999	1998	1997
Nonaccrual loans:					
Commercial	**$ 127**	$ 300	$ 119	$ 227	$ 53
Consumer	**116**	162	244	23	3
Real estate: Construction	**0**	0	0	0	0
Mortgage	**633**	371	321	25	528
Total nonaccrual loans	**876**	833	684	275	584
Loans past due 90 days or more	**0**	0	20	1	0
Restructured loans	**0**	0	0	0	0
Total non-performing loans	**876**	833	704	276	584
Other real estate	**12**	42	12	11	264
Total non-performing assets	**$ 888**	$ 875	$ 716	$ 287	$ 848
Non-performing loans to total loans	**0.26%**	0.29%	0.32%	0.16%	0.43%
Non-performing assets to total assets	**0.15%**	0.18%	0.18%	0.09%	0.35%
Interest income received on nonaccrual loans	**$ 33**	$52	$ 38	$ 5	$ 37
Interest income that would have been recorded under the original terms of the loans	**$ 89**	$ 96	$ 66	$ 22	$ 53

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

Table 7

(dollars in thousands)	**2001**	2000	1999	1998	1997
	Year Ended December 31,				
Balance at beginning of year	**$3,732**	$2,841	$2,232	$1,699	$1,684
Provisions charged to operating expenses	**1,469**	1,050	762	542	150
Recoveries of loans previously charged-off:					
Commercial	**3**	6	8	4	5
Consumer	**21**	8	4	3	1
Real estate	**0**	0	1	0	1
Total recoveries	**24**	14	13	7	7
Loans charged-off:					
Commercial	**475**	1	150	2	51
Consumer	**85**	95	10	14	84
Real estate	**121**	77	6	0	7
Total charged-off	**681**	173	166	16	142
Net charge-offs (recoveries)	**657**	159	153	9	135
Balance at end of year	**$4,544**	$3,732	$2,841	$2,232	$1,699
Net charge-offs (recoveries) to average loans outstanding	**0.21%**	0.06%	0.08%	0.01%	0.11%
Allowance for loan losses to year-end loans	**1.33%**	1.29%	1.31%	1.34%	1.26%

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,									
	2001		2000		1999		1998		1997	
(dollars in thousands)	**Amount**	**% Gross Loans**	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans	Amount	% Gross Loans
Commercial loans and lines of credit	**$ 986**	**23.20%**	$ 178	19.20%	$ 155	17.73%	$ 400	19.28%	$ 233	13.70%
Consumer	**157**	**10.67**	143	10.57	224	10.53	150	12.49	225	13.27
Real estate, construction and land development:										
Commercial	**3,240**	**50.38**	3,286	54.61	2,335	55.69	1,582	49.27	970	57.10
Residential	**161**	**15.75**	125	15.62	127	16.05	100	18.96	271	15.93
Total	**$4,544**	**100.00%**	$3,732	100.00%	$2,841	100.00%	$2,232	100.00%	$1,699	100.00%

Deposits

Total deposits at December 31, 2001, were $561.7 million, up $115.1 million, or 26%, over total deposits of $446.6 million at December 31, 2000. The Company remains a deposit-driven financial institution with emphasis on core deposit accumulation and retention as a basis for sound growth and profitability. The Company regards core deposits as all deposits other than public certificates of deposits. Deposits in the various core categories, increased $102.0 million, or 24%, in 2001 over 2000. Total deposits averaged $501.1 million for 2001, an increase of $109.3 million, or 28%, over the 2000 average of $391.8 million. The average balance on noninterest-bearing demand deposits increased in 2001 by $18.9 million, or 26%, compared to the prior year. The average total balance of all savings accounts was $141.4 million, a $33.2 million, or 31%, increase over the average balance for 2000. The average balance of interest bearing demand accounts (money market and interest checking accounts) for 2001 increased by $27.9 million, or 35%, over the average balance for the prior year. The average balance of all time deposits in 2001 was $160.0 million, an increase of $29.2 million, or 22%, over the average balance for 2000. For 2001, the cost of total deposits was 3.08% as compared to 3.56% in 2000.

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.

The average balances and weighted average rates paid on deposits for 2001, 2000 and 1999 are presented below.

Table 9

(dollars in thousands)	Year Ended December 31, **2001 Average Balance**	**Rate**	2000 Average Balance	Rate	1999 Average Balance	Rate
Demand deposits:						
Noninterest-bearing	**$ 91,352**		$ 72,413		$ 64,082	
Interest-bearing (money market and checking)	**108,349**	**2.24%**	80,460	3.26%	59,634	2.48%
Savings	**141,350**	**2.95**	108,131	3.90	78,465	2.90
Time	**160,031**	**5.52**	130,816	5.44	122,033	5.05
Total deposits	**$501,082**		$391,820		$324,214	

The remaining maturity for certificates of deposit of $100,000 or more as of December 31, 2001 is presented in Table 10.

Table 10

(in thousands)	**2001**
3 months or less	**$32,092**
3 to 6 months	**17,493**
6 to 12 months	**9,028**
Over 12 months	**16,292**
Total	**$74,905**

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.

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

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, 2001.

Table 11

	December 31, 2001					
(in thousands)	1 – 90 Days	91 – 180 Days	181 – 365 Days	1 – 5 Years	Beyond 5 Years	Total
Interest earning assets:						
Loans receivable	$105,685	$ 7,434	$ 10,601	$ 71,821	$149,070	$344,611
Securities	13,256	12,256	22,798	88,991	69,702	207,003
Federal funds sold	4,300	0	0	0	0	4,300
Total interest earning assets	123,241	19,690	33,399	160,812	218,772	555,914
Interest-bearing liabilities:						
Transaction accounts	69,583	19,008	38,015	115,836	50,920	293,362
Long-term debt	0	0	0	0	13,000	13,000
Time deposits	44,830	37,108	19,257	62,008	0	163,203
Total interest-bearing liabilities	114,413	56,116	57,272	177,844	63,920	469,565
Period GAP	8,828	(36,426)	(23,873)	(17,032)	154,852	$ 86,349
Cumulative GAP	$ 8,828	$(27,598)	$(51,471)	$(68,503)	$ 86,349	

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 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 200 basis point increase and a 100 basis point decrease during the next year, with rates remaining constant in the second year.

Historically, 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 200 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, 2001, the Company projected its interest rate risk using a plus 200 and minus 100 basis point scenario. During 2001, the Federal Reserve lowered short-term interest rates by 475 basis points, pushing the Federal Funds rate down to 1.75% from 6.5% at year-end 2001, the lowest level in over 50 years. The Company's ALCO believed it was a better measure of current risk assuming a minus 100 point scenario, as a minus 200 basis point reduction would be unlikely given that current short-term market interest rates are already below 2.00%. At December 31, 2001, the Company's income simulation model indicates net income would increase 4.1% and 5.5% in the first year and over a two-year time frame, respectively, if rates decreased 100 basis points as compared to an increase of 1.7% and 3.7%, respectively, at December 31, 2000. The risk projections at December 31, 2000 assumed a 200 basis point decrease in market rates. The model projects that net income would increase by 0.5% and 5.3% in the first year and over a two-year time frame, respectively, if rates increased as described above, as compared to a decrease of 0.4% and increase by 0.3%, respectively, at December 31, 2000. All of these forecasts are within an acceptable level of interest rate risk per the policies established by ALCO. The market value of equity model reflects certain estimates and assumptions regarding the impact on the market value of the Company's assets and liabilities given an immediate 200 basis point change in interest rates. One of the key assumptions is the market value assigned to the Company's core deposits, or the core deposit premium. The Company has completed and updated comprehensive core deposit studies in order to assign its own core deposit premiums as permitted by regulation. The studies have consistently confirmed management's assertion that the Company's core deposits have stable balances over long periods of time, and are generally insensitive to changes in interest rates. Thus, these core deposit balances provide an internal hedge to market fluctuations in the Company's fixed rate assets. Management believes the core deposit premiums produced by its market value of equity model at December 31, 2001 provide an accurate assessment of the Company's interest rate risk.

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 increase in rates and a 100 basis point decrease in rates. The Company's ALCO policy indicates that the level of interest rate risk is unacceptable if the immediate 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, 2001, 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 $102.0 million, or 24%, in 2001.

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, 2001, the total potential liquidity for the Company through these secondary sources was $174 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 2001 and 2000 to meet short-term liquidity needs. For 2001, other borrowed money averaged $330,000 as compared to $696,000 in 2000. The average rate paid on the Company's short-term borrowings was 3.97% during 2001 and 5.91% in 2000. Short-term borrowings totaled $0 at December 31, 2000 and 2001.

Long-Term Debt

On September 28, 2001, the Company issued $8.0 million of 10.00% Trust Capital Securities through Commerce Harrisburg Capital Trust II, a newly formed Delaware business trust subsidiary of the Company. At December 31, 2001, $5.9 million of the Capital Trust Securities qualifies as Tier I capital for regulatory capital purposes and the remaining $2.1 million qualifies as Tier 2 capital. Proceeds of this offering were earmarked for general corporate purposes, including additional capitalization of the Company's wholly-owned banking subsidiary. Reference should be made to Note 10 in the Notes to the consolidated Financial Statements for further analysis of the Company's long-term debt.

Stockholders' Equity and Capital Adequacy

At December 31, 2001, stockholders' equity totaled $32.6 million, up $5.9 million, or 22% over stockholders' equity at December 31, 2000. This increase was due to the Company's net income for the year, shares issued under stock purchase and stock option plans, and unrealized appreciation on securities available for sale.

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, 2001, 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, 2001	2000	For Capital Adequacy Purposes	To Be Well-Capitalized Under Prompt Corrective Action Provisions
Total Capital	**11.78%**	11.04%	8.00%	10.00%
Tier 1 Capital	**10.22**	9.90	4.00	6.00
Leverage ratio (to average assets)	**7.33**	6.92	4.00	5.00

The Company's common stock is listed for trading on the NASDAQ Small Cap Market under the symbol COBH. 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.

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, **2001**	2000
Assets		
Cash and due from banks	**$ 21,555**	$ 16,849
Federal funds sold	**4,300**	22,800
Cash and cash equivalents	**25,855**	39,649
Securities, available for sale at fair value	**107,315**	92,921
Securities, held to maturity at cost (fair value 2001: $102,427; 2000: $33,661)	**103,349**	33,812
Loans, held for sale (fair value 2001: $7,733; 2000: $5,409)	**7,661**	5,329
Loans receivable:		
Real estate:		
Commercial mortgage	**142,969**	127,931
Construction and land development	**32,863**	30,776
Residential mortgage	**48,415**	41,314
Tax-exempt	**2,676**	2,786
Commercial business	**42,399**	31,490
Consumer	**36,551**	30,691
Lines of credit	**36,801**	25,264
	342,674	290,252
Less: Allowance for loan losses	**4,544**	3,732
Net loans receivable	**338,130**	286,520
Premises and equipment, net	**21,587**	16,637
Accrued interest receivable	**3,542**	2,936
Other assets	**2,451**	2,282
Total assets	**$609,890**	$480,086
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	**$105,171**	$ 85,577
Interest-bearing	**456,567**	361,006
Total deposits	**561,738**	446,583
Accrued interest payable	**837**	834
Other liabilities	**1,722**	1,001
Long-term debt	**13,000**	5,000
Total liabilities	**577,297**	453,418
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 2001: 1,881,960; 2000: 1,749,045)	**1,882**	1,749
Surplus	**25,263**	20,861
Retained earnings	**5,159**	4,334
Accumulated other comprehensive (loss)	**(111)**	(676)
Total stockholders' equity	**32,593**	26,668
Total liabilities and stockholders' equity	**$609,890**	$480,086

See accompanying notes

Consolidated Statements of Income

(in thousands, except per share amounts)	**2001**	2000	1999
	Year Ended December 31,		
Interest Income			
Loans receivable, including fees:			
Taxable	**$26,532**	$22,836	$16,745
Tax-exempt	**120**	109	20
Securities:			
Taxable	**10,860**	8,025	7,405
Tax-exempt	**94**	44	0
Federal funds sold	**641**	760	447
Total interest income	**38,247**	31,774	24,617
Interest Expense			
Deposits	**15,420**	13,956	9,916
Other	**13**	42	25
Long-term debt	**760**	299	0
Total interest expense	**16,193**	14,297	9,941
Net interest income	**22,054**	17,477	14,676
Provision for loan losses	**1,469**	1,050	762
Net interest income after provision for loan losses	**20,585**	16,427	13,914
Noninterest Income			
Service charges and other fees	**5,660**	4,564	3,538
Other	**541**	428	365
Gain on sale of securities available for sale	**52**	0	1
Gain on sale of loans	**354**	370	654
Total noninterest income	**6,607**	5,362	4,558
Noninterest Expenses			
Salaries and employee benefits	**9,486**	7,485	6,180
Occupancy	**2,133**	1,782	1,651
Furniture and equipment	**1,402**	1,092	937
Advertising and marketing	**1,722**	1,451	1,259
Data processing	**1,313**	964	936
Postage and supplies	**846**	659	529
Audits, regulatory fees and assessments	**401**	348	260
Other	**3,209**	2,408	2,004
Total noninterest expenses	**20,512**	16,189	13,756
Income before income taxes	**6,680**	5,600	4,716
Provision for federal income taxes	**2,232**	1,886	1,613
Net income	**$ 4,448**	$ 3,714	$ 3,103
Net Income per Common Share			
Basic	**$2.36**	$1.99	$1.67
Diluted	**2.14**	1.87	1.56

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, 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 (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
Proceeds from issuance of common stock in connection with 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**
Comprehensive income:						
Net income	–	–	–	4,448	–	4,448
Change in unrealized gains (losses) on securities, net of reclassification adjustment	–	–	–	–	565	565
Total comprehensive income						5,013
Dividends declared on preferred stock	–	–	–	(80)	–	(80)
Common stock issued under stock option plans	–	24	193	–	–	217
Income tax benefit of stock options exercised	–	–	78	–	–	78
Common stock issued under employee stock purchase plan	–	–	9	–	–	9
Proceeds from issuance of common stock in connection with dividend reinvestment and stock purchase plan	–	20	678	–	–	698
5% common stock dividend and cash paid in lieu of fractional shares	–	89	3,444	(3,543)	–	(10)
December 31, 2001	**$400**	**$1,882**	**$25,263**	**$5,159**	**$ (111)**	**$32,593**

See accompanying notes

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2001	2000	1999
Operating Activities			
Net income	**$ 4,448**	$ 3,714	$ 3,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**1,469**	1,050	762
Provision for depreciation and amortization	**1,403**	1,202	1,119
Deferred income taxes	**(251)**	(281)	(185)
Amortization of securities premiums and accretion of discounts, net	**219**	193	311
Net gain on sale of securities available for sale	**(52)**	0	(1)
Proceeds from sales of loans	**48,887**	19,813	38,913
Loans originated for sale	**(50,944)**	(19,705)	(38,339)
Gains on sales of loans	**(354)**	(370)	(654)
Stock granted under stock purchase plan	**9**	6	20
(Increase) decrease in accrued interest receivable and other assets	**(742)**	(1,345)	106
Increase in accrued interest payable and other liabilities	**724**	143	548
Net cash provided by operating activities	**4,816**	4,420	5,703
Investing Activities			
Securities held to maturity:			
Proceeds from principal repayments and maturities	**18,589**	2,608	2,517
Purchases	**(88,112)**	(7,398)	(20,105)
Securities available for sale:			
Proceeds from principal repayments and maturities	**43,617**	7,343	14,484
Proceeds from sales	**7,497**	0	5,357
Purchases	**(64,833)**	(12,268)	(12,638)
Proceeds from sale of loans receivable	**3,255**	6,449	9,847
Net increase in loans receivable	**(56,254)**	(80,521)	(58,563)
Proceeds from sale of premises and equipment	**0**	743	0
Purchases of premises and equipment	**(6,353)**	(4,174)	(2,107)
Net cash used by investing activities	**(142,594)**	(87,218)	(61,208)
Financing Activities			
Net increase in demand, interest checking, money market, and savings deposits	**102,383**	68,145	41,681
Net increase in time deposits	**12,772**	29,892	9,128
Net increase (decrease) in other borrowed money	**0**	(8,300)	8,300
Proceeds from issuance of long-term debt	**8,000**	5,000	0
Proceeds from common stock options exercised	**217**	84	67
Proceeds from common stock purchase and dividend reinvestment plan	**698**	219	31
Cash dividends on preferred stock and cash in lieu of fractional shares	**(86)**	(83)	(87)
Net cash provided by financing activities	**123,984**	94,957	59,120
Increase (decrease) in cash and cash equivalents	**(13,794)**	12,159	3,615
Cash and cash equivalents at beginning of year	**39,649**	27,490	23,875
Cash and cash equivalents at year-end	**$ 25,855**	$ 39,649	$ 27,490

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 2001

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 subsidiaries Commerce Bank/Harrisburg, N.A. (Commerce or Bank), Commerce Harrisburg Capital Trust I and Commerce Harrisburg Capital Trust II. All material inter-company 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 accounting principles generally accepted in the United States of America. 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.

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. This evaluation is inherently subjective as it requires material

Notes to Consolidated Financial Statements

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 30, 2002.

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, 2001, 2000, and 1999 for interest was $16.2 million, $14.0 million, and $9.9 million respectively. Income taxes paid totaled $2.4 million, $2.2 million, and $1.7 million in 2001, 2000, and 1999, respectively.

Recently Issued FASB Statements

In June of 2001, the Financial Accounting Standards Board issued Statement No. 141, "*Business Combinations*", and Statement No. 142, "*Goodwill and Other Intangible Assets*".

Statement No. 141 requires all business combinations to be accounted for using the purchase method of accounting as use of the pooling-of-interests method is prohibited. In addition, this Statement requires that negative goodwill that exists after the basis of certain acquired assets is reduced to zero should be recognized as an extraordinary gain. The provisions of this Statement apply to all business combinations initiated after June 30, 2001.

Statement No. 142 prescribes that goodwill associated with a business combination and intangible assets with an indefinite useful life should *not* be amortized but should be tested for impairment at least annually. The Statement requires intangibles that are separable from goodwill and that have a determinable useful life to be amortized over the determinable useful life. The provisions of this Statement became effective for the Company in January of 2002 and require that goodwill and other intangible assets arising from acquisitions completed before July 1, 2001 be accounted for in accordance with the provisions of this statement.

In July of 2001, the Financial Accounting Standards Board issued Statement No. 143, "*Accounting for Asset Retirement Obligations*", which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement will become effective for the Company on January 1, 2003.

In August of 2001, the Financial Accounting Standards Board issued Statement No. 144, "*Accounting for the Impairment of or Disposal of Long-Lived Assets*". This Statement supersedes FASB Statement No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*", and the accounting and reporting provisions of APB Opinion No. 30, "*Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the disposal of a segment of a business*". This Statement also amends ARB No. 51, "*Consolidated Financial Statements*". The provisions of this Statement became effective for the Company on January 1, 2002.

Adoption of these statements did not have or is not expected to have a material impact on the Company's financial condition or results of operations.

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 2000 and 1999 financial statements have been reclassified to conform with the 2001 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 2001 and 2000 was approximately $2.3 million and $909,000, respectively.

Notes to Consolidated Financial Statements

3. Securities

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

	December 31, 2001			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Treasury securities	**$ 1,001**	**$ 8**	**$ 0**	**$ 1,009**
U.S. Government Agency securities	**17,487**	**134**	**(4)**	**17,617**
Mortgage-backed securities	**77,269**	**203**	**(468)**	**77,004**
Corporate debt securities	**9,133**	**39**	**(80)**	**9,092**
Subtotal	**104,890**	**384**	**(552)**	**104,722**
Equity securities	**2,593**	**0**	**0**	**2,593**
Total	**$107,483**	**$384**	**$ (552)**	**$107,315**
Held to Maturity				
U.S. Government Agency securities	**$ 5,987**	**$ 73**	**$ (33)**	**$ 6,027**
Municipal securities	**1,994**	**43**	**(15)**	**2,022**
Mortgage-backed securities	**73,611**	**172**	**(789)**	**72,994**
Corporate debt securities	**21,757**	**95**	**(468)**	**21,384**
Total	**$103,349**	**$383**	**$(1,305)**	**$102,427**

	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

The amortized cost and fair value of debt securities at December 31, 2001 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	$ 1,001	$ 1,009
Due after one year through five years	3,009	3,087	—	—
Due after five years through ten years	13,114	12,950	8,988	9,098
Due after ten years	13,615	13,396	17,632	17,611
	29,738	29,433	27,621	27,718
Mortgage-backed securities	73,611	72,994	77,269	77,004
Total	$103,349	$102,427	$104,890	$104,722

Equity securities include Federal Home Loan Bank stock and Federal Reserve Bank stock with an aggregate cost, which approximates fair value, of $2.6 million and $2.3 million at December 31, 2001 and 2000, respectively.

Gross gains of $53,000 and gross losses of $1,000 were realized on sales of securities available for sale in 2001. 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.

At December 31, 2001 and 2000, securities with a fair value of $117.7 million and $87.0 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 $9.0 million and $7.8 million at December 31, 2001 and 2000, respectively. During 2001, $6.8 million of new loans were made and repayments totaled $5.6 million.

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

	Year Ended December 31,		
(in thousands)	**2001**	2000	1999
Balance at beginning of year	**$3,732**	$2,841	$2,232
Provision charged to expense	**1,469**	1,050	762
Recoveries	**24**	14	13
Loans charged off	**(681)**	(173)	(166)
Balance at end of year	**$4,544**	$3,732	$2,841

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

(in thousands)	**2001**	2000	1999
Recorded investment:			
Requiring an allowance for loan losses	**$ 0**	$ 0	$ 0
Not requiring an allowance for loan losses	**876**	833	684
Total	**$876**	$833	$684
Average recorded investment	**$616**	$512	$686
Interest income recognized	**33**	52	38

Notes to Consolidated Financial Statements

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)	**2001**	2000
Commitments to grant loans	**$ 8,913**	$ 1,620
Unfunded commitments of existing loans	**65,302**	62,407
Standby letters of credit	**7,640**	10,318
Total	**$81,855**	$74,345

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 $199 million at December 31, 2001.

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)	**2001**	2000
Land	**$ 4,211**	$ 3,152
Buildings	**15,732**	11,796
Leasehold improvements	**1,772**	1,666
Furniture, fixtures, and equipment	**7,529**	6,301
	29,244	22,915
Less accumulated depreciation and amortization	**7,657**	6,278
	$21,587	$16,637

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 2001, 2000, and 1999 was $908,000, $739,000, and $673,000, respectively. At December 31, 2001, future minimum lease payments for noncancelable operating leases are payable as follows:

(in thousands)	
2002	$ 880
2003	818
2004	809
2005	643
2006	452
Thereafter	3,783
Total minimum lease payments	$ 7,385

8. Deposits

The composition of deposits is as follows:

	December 31,	
(in thousands)	**2001**	2000
Demand	**$105,171**	$ 85,577
Interest checking and money market	**126,851**	93,885
Savings	**166,514**	116,691
Time certificates $100,000 or more	**74,905**	67,381
Other time certificates	**88,297**	83,049
	$561,738	$446,583

At December 31, 2001, the scheduled maturities of time deposits are as follows:

(in thousands)	
2002	$101,195
2003	43,015
2004	8,227
2005	5,306
2006	5,459
	$163,202

9. Other Borrowed Money

The Bank has a line of credit commitment from the Federal Home Loan Bank (FHLB) for borrowings up to $134 million. No amounts were outstanding on this line as of December 31, 2001 and 2000. Certain qualifying assets of the Bank collateralize the line.

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 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 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 capital for regulatory capital purposes.

On September 28, 2001, the Company issued $8,000,000 of 10% Trust Capital Securities to Commerce Bancorp, Inc. through Commerce Harrisburg Capital Trust II (the Trust II), a Delaware business trust subsidiary. The issuance of the Trust Capital Securities has similar properties as the Trust I. The Trust Capital Securities evidence a preferred ownership interest in the Trust II 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 with similar terms as in the Trust I. The Trust Capital Securities are scheduled to mature on September 28, 2031. The Trust Capital Securities may be redeemed in whole or in part at the option of the Company on or after September 28, 2011 at 105.00% of the principal plus accrued interest, if any. The redemption price declines by 0.50% on September 28 of each year from 2012 through 2021 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. The portion of the Trust II that qualifies as Tier 1 capital is $5.9 million for 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)	**2001**	2000	1999
Provision at statutory rate on pre-tax income	**$2,271**	$1,904	$1,603
Tax-exempt income on loans and investments	**(73)**	(52)	(6)
Other	**34**	34	16
	$2,232	$1,886	$1,613

The components of income tax expense are as follows:

	Year Ended December 31,		
(in thousands)	**2001**	2000	1999
Current	**$2,483**	$2,167	$1,798
Deferred	**(251)**	(281)	(185)
	$2,232	$1,886	$1,613

Notes to Consolidated Financial Statements

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

(in thousands)	December 31, 2001	2000
Deferred tax assets:		
Allowance for loan losses	**$1,545**	$1,236
Unrealized losses on securities	**57**	348
Other	**18**	20
Total deferred tax assets	**1,620**	1,604
Deferred tax liabilities:		
Premises and equipment	**(296)**	(236)
Prepaid expenses	**(75)**	(79)
Total deferred tax liabilities	**(371)**	(315)
Net deferred tax assets	**$1,249**	$1,289

Income taxes of $18,000, $0, and $0 were recognized on net securities gains in 2001, 2000, and 1999 respectively.

12. Stockholders' Equity

At December 31, 2001, 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 130,310 shares (adjusted for common stock dividends) of the Company's common stock, exercisable at $7.67 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 2001 or 2000. 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 4th 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 20,306 and 9,031 common shares were issued pursuant to this plan in 2001 and 2000, respectively. At December 31, 2001, the Company had reserved approximately 469,000 common shares to be issued in connection with the plan.

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 resulted in the issuance of 83,492 additional common shares.

On January 30, 2002, the Board of Directors declared a 5% common stock dividend payable on February 25, 2002, to stockholders of record on February 11, 2002. Payment of the stock dividend will result in the issuance of 89,805 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,	**2001** Income	**2001** Shares	**2001** Per Share Amount	2000 Income	2000 Shares	2000 Per Share Amount	1999 Income	1999 Shares	1999 Per Share Amount
Basic earnings per share:									
Net income	**$4,448**			$3,714			$3,103		
Preferred stock dividends	**(80)**			(80)			(80)		
Income available to common stockholders	**4,368**	**1,853**	**$2.36**	3,634	1,823	$1.99	3,023	1,806	$1.67
Effect of dilutive securities:									
Stock options		**185**			124			131	
Diluted earnings per share:									
Income available to common stockholders plus assumed conversions	**$4,368**	**2,038**	**$2.14**	$3,634	1,947	$1.87	$3,023	1,937	$1.56

Options to purchase 83,214 shares of common stock at $34.29 were outstanding during 2001. They were not included in the computation of diluted EPS for the year ended December 31, 2001, because the options' exercise price was greater than the average market price of the common shares.

Options to purchase 41,703 shares of common stock at $23.50, options to purchase 46,724 shares at $23.66, options to purchase 72,628 shares at $26.76, options to purchase 9,773 shares at $22.33, and options to purchase 9,773 shares of common stock at $25.50 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 51,344 shares of common stock at $23.66, options to purchase 43,107 shares at $23.50 and options to purchase 9,773 shares of common stock at $25.50 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.

14. Stock Option Plans

The 1996 Employee Stock Option Plan covers 478,338 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 commenced January 1, 2001 and replaced the 1990 Directors' Stock Option Plan, which expired December 31, 2000. The Plan covers 110,250 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 1,628 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 2001, 2000, and 1999 respectively: risk-free interest rates of 4.8%, 5.7% and 6.0%; volatility factors of the expected market price of the Company's common stock of .28, .48, and .24; 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)	**2001**	2000	1999
Net income:			
As reported	**$4,448**	$3,714	$3,103
Pro-forma	**3,496**	3,106	2,570
Reported earnings per share:			
Basic	**$2.36**	$1.99	$1.67
Diluted	**2.14**	1.87	1.56
Pro-forma earnings per share:			
Basic	**$1.84**	$1.66	$1.38
Diluted	**1.68**	1.55	1.29

Stock options transactions under the Plans were as follows:

	Year Ended December 31,					
	2001		2000		1999	
	Options	**Weighted Avg. Exercise Price**	Options	Weighted Avg. Exercise Price	Options	Weighted Avg. Exercise Price
Outstanding at beginning of year	**459,928**	**$16.35**	403,977	$14.30	348,213	$13.05
Granted	**94,877**	**33.41**	84,055	25.29	70,323	20.84
Exercised	**(24,062)**	**8.95**	(14,106)	5.91	(7,292)	9.25
Forfeited	**(6,720)**	**25.23**	(13,998)	21.47	(7,267)	22.93
Outstanding at end of year	**524,023**	**$19.67**	459,928	$16.35	403,977	$14.30
Exercisable at December 31	**400,519**	**$16.07**				
Options available for grant at December 31	**247,035**					
Weighted-average fair value of options granted during the year		**$19.46**		$15.10		$ 9.40

Exercise prices for options outstanding as of December 31, 2001 are presented in the following table.

	As of December 31, 2001				
	Options Outstanding	Weighted Avg. Exercise Price	Weighted Avg. Contractual Life	Options Exercisable	Weighted Avg. Exercise Price
Options with exercise prices ranging from $4.61 to $14.00	151,375	$ 6.63	3.9 Years	151,375	$ 6.63
Options with exercise prices ranging from $14.01 to $24.00	200,518	20.34	5.4 Years	189,039	20.29
Options with exercise prices ranging from $24.01 to $34.29	172,130	30.36	9.0 Years	60,105	26.55
Total options outstanding with exercise prices ranging from $4.61 to $34.29	524,023	$19.67	6.1 Years	400,519	$16.07

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, 2001, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2001, 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. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following table presents the risk-based and leverage capital amounts and ratios at December 31, 2001 and 2000 for the Company and the Bank.

(dollars in thousands)	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
Company						
As of December 31, 2001						
Risked based capital ratios:						
Total capital	**$50,248**	**11.78%**	≥ **$34,124**	≥ **8.0%**	≥ **$42,655**	≥ **10.0%**
Tier 1 capital	**43,606**	**10.22**	≥ **17,062**	≥ **4.0**	≥ **25,593**	≥ **6.0**
Leverage ratio	**43,606**	**7.33**	≥ **23,796**	≥ **4.0**	≥ **29,745**	≥ **5.0**
Bank						
As of December 31, 2001						
Risked based capital ratios:						
Total capital	**$50,045**	**11.73%**	≥ **$34,130**	≥ **8.0%**	≥ **$42,663**	≥ **10.0%**
Tier 1 capital	**45,501**	**10.67**	≥ **17,065**	≥ **4.0**	≥ **25,598**	≥ **6.0**
Leverage ratio	**45,501**	**7.65**	≥ **23,786**	≥ **4.0**	≥ **29,733**	≥ **5.0**
Company						
As of December 31, 2000						
Risked based capital ratios:						
Total capital	$36,075	11.04%	≥ $26,139	≥ 8.0%	≥ $32,674	≥ 10.0%
Tier 1 capital	32,344	9.90	≥ 13,069	≥ 4.0	≥ 19,604	≥ 6.0
Leverage ratio	32,344	6.92	≥ 18,700	≥ 4.0	≥ 23,374	≥ 5.0
Bank						
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

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 2001, 2000, and 1999, the Company's matching contribution was established at 25% of the employees' salary deferral. The amount charged to expense was $84,000, $42,000, and $31,000 in 2001, 2000, and 1999, 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.

Notes to Consolidated Financial Statements

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)	**2001**	2000	1999
Unrealized holding gains (losses) arising during the year	**$ 908**	$ 3,520	$(4,868)
Less reclassification adjustment for gains (losses) included in net income	**52**	0	1
Net unrealized gains (losses)	**856**	3,520	(4,869)
Tax (expense) benefit	**(291)**	(1,197)	1,656
Net of tax amount	**$ 565**	$ 2,323	$(3,213)

18. Commitments and Contingencies

The Company has entered into an agreement to purchase the building at 101 North Second Street, City of Harrisburg, Dauphin County, Pennsylvania. The Company is constructing a full-service branch in this building to be opened in Spring 2002.

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. (an 8.8% 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 $622,000, $414,000, and $344,000 for services provided by Commerce Bancorp, Inc. during 2001, 2000, and 1999, respectively. The Company routinely sells loan participations to Commerce Bank, N.A. and at December 31, 2001 and 2000, approximately $12.4 million and $11.6 million, respectively, 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 $114,000, $76,000, and $16,000 in 2001, 2000, and 1999, respectively, from a business owned by the spouse of the director. Additionally, the business received commissions of approximately $101,000, $54,000, and $21,000 in 2001, 2000, and 1999, 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 2001, 2000 and 1999 were $56,000, $50,000 and $50,000, respectively.

A federal funds line of credit was established with Commerce Bank N.A. in the amount of $5.5 million, which could be drawn upon if needed. The balance at December 31, 2001 and 2000 on this line was $0.

A law firm in which a director of the Company is a partner received professional fees totaling $258,000, $137,000, and $149,000 during 2001, 2000, and 1999, respectively.

The Company leases land for a billboard owned by the Company from a director. Total payments on the land lease for 2001, 2000, and 1999 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 $74,000, $48,000, and $65,000 in 2001, 2000, and 1999 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.

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.

	2001		2000	
(in thousands)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 25,855**	**$ 25,855**	$ 39,649	$ 39,649
Securities	**210,664**	**209,742**	126,733	126,582
Loans, net (including loans held for sale)	**345,791**	**346,968**	291,849	287,228
Accrued interest receivable	**3,542**	**3,542**	2,936	2,936
Financial liabilities:				
Deposits	**$561,738**	**$562,626**	$446,583	$448,622
Long-term debt	**13,000**	**14,573**	5,000	5,471
Accrued interest payable	**837**	**837**	834	834
Off-balance sheet instruments:				
Standby letters of credit	**$ 0**	**$ 0**	$ 0	$ 0
Commitments to extend credit	**0**	**0**	0	0

Notes to Consolidated Financial Statements

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 presentation (in thousands, except per share amounts):

	Three Months Ended			
	December 31	**September 30**	**June 30**	**March 31**
2001				
Interest income	**$9,902**	**$9,713**	**$9,489**	**$9,143**
Interest expense	**3,859**	**3,978**	**4,049**	**4,307**
Net interest income	**6,043**	**5,735**	**5,440**	**4,836**
Provision for loan losses	**464**	**405**	**315**	**285**
Net investment securities gains	**0**	**0**	**0**	**52**
Provision for federal income taxes	**646**	**592**	**533**	**461**
Net income	**1,276**	**1,181**	**1,068**	**923**
Net income per share:				
Basic	**$0.68**	**$0.63**	**$0.56**	**$0.49**
Diluted	**0.62**	**0.56**	**0.51**	**0.45**
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	$0.56	$0.54	$0.47	$0.42
Diluted	0.53	0.50	0.44	0.39

Notes to Consolidated Financial Statements

22. Condensed Financial Statements of Parent Company

Balance Sheets

(in thousands)	**December 31, 2001**	December 31, 2000
ASSETS		
Cash	**$ 148**	$ 12
Investment in subsidiaries:		
Banking subsidiary	**45,400**	31,680
Non-banking subsidiaries	**600**	200
Other assets	**117**	63
Total Assets	**$46,265**	$31,955
LIABILITIES		
Long-term debt	**$13,000**	$ 5,000
Other liabilities	**672**	287
Total liabilities	**13,672**	5,287
STOCKHOLDERS' EQUITY		
Preferred stock	**400**	400
Common stock	**1,882**	1,749
Surplus	**25,263**	20,861
Retained earnings	**5,159**	4,334
Accumulated other comprehensive loss	**(111)**	(676)
Total stockholders' equity	**32,593**	26,668
Total Liabilities & Stockholders' Equity	**$46,265**	$31,955

Statements of Income

(in thousands)	**Year Ended December 31, 2001**	Year Ended December 31, 2000	For the Period July 1, 1999 to December 31, 1999
Income:			
Dividends from bank subsidiary	**$ 794**	$ 393	$ 40
Interest income	**32**	12	0
	826	405	40
Expenses:			
Interest expense	**793**	312	0
Other	**213**	187	0
	1,006	499	0
Income (loss) before income (taxes) benefit and equity in undistributed net income of subsidiaries	**(180)**	(94)	40
Income (taxes) benefit	**331**	165	0
	151	71	40
Equity in undistributed net income of bank subsidiary	**4,297**	3,643	1,818
Net income	**$4,448**	$3,714	$1,858

Notes to Consolidated Financial Statements

22. Condensed Financial Statements of Parent Company (Continued)

Statements of Cash Flows

(in thousands)	**Year Ended December 31, 2001**	Year Ended December 31, 2000	For the Period July 1, 1999 to December 31, 1999
Operating Activities:			
Net Income	**$4,448**	$3,714	$1,858
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of financing costs	**10**	5	0
Increase in other liabilities	**385**	287	0
Equity in undistributed net income of bank subsidiary	**(4,297)**	(3,643)	(1,818)
Net cash provided by operating activities	**546**	363	40
Investing Activities:			
Investment in bank subsidiary	**(8,786)**	(5,303)	(57)
Investment in nonbank subsidiaries	**(400)**	(200)	0
Net cash (used) by investing activities	**(9,186)**	(5,503)	(57)
Financing Activities:			
Proceeds from common stock options exercised	**217**	84	26
Proceeds from issuance of long term debt	**8,000**	5,000	0
Proceeds from issuance of common stock under stock purchase plan	**698**	219	31
Costs of issuing long term debt	**(53)**	(68)	0
Cash dividends on preferred stock and cash in lieu of fractional shares	**(86)**	(83)	(40)
Net cash provided by financing activities	**8,776**	5,152	17
Increase in cash and cash equivalents	**136**	12	0
Cash and cash equivalents at beginning of the year	**12**	0	0
Cash and cash equivalents at end of year	**$ 148**	$ 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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Harrisburg, Pennsylvania
February 1, 2002

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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 17, 2002 at 9:00 am at the following location:

Crowne Plaza Hotel
23 South Second Street
Harrisburg, PA 17101

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:

Gary L. Nalbandian, Chairman, President and CEO
at (717) 975-5630

Shareholders seeking assistance with stock records should contact:

Sherry Richart
Shareholder Relations
at (717) 972-2879

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 Sherry Richart at (717) 972-2879.

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 11, 2002 and February 2, 2001. As of December 31, 2001, there were approximately 500 holders of record of the Company's common stock.

	Sales Price	
Quarter Ended:	High	Low
March 31, 2001	$ 35.36	$ 26.08
June 30, 2001	35.36	31.00
September 30, 2001	34.05	31.29
December 31, 2001	36.67	32.38
March 31, 2000	$ 23.58	$ 15.07
June 30, 2000	21.89	19.50
September 30, 2000	24.49	20.41
December 31, 2000	26.53	21.09

Transfer and Dividend Paying Agent/Registrar

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572

Cumberland County

Camp Hill Office
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

Camp Hill Mall Branch
32nd Street & Trindle Road
Camp Hill, PA 17011
(Coming in 2002)

Dauphin County

Downtown Harrisburg
101 North Second Street
Harrisburg, PA 17101
717/760-5210
(Coming in 2002)

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

Red Lion Branch
3109 Cape Horn Road
Red Lion, PA 17356
717/718-1188

Berks County

(Coming in 2002)

Pennsylvania Commerce Bancorp