COMMERCE BANCSHARES, INC.
ANNUAL MEETING OF SHAREHOLDERS
April 15, 2020
9:30 am (CST) – Virtual Meeting

Call to Order and Welcome

Operator:
Hello and welcome to the Annual Meeting of Shareholders. Please note that today's meeting is being recorded. During the meeting, we will have a question and answer session. You can submit questions or comments at any time by clicking on the message icon. It is now my pleasure to turn today's meeting over to David W. Kemper, Chair of the meeting. The floor is yours.

David Kemper, Executive Chairman:
Good morning everybody. The Annual Meeting of the Shareholders of Commerce Bancshares will please come to order. On behalf of your Directors and the officers of your Company, I'm pleased to welcome those virtually attending the 2020 Annual Meeting of Shareholders. The virtual meeting technology enables us to reach a larger audience while adhering to social distancing requirements arising in relation to the COVID-19 pandemic.

I would like to start off by introducing the members of your board of directors, who are all here attending the meeting virtually.

Terry Bassham, CEO and President of Evergy, Inc.
John Capps, Vice President of Weiss Toyota
Karen Daniel, Retired Chief Financial Officer and Executive Director of Black & Veatch
Earl Devanny, Chief Executive Officer of Tract Manager
Tom Grant, President of SelectQuote Senior Insurance Services
John Kemper, President and Chief Executive Officer of Commerce Bancshares, Inc.
Jonathan Kemper, Chairman Emeritus of Commerce Bank Kansas City
Benjamin Rassieur, President of Paulo Products
Todd Schnuck, Chairman and Chief Executive Officer of Schnucks Markets
Andrew Taylor, Executive Chairman of Enterprise Holdings
Kim Walker, Retired Chief Investment Officer of Washington University in St. Louis

I would also like to call your attention to the Rules of Conduct set forth for this meeting. These are made available to each shareholder in the Files section in the lower left of the screen.

Secretary's Report:

David Kemper, Executive Chairman:
Before asking the Secretary to present his report, any shareholders who have not submitted their proxies may do so at this time by clicking on the link provided online. I'll just wait for a second to see if anybody wants to bring forth a proxy.

Okay, we'll close the voting and I'll now ask our Secretary, Tom Noack, to make his report. Tom.

Thomas Noack, Secretary:
Thank you.

An affidavit has been filed by our Stock Transfer Agent stating that notice of the Annual Meeting has been furnished to all shareholders of record as of February 14, 2020. The Inspectors of the Election have filed with me their certificate stating that proxies representing 97,342,853 shares of the 112,316,990 outstanding shares have been received so a quorum is present.

Business Matters

David Kemper, Executive Chairman:
Thank you, Tom. The first matter to be presented to the shareholders today is the election of four directors to constitute the 2023 Class of four Directors to serve until the 2023 Annual Meeting. If there are no questions, I'll request the Secretary to present the nominations of the Board of Directors and the results of the voting. Tom.

Thomas Noack, Secretary:
The Board of Directors nominated John Capps, Karen Daniel, Tom Grant and David Kemper to the 2023 Class of Directors to be elected at this meeting. No other nominations were received. Based on proxies submitted each of the nominees has received the number of votes sufficient to elect all nominees with a majority of votes cast. A final report of the actual number of votes cast will be available online in the next few days.

David Kemper, Executive Chairman:
On the basis of the report presented, the 4 nominees have been elected to the Board for a term of 3 years.

The second matter is the ratification of the selection of KPMG LLC as the Company's independent registered public accounting firm for 2020. Tom.

Thomas Noack, Secretary:
Thank you. KPMG's selection as the Company's independent registered public accounting firm was ratified by over 98% of the shares voted. A final report of the actual number of votes cast will be available online in the next few days.

David Kemper, Executive Chairman:
On the basis of the report presented, KPMG has been ratified as the Company's independent registered public accounting firm for 2020.

The next matter is the Say on Pay proposal, which is an advisory vote on the compensation awarded certain executive officers. Tom.

Thomas Noack, Secretary:
Based on proxies submitted, votes "For" Proposal 3 represented 95% of the votes cast. A final report of the actual number of votes cast will be available online in the next few days. David.

David Kemper, Executive Chairman:
On the basis of the Secretary's report, Proposal 3, approving the compensation awarded to certain executive officers, passed. Proposal 3 is an advisory vote. It is not binding on the Company but will be taken into consideration both by the Compensation Committee and by the Board as a whole.

Introduction of Public Accountants

David Kemper, Executive Chairman:
At this time, I would like to introduce Shaun Stoker and Andrew Davidson of KPMG LLC, the Company's public accounting firm who are attending this meeting virtually. Mr. Stoker will be available to answer any questions you have during the question period a little later in the meeting.

CEO's Presentation

David Kemper, Executive Chairman:
Alright, we'd like to move to our presentation so I'm going to turn the meeting over to John Kemper, President and CEO. John.

John Kemper, Chief Executive Officer:
Thank you very much. Good morning to everyone tuned in to this annual meeting today. It's very nice to be with you even if it is through this virtual format this year. These are certainly some trying times for the banking industry and for our economy. I'd like to try today to talk about how Commerce fits into this overall picture. I'd like to give a sense for how your company is responding and preparing in the near team in light of this very dynamic and fluid operating environment. At the same time, I want to talk about our longer-term view and the investments our team is making to sustain the bank both today and in the future. My statements and comments will be sharing some forward-looking perspectives today.

And with that, we'll get into the discussion for today. The plan is to give a little bit of a thumbnail of the bank overall and then we will move to the topic at hand right now which is, of course, COVID-19 and our response to the pandemic. From that, I will talk a little bit about what we see in the economy right now and the bank industry, and then place Commerce in that context and talk about our strategy. We'll close out the conversation today with a review of our results. This is the annual meeting, so we'll talk about how 2019 came in for the company.

Here is a snapshot of Commerce, sort of Commerce on a page, a primer on who we are. This is our 155th year in business and you can see that our footprint is really focused in the middle of the country. Spanning geographically from Cincinnati to Denver, from Grand Rapids down to Houston, and then of course, we have businesses like our Commercial Payments businesses that span the entire country.

On the right side of the slide, you can see that some of the end of year numbers. So again, this is the end of 2019. At $26 billion dollars in assets that makes Commerce the 47th largest bank in the country by assets. At the end of the year we were the 18th largest by market capitalization or market value. The reason for that strong value relative to the growth side of our balance sheet is that we make money in ways that don't depend entirely on our balance sheet. We have a large payments business. We have a large wealth management business. You can see, on the right side of the page, at the end of the year that wealth management business oversaw $56.7 billion in assets. We're also a very safe bank, which is a good thing to be right now. You can see our a1 Baseline credit assessment from Moody's which would put us among the top six banks in the country by that metric.

Commerce operates as a Super Community Bank. To us what that means is combining the best of small with the best of big. It means the capabilities and the products and the sophistication that you might find in a larger bank, but we strive to deliver that in the context of deep relationships, excellent customer service and bankers who are empowered to take care of their customers and who are engaged in their communities. This has been a winning formula for us over time. In just about every way that we've measure this, we have engaged employees, very satisfied customers and we've managed to generate strong returns for our shareholders over time.

Now, underpinning all of this is our culture, which is something that we are very proud of and something that we work very diligently to shape. We are again a 154-year-old bank, but our culture is constantly evolving with the times. We have a well-defined language for that culture, strong onboarding, strong training and reinforcement. At Commerce we talk explicitly about our culture and about our values, which you can see on the left side of the page. I think the results of all this are evident in our ability to work as an engaged team with strong communication, a bias toward action. We're proud of our "get it done" mentality around here. It's times like this you really appreciate culture. I think our culture is thriving and serving us well despite some challenging circumstances right now. This past year, Korn Ferry recognized Commerce as one of only three outstanding employers in the U.S. with superior engagement and enablement as measured through their very detailed annual employee survey.

Now getting back to this idea of our super community format, our commitment to the community extends well beyond the financials that you might see in our public filings. Our engaged teams support hundreds of non-profits in our communities with our time, with our expertise and with our financial resources. Our Community Reinvestment Act Rating of Outstanding has been in place for more than 20 years. Internally, our culture celebrates our team members' diversity and their diversity with experience. One sign of this, and one that we're very proud of, are the numerous employee resource groups that we've launched in recent years. All which have very robust engagement and strong membership.

Here are some recent awards and accolades that Commerce has received. We tend not to read our own press clippings too much, but some of this recognition is, I think, reflective of the way that we treat our teammates and our customers and as a result of what we've been able to generate.

Okay, I'll move along to the question that is on everyone's mind right now and talk about how we are dealing with COVID-19, both our preparedness and our response going forward. In March, we officially activated our "Pandemic Preparedness and Response Plan" and we drafted our taskforce that has been quarterbacking the effort around the bank. We validated our continuity plans. From an operational standpoint I think it's worth pointing out that we are fortunate in that we have some natural built-in resiliency through the multiple corporate campuses that we have in our footprint. We've established a cadence of regular communication with our customers and with our internal teams and we've been working with key suppliers to anticipate and deal with any service challenges. Most of all, I just say we continue to learn. We've been diligently sharing and learning from industry resources and other experts, and we've been adapting course as the situation demands.

Here you can see a little more of a timeline view of our actions to date. Back in January we published our plan and we ran table-top exercises with the leadership team. All the while, we've been monitoring the situation. In early March, we enhanced operational procedures, limited travel and meeting sizes. On March 17th, we limited branch activity to drive-thru only and we began a more regular cadence of internal communications just to make sure everyone was on the same page during this very dynamic situation. In the second half of March, we implemented fully our distributed workforce plan and that meant by April we were in relatively good shape for the demands that are being placed on our people. Including a new SBA loan program and higher than normal volumes of customer inquiries.

We've talked about social distancing or physical distancing. Physical distancing really is at the heart of our operating plan. We have now implemented one hundred percent of our distributed workforce plan. Eighty two percent of our non-branch employees are working out of the office right now. Eighty percent of our Customer Care Center agents are now working remotely. Our onsite teams, for those folks that do have to be onsite, have gone to A & B schedules, where one team is completely segregated from the other. This certainly has not been easy, but I think we've accomplished this in a very orderly manner, and we do think that it has given us the resiliency that we need to operate right now.

So just a step back for a second and think about our response in terms of what we stand for and what our company's purpose is. Our company's purpose is to help others focus on what matters most and this is a time when it really counts. I think we're living up to that purpose. For our team we've implemented premium pay for those hourly team members whose jobs require them to be onsite. We established a new time off category related to the pandemic and took other steps, really to meet families where they are right now in these unique times. We've taken every step that we can think of to make workplaces virtual and as safe as possible. This includes the elimination of travel, increase cleaning regiments, limited physical access to our facilities for both teammates and for customers.

Speaking of customers, for our consumer customers, we are working with them to give payment flexibility where needed on loans and credit cards. We are making it as easy and safe as possible to access funding and to interact with the bank.

For our commercial customers, we are working to reduce fees incurred because of the economic situation, and we are restructuring loans or payment plans where needed. We are providing electronic payments solutions to minimize paper and help customers distribute their own workforces right now. I think it's critical and timely right now. We are very much working with customers to understand and then access the new Federal loan programs, including the new Paycheck Protection Plan. As of today, in fact, we have secured funding for over 3,000 small businesses in need, and we have thousands more in our work queue right now.

The feedback from our customers has really been very gratifying to hear. You can see just a few of their comments here. Again, this is why we do what we do. It's to help customers focus on what matters most, when it matters most. In just this one data point here, you can see our branch customer relationship score, which is something that we measure regularly, right now it is at an all-time high. This despite some of the limitations that we've put in place on physical interactions. My hat is off to our team members who are making this performance possible right now.

We'll turn now to some of the risks that we see related to the pandemic. I think we are very clear eyed about the risks here. While we are certainly hoping for the best, we are, nonetheless, preparing for the worst. From a balance sheet perspective, I think we are in about as good of a situation as anyone that you will find. Among our peer banks, we boast just about the highest capital ratio of any, and that would stack up similarly as compared to the country's biggest banks. Our balance sheet is also extremely liquid with a very low loan to deposit ratio of around seventy percent and a stable transactional deposit base which provides the lion's share of our funding. I'd just add to this that we have excellent relations with our regulators as it relates to just about everything. Particularly true for credit concentrations. I point all this out because I think that means that when our customers call on us for help, we're going to be able to answer that call.

Banking earnings in the coming quarters, and we're seeing this today as bank's are announcing their earnings, will surely be impacted by elevated charge-offs and increased costs for loan loss provisions. This is just a reality, and Commerce will not be immune to the credit challenges created by an economic downturn. We do think our exposure is reasonably well contained in at least some of the most obviously troubled areas right now. Things like retail, apartments, auto, hotels, restaurants, etc. Also, our energy exposure is very modest. So relative to other banks, I think we should do pretty well here, but the obvious caveat that I'd offer is that there will likely be spill over fallout in all sorts of loan classes, particularly in consumer loans. What we are doing right now is diligently analyzing our portfolio for risks, taking all steps to mitigate that risk, and achieve the best possible outcomes with our borrowers.

I'll move on now to talk about the economy and some themes we see emerging in the industry right now. Obviously, this is going to be a tough operating environment over the next several quarters. Estimates vary quite widely, but most economists, ours included, see a protracted period of negative growth depending on how quickly distancing orders can be relaxed. And then, of course, their questions as to how quickly and successfully the economy can reboot itself. We see right now, a year over year contraction peaking at somewhere between ten and twelve percent in the second quarter. The IMF yesterday predicted a negative three percent global growth on the year, with the US economy shrinking about five percent. Unemployment projections are also all over the board. We think fifteen percent this summer could be a highwater mark.

So, what that means for banks is that banks are going to have to really grind things out. Pivot from a growth and sales mentality to a little bit more of a capital preservation and a service mentality to take care of our existing customers. There will be a clear focus on credit, and also a focus on reacting to the new programs created by both the Federal government and the Federal Reserve. This is going to come down to execution, to prudent spending and husbanding of resources and, above all, a focus on customers.

To step back a little bit and talk about our strategic position as it relates both to today but also longer term, I frame this by saying that we always think about this as a balance between two things. Between continuously improving the bank that we have and making that bank a little more efficient. To in turn generate the earnings to make some longer-term bets in innovation and investments. If we get the continuous improvement part right in our core bank, getting more efficient and improving ourselves, focusing on our team and our culture, it allows us to make these bets. Some bets which may take a longer period of time to pay off. We call these bets "Blue Chips" for the company. You can see some of those on the right side of this page.

This year, a big part of our internal dialogue has been about the idea of adopting a growth mindset. To us this means looking at challenges as opportunities and learning from setbacks. You can see the growth mindset in action in many of our businesses right now. On the consumer side, we've been enhancing customer experience through technology and product enhancement. We've been leaning heavily into digital with more and more investments and a very agile approach. In just one example, we released twenty-two distinct releases of our mobile app in 2019. That app has a 4.7-star rating on both Android and IOS and has been very well received by our customers.

In 2019, we also opened the first of our Commerce Connect storefronts. This is a pilot format for us with very much a digital first orientation. It's a branch but with lighter staffing and with appointment setting capabilities, also meant as a community hub where we can offer programming and host community gatherings on all sorts of topics with a particular emphasis on financial well-being. We are actively testing this format right now and I would say we are learning quite a bit.

On the commercial side of things, we continue to leverage our strength in payments. This is an area where we punch well above our weight. Competing regularly with the biggest banks and payment providers on a national basis. Of particular note is our deep expertise in healthcare payments and our emerging strength in insurance claims payments. We recently launched the Commerce Healthcare brand which is really just a recognition of a more formalized "go to market" approach and the strength we have in this critical vertical. This is an area where we can add a lot of value for customers. We are really stepping on the gas here and accelerating things.

Also on the commercial side, we've seen a lot of growth in our so-called expansion markets. You can see the list of these places here on this page. These are markets where we really put flags in the ground a little less than ten years or so, and you can see some of the remarkable growth that we've been able to generate. The loan growth here is nice. I think equally impressive is the fact that we are growing fee income, which is, I think, a reflection of the well-rounded banking relationships that we are nurturing in these markets.

And last, I would highlight the growth mindset at work in our wealth management business which we operate under the Commerce Trust Company brand. At the end of 2019, as we saw earlier, Commerce Trust Company oversaw $57 billion of assets of which they actively manage $34 billion. These numbers make the Commerce Trust Company the twentieth largest bank managed trust company in the country. We have some exciting growth initiatives here built on new lending and CRM platforms. We see this as a very scalable business that we can grow both in our legacy and in our expansion markets.

I'll close out my remarks this morning with a bit of a recap of our 2019 performance. You can see some of the highlights here. High points include what I would characterize as a strong return on assets of 1.67%. We had decent loan growth and decent fee growth. We were of course hurt, as were all banks, by the flattened and at times inverted yield curve from last year and the reduction in short term rates. Through the end of last year credit remained very strong. You can see a little more detail on this slide which just recaps the income statement for the year. You can see that squeeze on net interest income by virtue of what was happening with the yield curve. This despite some loan growth and very strong deposit retention. With some share buybacks over the course of the year, the bank was able to achieve an earnings per share in the neighborhood of what we saw in 2018. You see we were just a couple of cents short of 2018, and 2018 was of course a breakout year for Commerce and just about all banks, so it was a tough comparison.

We are helped in our earnings profile by a very robust set of fee businesses. I'd add that these are incredibly valuable and in times like today they give diversification and ballast to our franchise when the environment becomes choppy as it is right now. Nearly forty percent of our revenues are fee based. That compares with about twenty two percent for our peers. On the year, our returns on equity and assets compared very well to peer banks. You can see us in the green bar here. Again, these are yearend numbers for 2019. You can also see that we're very well positioned relatively speaking in terms of capital and asset quality as we go into a challenging 2020.

We know history is not necessarily a guide to the future, but downturns have historically been a time for Commerce to shine at least relative to the industry. Here you can see through a couple of cycles what our return characteristics have looked like relative to our peers.
Ultimately, we are focused on the long term and achieving profitable growth. This year marked the 52^{nd} consecutive year of dividend growth for the company.

And so, I close by just saying that while we know there are clouds on the horizon, we are operating from a position of at least relative strength. I would just say to our shareholders, thank you for your continued confidence in our management team. It's been really a privilege to work alongside this team over these past few weeks and I think our team has really stepped up for our customers. There's a lot of work ahead of us and a lot of work ahead for the banking industry, but we are accepting the challenge.

<u>CEO Conclusion</u>

Chairman, that concludes my remarks. I'd be happy to respond to any questions in the Q&A period if there are any.

<u>Questions</u>

David Kemper, Executive Chairman:
Thank you, John. At this time, we would like to invite any questions you might have for John, or me, or KPMG. You can submit your questions online by clicking on the dialogue icon in the upper right corner of the meeting center screen. In the event any questions presented online are not answered at the meeting, such questions will be responded to promptly after the meeting by the Investor Relations group or by KPMG as appropriate.

I'll wait a second here to see if we have any questions coming in.

<u>Adjournment</u>

David Kemper, Executive Chairman:
Ok, no questions, so the shareholder question portion of the meeting is concluded and I'm going to declare the meeting adjourned. I want to thank everybody for their attendance today and we will sign off. Thank you very much.

Operator:
This concludes the meeting. You may now disconnect.