2024 Annual Shareholder's Meeting
April 17, 2024
9:30 am (CST) – Virtual Meeting

Operator:
Hello and welcome to the Annual Meeting of Shareholders of Commerce Bancshares, Inc. Please note that today's meeting is being recorded.

During the meeting, we'll have a question-and-answer session. You can submit questions or comments at any time by clicking on the Q&A icon.

It is now my pleasure to turn today's meeting over to David Kemper, Executive Chairman of Commerce Bancshares, Inc. Mr. Kemper, the floor is yours.

David Kemper, Chairman:
Thank you. Good morning, everybody. The Annual Meeting of the Shareholders of Commerce Bancshares will please come to order. On behalf of your Board of Directors and the officers of your Company, I am pleased to welcome those virtually attending our 2024 Annual Meeting of Shareholders. I'd like to introduce the members of your current Board of Directors who are attending this meeting in person or virtually:

Terry Bassham, Retired Chief Executive Officer and President of Evergy, Inc.
Blackford 'Beau' Brauer, President of Hunter Engineering
Kyle Chapman, President, and Board Member of Barry-Wehmiller
Karen Daniel, Retired Chief Financial Officer and Executive Director of Black & Veatch
Earl Devanny, Retired Chief Executive Officer of TractManager
John Kemper, President and CEO of Commerce Bancshares
Jonathan Kemper, Retired Chairman Emeritus, Commerce Bank, Kansas City
June Fowler, Retired Senior Vice President of Communications, Marketing and Public Affairs of BJC HealthCare
Ben Rassieur, President of Paulo Products
Todd Schnuck, CEO and Chairman of Schnuck's Markets
Christine Taylor, President, and Chief Executive Officer of Enterprise Mobility

I call your attention to the Rules of Conduct set forth for this meeting. These were made available for each shareholder in the Document Tab in the upper right corner of the screen.

Before asking the Secretary to present her report, any shareholders who have not submitted their proxies may do so at this time by clicking on the link provided online.

[Pause]

The online voting will now be closed. I'll ask our Secretary, Peggy Rowe, to make her report.

Peggy Rowe, Secretary:
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 20, 2024. The Inspectors of Election have filed with me their certificate stating that proxies representing 115,013,291 shares of the 130,207,317 outstanding shares have been received so a quorum is present.

David Kemper, Chairman:
Thank you. The first matter to be presented to the shareholders today is the election of three directors to constitute the 2027 Class of Directors to serve until our 2027 Annual Meeting. At this time, I'll request the Secretary to present the nominations of the Board of Directors and the results of that voting.

Peggy Rowe, Secretary:
The Board of Directors nominated: Terry D. Bassham, John W. Kemper, and Jonathan M. Kemper to the 2027 Class of Directors to be elected at this meeting. No other nominations were received. Based on proxies submitted each of the nominees has received a 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, Chairman:
On the basis of the report presented, the three nominees have been elected to the Board for a term of 3 years, to serve until our 2027 Annual Meeting.

The second matter is the ratification of the selection of KPMG LLC as the Company's independent registered public accounting firm for 2024.

Peggy Rowe, Secretary:
KPMG LLC'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 numbers of votes cast will be available online in the next few days.

David Kemper, Chairman:
Thank you. On the basis of the report presented, KPMG has been ratified as the Company's independent registered public accounting firm for 2024.

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

Peggy Rowe, Secretary:
Based on proxies submitted, votes "For" Proposal 3 represented 90.87% of the votes cast. A final report of the actual number of votes cast will be available online in the next few days.

David Kemper, 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's not binding on the Company, but it will be taken into consideration both by the Compensation Committee and by the Board as a whole.

David Kemper, Chairman:

At this time, I want to introduce Stephen Penn and Brett Boyle of KPMG LLC the Company's public accounting firm who are attending this meeting virtually. Mr. Penn and Mr. Boyle will be available to answer any questions shareholders may have during the question period a little later in the meeting.

Now, I would like to turn the meeting over to John Kemper, President and CEO of the Company, for a state-of-the-company presentation.

John Kemper, CEO:
Thank you, Mr. Chairman. Good morning. Very glad to be with everybody this morning. It's always a great time at this annual meeting to look back and reflect on some of the successes and also the challenges of the past year. I think 2023, in fact for the industry, had its share of challenges. It was a much more tumultuous operating year for the industry than I think normal. While things do seem to have settled down somewhat relative to where we stood a year ago on this day, there are still a number of headwinds that the industry and the economy face.

I think you'll see, though, that your company has navigated these choppy waters of the past year with a good deal of success. The theme of our annual report this year is about just this: being resilient in challenging times. To me, the theme highlights the steady way that this bank has operated in both good times and in bad. We strive every day to make decisions for the long-term best interests of our shareholders, our customers, and our team members who choose to make a career at Commerce. And I think that long-term view has served us well particularly in times of volatility and uncertainty.

So, I'm happy to be able to look back on this previous year and to highlight some of the ways that I think your company has shown resilience while keeping our gaze down the field and our sights on the future. For more still, please do take a look at our annual report that you can find on our investor website.

I would just offer the usual caution about forward-looking statements that I may make today. And with that we can get into the main presentation.

In our time today, I'll touch on four areas, broadly. First, I am going to talk about Commerce at a high level. Next, I'll talk about what we see in the economy and the banking industry. Looking ahead we'll talk about how we think Commerce is positioned against this backdrop. I'll wrap up by touching on our Company's performance relative to the industry, including a few thoughts on the playing field that we find ourselves on in 2024.

So first just to talk about the bank itself at a high level. Here's the Commerce Bank on a page, a primer on who we are. We're about midway through our 159th year in business. We have a footprint which is focused in the middle of the country, though we have certain businesses particularly in the payments area that span the entire country, and we serve wealth customers in nearly every state.

You can see some of our end of year numbers on the right side of this page. These are reflective of end of 2023. At about $32 billion dollars in assets, we'd be the 41st largest bank by assets in the country. We are actually the 22nd largest by market capitalization at the end of the year. As we've discussed in the past, the reason for that strong enterprise valuation relative to our balance sheet is that we make money in a number of ways that do not rely so heavily on our balance sheet. We have a large B2B and consumer payments business. We have quite a significant wealth management business. You can see we oversee just shy of $70 billion dollars in trust assets on behalf of our customers so that would rank us among the top 20 banks in the country.

We’re also a very liquid, well capitalized, and safe bank. That’s not always something that is fashionable, but I think it’s something that our customers and our investors appreciate and expect, and certainly that posture has served us well this last year, when we’ve seen some bank failures and the consequences of inadequate risk management.

Here we just have a refresher on the bank, how we organize and how we go to market. We like to think of ourselves, and describe ourselves, as a super-community bank and to us that means, combining the best of both small and big banks. We really strive to have the capabilities, the products, the sophisticated advice that you might find at a larger bank, but we want to deliver these things in the context of deep relationships and excellent customer service. Our bankers are empowered to take care of their customers, they’re deeply engaged in their communities. I would say sometimes this organizational model can be a tough thing to pull off, but I think looking back it’s been well worth the effort. This has been a pretty distinctive niche, operating like this, for us and I think the formula has been a good one over time. You can see that in any number of metrics if you want to look at our engaged employees, our satisfied customers and our shareholder returns over time.

Talking today with our shareholders, I would just note that our investors do tend to own our stock over the long term, and they do that because they understand that our story is one of a steady execution over time. I’ll flag here just a handful of the things that we think distinguishes Commerce in the eyes of investors. We have diverse revenues sources. Typically, something like 35-40% of our revenues come from fees. Again, with particular strength in payments and in wealth. We’ve historically had very core, stable deposit funding that's true both in the consumer and commercial side and I think you can see that stability has been evidenced this past year. We’ve also had very strong credit metrics over time, and we have ample capital and earnings to support regular dividends. In fact, we’ve increased those dividends for 56 years straight. Putting these things together, we’ve found that over time it’s been possible to provide steady shareholder returns while also investing for the long-term health of the franchise.

Now underpinning all of this is our team and what we think of as a pretty distinctive culture. It’s something that we talk about a lot around here and something that we take time to really actively shape. So, in that sense our culture really is an evolving thing. It is expressed in our shared values, in our shared language, and a common understanding of our direction that allows for our teammates to communicate and execute effectively on our business model. Put simply, our culture is how we win. It’s really the foundational strength of this institution.

Part of our culture has to do with the way that we support our communities and the way that we support each other. When we measure the number of teammates that report as being both enabled and engaged in their jobs, we consistently outpace high performing norms by about 10 percentage points according to Korn Ferry, who is our survey administrator. This sort of engagement really is a key competitive advantage. It allows us to do a better job of retaining top talent and also attracting new team members who can hit the ground running in a productive and supportive environment.

A lot of banks make headlines through financial investment and sponsorship in communities. We invest quite a bit of financial capital like these banks, but we also invest our time which is something that I’m equally proud of. Our teammates serve on the board of more than 500 non-profit organizations in our communities, and we actually offer paid time off to teammates who want to offer up community service. The bank has received a CRA rating of “Outstanding” for 28 years now.

You can see here some recent recognition for the bank. We try not to read a lot of our own press clippings but surveying this list, I do think you can at least get an impression for the way that we serve all our stakeholders, our shareholders, our customers, and our teammates.

I've got just a couple of slides now about the economy and the banking environment. I'm going to focus on 2023 for the most part because that's been the backdrop of our performance we are discussing today.

Of course, the big story this past year was the battle to contain inflation and navigate the transition that we've made to higher interest rates, while also still sustaining some bit of economic growth in the economy. I think that was the Feds central challenge. I think frankly most of us were a little surprised at the resilient economy, given if you think back a year ago, all the modeling and prognostications of a recession, but employment remained strong through the year. And during the year we actually made a good deal of progress on inflation although obviously we have a ways to go on that and that last mile may well prove to be the most challenging.

So, for banks, a lot of this has been, this economic news has been good for earnings. Credit losses did not really materialize in a big way, the consumer for the most part has remained strong, fee-based businesses have mostly performed. The higher for longer interest rate environment, I will say, it did compound mark-to-market losses in asset portfolios and so that made it difficult for banks to build capital. So, I think as a consequence you saw some muting of lending appetites among banks. Of course, there's a lot of focus on commercial real estate right now and so I think you are seeing lenders be a little more selective there. The industry, like everyone else, is dealing with elevated wage costs and when you put that together with some pretty slow revenue growth, I think it follows that banks really are trying to focus on efficiencies wherever possible and you're seeing a lot of announcements to that affect.

Okay and given that backdrop of the economy and industry, I'll touch here on our strategic posture.

For those of you that have followed our franchise for a long time, you'll see there's a lot of continuity, I think, in this strategy. So, starting at the most basic level, in general, we think about our strategic posture as striking a balance between two things. The first is continuously improving the functioning of our now 158-year-old "core bank" and second making some innovative bets and investing in areas where we think that we can drive long-term growth in areas with good risk adjusted profitability.
If we get the continuous improvement part right in our core bank – getting more efficient, improving our go-to-market approach, building the best team and culture that we can – you know we find that it actually buys us the earnings and the capital to be able to place these longer term bets for the company that you see on the right side of the page. In our culture we call these bets "blue chips" for the company, and you can see some of those blue chips enumerated here on the right.

We are making a lot of digital investments these days, and we're doing this because this is increasingly the way that customers are telling us they want to do business with us. You can see the progress in our rapidly improving digital offerings. You know digital can be a lot of things. I think of it really as being the customer front door into the bank. We had dozens of customer facing digital releases across our consumer and our commercial platforms in 2023. And while I talk about this progress, I also want to note that we are focused at the same time on maintaining the human connection in moments that matter, whether that connection comes in person or through these new digital channels. An example of this would be our CommerceConnect® app or our private banking app, where customers on their phone are able to interact directly with their dedicated banker who I would case in point is a real person with whom customers can build a relationship.

If digital is our front door, I'm also happy to note some of the significant investments that we are making in the back of the house, so to speak, in an array of core applications. In 2022, we completed the installation and stabilization of our new core deposit system, working in partnership Temenos. Building on that momentum, we have an ambitious, but I think deliberately staged pipeline of core application upgrades – many of which you can see on this page, in areas like payments, lending systems, sales and service platforms. This modernization work is going to make us a whole lot more efficient over time and it's also going to make possible an exciting array of new customer products and service options.

I'll spend a few minutes now just walking through our three customer segments of our business, beginning with consumer here. You can see just a brief snapshot of the size of our business. We currently serve more than 800 thousand households representing about $12.5 billion dollars in deposits and a little less than $4 billion dollars in loans on our balance sheet. I would point out that these numbers exclude loans and deposits in our trust company or our wealth management segment. We service these customers through a network of about 140 branches, about 270 ATM but increasingly as you can see at the bottom of the page, our emphasis is on growing our digital channel. Our app has a 4.7-star rating, which would put us on about the same footing as best-in-class banks.

Now on the Commercial side, you can see here a snapshot of our loans and our deposit footings. You can also see the revenue associated with this segment, which is quite significant in the bank's overall makeup. Our capabilities in the commercial space span, I think, a broad array of products and services. Our goal really is to be the full-service partner to any commercial customer, and to us that means helping them not only credit but also with deposits, and any services that a company may require.

I talked about the importance of our commercial payments franchise, here's a little more color on that business. It's an area where certainly we compete against the largest banks and of course increasingly FinTechs, but it's one where we've had a good deal of success. We really like this business because of the value that it brings to our customers, as well as the risk and return characteristics that it delivers to our franchise. There's money to be made here in ways that doesn't really rely on our balance sheet too heavily.

Now within our payments business, healthcare is our single largest customer vertical. You can get a sense here for how this business really is national in scale. Just on the hospital side, we work with more than 500 hospitals now across 48 states. We have solutions that address really the entire revenue cycle for providers, and also improve the patient experience, which we know is something very important to providers. The services market in healthcare, of course, very crowded with tech players, but we're finding that our identity as an innovative but stable bank, one that is focused on this vertical, has been pretty distinctive and I think compelling.

A large part of our profitable growth in recent years has come from what we call our "expansion markets", which are markets where we've planted a flag in the last 15 years or so. You can see the dots on the map that reflect those markets. On the left side of the page, you can also get a sense for the increase in loan balances generated out of these markets over time. But just as important really is the fee growth, which has actually outpaced loan growth in this window of time. So, we are excited about the prospects for the future here to date it's been mostly about projecting our commercial business line into these markets, but we see a lot of opportunity related to wealth management in these areas as well, so that's something we will be emphasizing in the future.

Speaking of the wealth management business, I'll just close out our segment talk by talking about our third and final business segment, the wealth management business. You can see where we stack up against bank owned trust companies and again, this is an area where we are really outsized relative to our balance sheet. As of end of the year, we oversaw about $70 billon in client assets, about 60% of which we actively manage. This is a business with, I'd say, very nice financial return characteristics. It's relatively low risk and it's relatively steady. And most importantly, it's complementary to everything else that we do for our customers – those could be families, those could be commercial customers, other institutions. It really allows us to build, I think, deep and enduring relationships across the bank.

You can see some of the key growth initiatives laid out on the left side of the page here. As I mentioned, we're particularly excited about our expansion plans, matter of fact we've recently committed to growing our wealth teams in both Dallas and in Naples, Florida.

So now I'll just close out with a recap of our performance in 2023. Also share just a few thoughts about how we are positioned in the current environment.

You can see some of our key financial metrics for the previous year and I think on the whole they were really quite strong. Our net income came in at about $477 million, or $3.64 per share. Returns on assets and equity were 1.49% and 17.9%, respectively, and those ranked among really the highest in our peer set. There was of course downward pressure on deposits in 2023 – I think we all know that story pretty well just from following the industry – but we are fortunate our strong liquidity position allowed us to grow loans nonetheless, and increasing margins meant that we were actually able to grow net interest income on the year. You can see that our long-term returns remain strong, outpacing the bank index by more than 5 percentage points per year if you look back over that 20-year period.

Here's a little more detail on the earnings for 2023. I think the big story here was pretty solid revenue growth that was offset by really higher than normal expense growth. That's true on the expense side both because of elevated wages and benefits, which I think is something all companies are dealing with right now, but also exacerbated by some one-time expenses, most notably the special FDIC assessment that was levied in the 4^{th} quarter of the year.

I do like to point out at this meeting the diversity of our revenues and the really superior mix of fee income relative to our peers. You can see that in the pie chart on the left where, particularly, in our card and our wealth management businesses, are that revenue delta between our peers does really stand out. And the reason that's important is because again, these businesses offer relatively steady and good risk-adjusted returns, meaning that we can generate good overall earnings without reaching for undue risk.

Speaking of risk taking, I think you can see historically our conservative posture, on this page. You can see what our credit performance has looked like over time. Of course, the industry really had not taken much in the way of losses in recent years but at some point, I think credit quality really is going to matter again. There's a lot more scrutiny in this area and we are I think underwriting with that correction in the market in mind.

This posture, in terms of our diversity of revenues to our credit, has served us well over time. In fact, you can see here on our returns on assets we have tended to outperform during recessionary periods.

We're still in a very strong position relative to our peers on capital and liquidity, with solid core funding, a lot of lending capacity, a low loan to deposit ratio. The numbers that you see here are year-end numbers.

And kind of summarizing that relative performance to peers, here you can see how we stack up on both returns and safety, so looking at returns on assets, returns on equity, our capital levels and our problem loans. So really, we're among the top two in every category relative to peers – and if you're interested you can see exactly who those peers are if you read the footnote at the bottom of this page.

We did release earnings for the first quarter just yesterday, so these numbers are hot off the press. We came in at $.86 per share on the quarter and I think the underlying news here is really good. We were able to show an increase in our net interest margin and also in our net interest income. Really, I think the strength of our deposit franchise showed very well here. And even with higher interest rates, which for the industry, is driving more AOCI losses on paper, we were able to grow our capital ratios. You can see that in the last bullet point related to our tangible common ratio. So, you know really, I think a very good start to the year, one that we are very happy with.

I won't go into a lot of detail here but just provide this information on liquidity management and capital. I think it is important to keep this in front of investors, you know given last year, we're making sure to really tell our story on this. I think you can see we're in very good shape and we are well positioned in a higher for longer interest rate environment.

Really briefly, here's just a visual on that deposit stability that I was describing in the aftermath of what was really the reset in March of 2023. You can see after that our deposit trend has been pretty flat and that is a good thing.

So, I will just close here by saying what I always do in this meeting, which is that we are aware this is a long race that we are running and that your Commerce team really is focused on delivering value over the long term. Our past couple of years have certainly had some challenges to contend with as the market has settled into the higher interest rate environment, as we've navigated an inflationary environment and as we brace for the possibility of recession and credit losses. You know a lot of these things are near term challenges, and as always, we're going to do our best to navigate them but at the same time we want to stay focused on the long-term health of this franchise. Again, this year marked the 56th consecutive year of dividend growth for the company. I'm not aware of another bank with that sort of track record.

I'll close here just by saying we know our job here is really to work on behalf of our shareholders. You can see our long-term track record on returns remains strong. I think that long-term track record is really what matters most. We are optimistic about the future. Our goal is to constantly improve this franchise, to innovate, to generate growth over time but to do it without taking on undue risk. So, I will conclude just by thanking everyone listening on this call. Thanking our shareholders for the confidence that you place in our team every day. We're focused on the future. We're grateful, very much so, for the support that you give us.

And with that, Mr. Chairman that concludes my remarks. I'd be happy to respond to any questions if there are any.

David Kemper, Chairman:
This is our question-and-answer period, we invite any questions shareholders might have for the Company, for John, or for KPMG. Shareholders may submit questions online by clicking on the Q&A tab in the upper right corner of the screen. In the event any questions presented online are not answered at this

meeting, such questions will be responded to promptly after the meeting by our Investor Relations group for the Company or by KPMG, as appropriate.

[PAUSE]

David Kemper, Chairman:
I don't think we have any questions.

Peggy Rowe, Secretary:
We have none.

David Kemper, Chairman:
Okay, so we don't have any questions. Thank you everybody for being here. That concludes our meeting, and we will close our annual meeting. Thank you.