

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-2989

COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri

(State of Incorporation)

1000 Walnut,

Kansas City, MO

(Address of principal executive offices)

43-0889454

(IRS Employer Identification No.)

64106

(Zip Code)

(816) 234-2000

(Registrant's telephone number, including area code)

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

Title of class	Trading symbol(s)	Name of exchange on which registered
\$5 Par Value Common Stock	CBSH	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 2, 2020, the registrant had outstanding 111,544,176 shares of its \$5 par value common stock, registrant's only class of common stock.

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## PART I: FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

#### Commerce Bancshares, Inc. and Subsidiaries CONSOLIDATED BALANCE SHEETS

	September 30, 2020	December 31, 2019
	(Unaudited)	
	(In thousands)	
<b>ASSETS</b>		
Loans	\$ 16,420,927	\$ 14,737,817
Allowance for credit losses on loans	(236,360)	(160,682)
<b>Net loans</b>	<b>16,184,567</b>	<b>14,577,135</b>
Loans held for sale (including \$35,076,000 and \$9,181,000 of residential mortgage loans carried at fair value at September 30, 2020 and December 31, 2019, respectively)	39,483	13,809
Investment securities:		
Available for sale debt, at fair value (amortized cost of \$11,182,348,000 and allowance for credit losses of \$— at September 30, 2020)	11,539,061	8,571,626
Trading debt	25,805	28,161
Equity	4,203	4,209
Other	122,532	137,892
<b>Total investment securities</b>	<b>11,691,601</b>	<b>8,741,888</b>
Federal funds sold and short-term securities purchased under agreements to resell	2,275	—
Long-term securities purchased under agreements to resell	850,000	850,000
Interest earning deposits with banks	1,171,697	395,850
Cash and due from banks	357,616	491,615
Premises and equipment, net	377,853	370,637
Goodwill	138,921	138,921
Other intangible assets, net	7,183	9,534
Other assets	632,621	476,400
<b>Total assets</b>	<b>\$ 31,453,817</b>	<b>\$ 26,065,789</b>
<b>LIABILITIES AND EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 10,727,827	\$ 6,890,687
Savings, interest checking and money market	12,983,505	11,621,716
Certificates of deposit of less than \$100,000	556,870	626,157
Certificates of deposit of \$100,000 and over	1,433,577	1,381,855
<b>Total deposits</b>	<b>25,701,779</b>	<b>20,520,415</b>
Federal funds purchased and securities sold under agreements to repurchase	1,653,064	1,850,772
Other borrowings	782	2,418
Other liabilities	791,928	553,712
<b>Total liabilities</b>	<b>28,147,553</b>	<b>22,927,317</b>
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, \$1 par value		
Authorized 2,000,000 shares; issued 6,000 shares at December 31, 2019 and none at September 30, 2020	—	144,784
Common stock, \$5 par value		
Authorized 140,000,000; issued 112,795,605 shares	563,978	563,978
Capital surplus	2,140,410	2,151,464
Retained earnings	326,890	201,562
Treasury stock of 1,040,557 shares at September 30, 2020 and 445,952 shares at December 31, 2019, at cost	(69,050)	(37,548)
Accumulated other comprehensive income	343,435	110,444
Total Commerce Bancshares, Inc. stockholders' equity	3,305,663	3,134,684
Non-controlling interest	601	3,788
<b>Total equity</b>	<b>3,306,264</b>	<b>3,138,472</b>
<b>Total liabilities and equity</b>	<b>\$ 31,453,817</b>	<b>\$ 26,065,789</b>

See accompanying notes to consolidated financial statements.

**Commerce Bancshares, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<i>(In thousands, except per share data)</i>				
<i>(Unaudited)</i>				
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 150,808	\$ 167,959	\$ 461,500	\$ 502,100
Interest and fees on loans held for sale	264	308	588	1,003
Interest on investment securities	60,534	58,607	164,391	178,687
Interest on federal funds sold and short-term securities purchased under agreements to resell	—	7	2	51
Interest on long-term securities purchased under agreements to resell	11,247	3,621	29,445	11,066
Interest on deposits with banks	261	1,241	1,996	5,113
<b>Total interest income</b>	<b>223,114</b>	<b>231,743</b>	<b>657,922</b>	<b>698,020</b>
<b>INTEREST EXPENSE</b>				
Interest on deposits:				
Savings, interest checking and money market	3,206	10,225	15,492	30,081
Certificates of deposit of less than \$100,000	1,028	1,740	4,196	4,530
Certificates of deposit of \$100,000 and over	2,512	7,540	11,357	20,473
Interest on federal funds purchased and securities sold under agreements to repurchase	406	8,273	5,761	23,839
Interest on other borrowings	—	453	1,032	463
<b>Total interest expense</b>	<b>7,152</b>	<b>28,231</b>	<b>37,838</b>	<b>79,386</b>
<b>Net interest income</b>	<b>215,962</b>	<b>203,512</b>	<b>620,084</b>	<b>618,634</b>
Provision for credit losses	3,101	10,963	141,593	35,232
<b>Net interest income after credit losses</b>	<b>212,861</b>	<b>192,549</b>	<b>478,491</b>	<b>583,402</b>
<b>NON-INTEREST INCOME</b>				
Bank card transaction fees	37,873	44,510	111,818	126,800
Trust fees	40,769	39,592	118,676	115,223
Deposit account charges and other fees	23,107	24,032	69,063	71,009
Capital market fees	3,194	1,787	10,756	5,610
Consumer brokerage services	4,011	4,030	11,099	11,665
Loan fees and sales	9,769	4,755	17,653	12,302
Other	10,849	14,037	31,685	38,633
<b>Total non-interest income</b>	<b>129,572</b>	<b>132,743</b>	<b>370,750</b>	<b>381,242</b>
<b>INVESTMENT SECURITIES GAINS (LOSSES), NET</b>	<b>16,155</b>	<b>4,909</b>	<b>(1,275)</b>	<b>3,874</b>
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	127,308	123,836	383,004	366,026
Net occupancy	12,058	12,293	35,075	34,939
Equipment	4,737	4,941	14,313	14,202
Supplies and communication	4,141	5,106	13,226	15,543
Data processing and software	23,610	23,457	71,002	68,965
Marketing	4,926	6,048	14,706	17,963
Other	14,078	15,339	40,742	54,586
<b>Total non-interest expense</b>	<b>190,858</b>	<b>191,020</b>	<b>572,068</b>	<b>572,224</b>
Income before income taxes	167,730	139,181	275,898	396,294
Less income taxes	34,375	29,101	54,209	80,860
Net income	133,355	110,080	221,689	315,434
Less non-controlling interest expense (income)	907	838	(2,479)	1,083
<b>Net income attributable to Commerce Bancshares, Inc.</b>	<b>132,448</b>	<b>109,242</b>	<b>224,168</b>	<b>314,351</b>
Less preferred stock dividends	7,466	2,250	11,966	6,750
<b>Net income available to common shareholders</b>	<b>\$ 124,982</b>	<b>\$ 106,992</b>	<b>\$ 212,202</b>	<b>\$ 307,601</b>
Net income per common share — basic	\$ 1.12	\$ .93	\$ 1.90	\$ 2.65
Net income per common share — diluted	\$ 1.11	\$ .93	\$ 1.89	\$ 2.65

See accompanying notes to consolidated financial statements.

**Commerce Bancshares, Inc. and Subsidiaries**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(In thousands)</i>	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
	<i>(Unaudited)</i>			
<b>Net income</b>	<b>\$ 133,355</b>	<b>\$ 110,080</b>	<b>\$ 221,689</b>	<b>\$ 315,434</b>
<b>Other comprehensive income (loss):</b>				
Net unrealized losses on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	—	(245)	—	(432)
Net unrealized gains on other securities	330	21,030	165,464	171,421
Pension loss amortization	327	389	1,038	1,166
Unrealized gains (losses) on cash flow hedge derivatives	(6,483)	14,101	66,489	36,687
<b>Other comprehensive income (loss)</b>	<b>(5,826)</b>	<b>35,275</b>	<b>232,991</b>	<b>208,842</b>
<b>Comprehensive income</b>	<b>127,529</b>	<b>145,355</b>	<b>454,680</b>	<b>524,276</b>
Less non-controlling interest expense (income)	907	838	(2,479)	1,083
<b>Comprehensive income attributable to Commerce Bancshares, Inc.</b>	<b>\$ 126,622</b>	<b>\$ 144,517</b>	<b>\$ 457,159</b>	<b>\$ 523,193</b>

See accompanying notes to consolidated financial statements.

**Commerce Bancshares, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Three Months Ended September 30, 2020 and 2019**

	Commerce Bancshares, Inc. Shareholders							
<i>(In thousands, except per share data)</i>	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	<i>(Unaudited)</i>							
<b>Balance June 30, 2020</b>	\$ 144,784	\$ 563,978	\$ 2,136,874	\$ 232,082	\$ (69,112)	\$ 349,261	\$ 302	\$ 3,358,169
Net income				132,448			907	133,355
Other comprehensive loss						(5,826)		(5,826)
Distributions to non-controlling interest							(608)	(608)
Purchases of treasury stock					(167)			(167)
Redemption of preferred stock	(144,784)			(5,216)				(150,000)
Issuance of stock under purchase and equity compensation plans			(229)		229			—
Stock-based compensation			3,765					3,765
Cash dividends paid on common stock (\$0.270 per share)				(30,174)				(30,174)
Cash dividends paid on preferred stock (\$0.375 per depositary share)				(2,250)				(2,250)
<b>Balance September 30, 2020</b>	\$ —	\$ 563,978	\$ 2,140,410	\$ 326,890	\$ (69,050)	\$ 343,435	\$ 601	\$ 3,306,264
Balance June 30, 2019	\$ 144,784	\$ 559,432	\$ 2,077,491	\$ 384,232	\$ (106,106)	\$ 108,898	\$ 2,632	\$ 3,171,363
Net income				109,242			838	110,080
Other comprehensive income						35,275		35,275
Distributions to non-controlling interest							(56)	(56)
Purchases of treasury stock					(33,891)			(33,891)
Accelerated share repurchase agreement			(37,500)		(112,500)			(150,000)
Issuance of stock under purchase and equity compensation plans			(834)		834			—
Stock-based compensation			3,486					3,486
Cash dividends paid on common stock (\$0.248 per share)				(27,993)				(27,993)
Cash dividends paid on preferred stock (\$0.375 per depositary share)				(2,250)				(2,250)
<b>Balance September 30, 2019</b>	\$ 144,784	\$ 559,432	\$ 2,042,643	\$ 463,231	\$ (251,663)	\$ 144,173	\$ 3,414	\$ 3,106,014

See accompanying notes to consolidated financial statements.

**Commerce Bancshares, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Nine Months Ended September 30, 2020 and 2019**

	Commerce Bancshares, Inc. Shareholders							
<i>(In thousands, except per share data)</i>	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	<i>(Unaudited)</i>							
<b>Balance December 31, 2019</b>	\$ 144,784	\$ 563,978	\$ 2,151,464	\$ 201,562	\$ (37,548)	\$ 110,444	\$ 3,788	\$ 3,138,472
Adoption of ASU 2016-13				3,766				3,766
Balance December 31, 2019, adjusted	\$ 144,784	\$ 563,978	\$ 2,151,464	\$ 205,328	\$ (37,548)	\$ 110,444	\$ 3,788	\$ 3,142,238
Net income				224,168			(2,479)	221,689
Other comprehensive income						232,991		232,991
Distributions to non-controlling interest							(708)	(708)
Purchases of treasury stock					(53,760)			(53,760)
Redemption of preferred stock	(144,784)			(5,216)				(150,000)
Issuance of stock under purchase and equity compensation plans			(22,285)		22,258			(27)
Stock-based compensation			11,231					11,231
Cash dividends on common stock (\$0.810 per share)				(90,640)				(90,640)
Cash dividends on preferred stock (\$1.125 per depositary share)				(6,750)				(6,750)
<b>Balance September 30, 2020</b>	\$ —	\$ 563,978	\$ 2,140,410	\$ 326,890	\$ (69,050)	\$ 343,435	\$ 601	\$ 3,306,264
Balance December 31, 2018	\$ 144,784	\$ 559,432	\$ 2,084,824	\$ 241,163	\$ (34,236)	\$ (64,669)	\$ 5,851	\$ 2,937,149
Net income				314,351			1,083	315,434
Other comprehensive income						208,842		208,842
Distributions to non-controlling interest							(3,520)	(3,520)
Purchases of treasury stock					(119,970)			(119,970)
Accelerated share repurchase agreement			(37,500)		(112,500)			(150,000)
Issuance of stock under purchase and equity compensation plans			(15,046)		15,043			(3)
Stock-based compensation			10,365					10,365
Cash dividends on common stock (\$0.744 per share)				(85,533)				(85,533)
Cash dividends on preferred stock (\$1.125 per depositary share)				(6,750)				(6,750)
<b>Balance September 30, 2019</b>	\$ 144,784	\$ 559,432	\$ 2,042,643	\$ 463,231	\$ (251,663)	\$ 144,173	\$ 3,414	\$ 3,106,014

See accompanying notes to consolidated financial statements.

**Commerce Bancshares, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(In thousands)</i>	For the Nine Months Ended September 30	
	2020	2019
	<i>(Unaudited)</i>	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 221,689	\$ 315,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	141,593	35,232
Provision for depreciation and amortization	32,462	30,729
Amortization of investment security premiums, net	37,623	20,436
Investment securities (gains) losses, net (A)	1,275	(3,874)
Net gains on sales of loans held for sale	(8,267)	(7,881)
Originations of loans held for sale	(169,774)	(187,792)
Proceeds from sales of loans held for sale	152,825	194,344
Net (increase) decrease in trading debt securities	5,636	(428)
Stock-based compensation	11,231	10,365
(Increase) decrease in interest receivable	(11,012)	229
Increase (decrease) in interest payable	(7,670)	5,938
Increase (decrease) in income taxes payable	(7,942)	23,530
Other changes, net	72,714	(58,928)
<b>Net cash provided by operating activities</b>	<b>472,383</b>	<b>377,334</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from sales of investment securities (A)	574,376	379,641
Proceeds from maturities/pay downs of investment securities (A)	1,856,780	1,007,553
Purchases of investment securities (A)	(5,135,211)	(1,306,607)
Net increase in loans	(1,710,009)	(357,438)
Long-term securities purchased under agreements to resell	—	(150,000)
Purchases of premises and equipment	(29,192)	(29,441)
Sales of premises and equipment	313	2,029
<b>Net cash used in investing activities</b>	<b>(4,442,943)</b>	<b>(454,263)</b>
<b>FINANCING ACTIVITIES:</b>		
Net increase (decrease) in non-interest bearing, savings, interest checking and money market deposits	5,138,314	(230,229)
Net increase (decrease) in certificates of deposit	(17,565)	411,098
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(197,708)	(315,115)
Repayment of long-term borrowings	—	(163)
Net increase (decrease) in short-term borrowings	(1,636)	248,734
Preferred stock redemption	(150,000)	—
Purchases of treasury stock	(53,760)	(119,970)
Accelerated share repurchase agreement	—	(150,000)
Issuance of stock under equity compensation plans	(27)	(3)
Cash dividends paid on common stock	(90,640)	(85,533)
Cash dividends paid on preferred stock	(6,750)	(6,750)
<b>Net cash provided by (used in) financing activities</b>	<b>4,620,228</b>	<b>(247,931)</b>
Increase (decrease) in cash, cash equivalents and restricted cash	649,668	(324,860)
Cash, cash equivalents and restricted cash at beginning of year	907,808	1,209,240
<b>Cash, cash equivalents and restricted cash at September 30</b>	<b>\$ 1,557,476</b>	<b>\$ 884,380</b>
Income tax payments, net	\$ 58,750	\$ 54,161
Interest paid on deposits and borrowings	\$ 45,508	\$ 73,448
Loans transferred to foreclosed real estate	\$ 57	\$ 558

(A) Available for sale debt securities, equity securities, and other securities.  
See accompanying notes to consolidated financial statements.

Restricted cash is comprised of cash collateral posted by the Company to secure interest rate swap agreements. This balance is included in other assets in the consolidated balance sheets and totaled \$25.9 million and \$25.1 million at September 30, 2020 and 2019, respectively.

## Commerce Bancshares, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 (Unaudited)

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#### 1. Principles of Consolidation and Presentation and Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2019 data to conform to current year presentation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management has evaluated subsequent events for potential recognition or disclosure. The results of operations for the three and nine month periods ended September 30, 2020 are not necessarily indicative of results to be attained for the full year or any other interim period.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's most recent Annual Report on Form 10-K, containing the latest audited consolidated financial statements and notes thereto.

On January 1, 2020, the Company adopted several FASB Accounting Standards Updates (ASUs). The Company's adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and its related amendments, resulted in changes to former accounting policies as described in Note 1 to the consolidated financial statements in the 2019 Annual Report on Form 10-K. Further discussion of the impact of adoption is included below, as well as in Note 2, Loans and Allowance for Credit Losses, and Note 3, Investment Securities. Significant accounting policies that were modified as a result of the adoption of ASU 2016-13 are included below.

The Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and its related amendments on January 1, 2020. Known as the current expected credit loss (CECL), the standard replaced the incurred loss methodology. The new measurement approach requires the calculation of expected lifetime credit losses and is applied to financial assets measured at amortized cost, including loans and held-to-maturity securities, as well as certain off-balance sheet credit exposures such as unfunded lending commitments. The standard also changed the impairment model of available for sale debt securities.

The Company adopted CECL using the modified retrospective method for all financial assets measured at amortized cost and for unfunded lending commitments. Results for reporting periods beginning on or after January 1, 2020 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net increase to retained earnings of \$3.8 million as of January 1, 2020 for the cumulative effect of adopting CECL. The transition adjustment includes a decrease to the allowance for credit losses of \$29.7 million related to the commercial loan portfolio, an increase to the allowance for credit losses of \$8.7 million related to the personal banking loan portfolio, an increase to the liability for unfunded commitments of \$16.1 million, and a tax impact of \$1.2 million.

The table below illustrates the adoption impact of ASU 2016-13 on the Company's allowance for credit losses.

(In thousands)	December 31, 2019		January 1, 2020	
	Allowance for loan losses ending balance		CECL Adjustment	Allowance for credit losses beginning balance
<b>Commercial:</b>				
Business	\$ 44,268	\$	(6,328)	\$ 37,940
Real estate - construction and land	21,589		(12,385)	9,204
Real estate - business	25,903		(10,998)	14,905
Total Commercial:	91,760		(29,711)	62,049
<b>Personal Banking:</b>				
Real estate - personal	3,125		1,730	4,855
Consumer	15,932		(1,414)	14,518
Revolving home equity	638		986	1,624
Consumer credit card	47,997		8,498	56,495
Overdrafts	1,230		(1,128)	102
Total Personal Banking:	68,922		8,672	77,594
Allowance for credit losses on loans	160,682		(21,039)	139,643
Liability for unfunded lending commitments	1,075		16,090	17,165
Total allowance for credit losses	\$ 161,757	\$	(4,949)	\$ 156,808

The following significant accounting policies have been updated since the Company's 2019 Annual Report on Form 10-K to reflect the adoption of ASU 2016-13.

#### *Loans and Related Earnings*

The Company's portfolio of held-for-investment loans includes a net investment in direct financing and sales type leases to commercial and industrial and tax-exempt entities, and collectively, the Company's portfolio of loans and leases is referred to as its "loan portfolio" or "loans". Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost, excluding accrued interest receivable. Amortized cost is the outstanding principal balance, net of any deferred fees and costs on originated loans. Origination fee income received on loans and amounts representing the estimated direct costs of origination are deferred and amortized to interest income over the life of the loan using the interest method. Loans are presented net of the allowance for credit losses on loans.

Interest on loans is accrued based upon the principal amount outstanding. The Company has elected the practical expedient to exclude all accrued interest receivable from all required disclosures of amortized cost. Additionally, an election was made not to measure an allowance for credit losses for accrued interest receivables. The Company has also made the election that all interest accrued but not received is reversed against interest income.

Loan and commitment fees, net of costs, are deferred and recognized in income over the term of the loan or commitment as an adjustment of yield. Annual fees charged on credit card loans are capitalized to principal and amortized over 12 months to loan fees and sales. Other credit card fees, such as cash advance fees and late payment fees, are recognized in income as an adjustment of yield when charged to the cardholder's account.

#### *Past Due Loans*

Management reports loans as past due on the day following the contractual repayment date if payment was not received by end of the business day. Loans, or portions of loans, are charged off to the extent deemed uncollectible. Loan charge-offs reduce the allowance for credit losses on loans, and recoveries of loans previously charged off are added back to the allowance. Business, business real estate, construction and land real estate, and personal real estate loans are generally charged down to estimated collectible balances when they are placed on non-accrual status. Consumer loans and related accrued interest are normally charged down to the fair value of related collateral (or are charged off in full if not collateralized) once the loans are more than 120 to 180 days delinquent, depending on the type of loan. Revolving home equity loans are charged down to the fair value of the related collateral once the loans are more than 180 days past due. Credit card loans are charged off against the allowance for credit losses when the receivable is more than 180 days past due.

### *Troubled Debt Restructurings*

A loan is accounted for as a troubled debt restructuring if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring typically involves (1) modification of terms such as a reduction of the stated interest rate, loan principal, or accrued interest, (2) a loan renewal at a stated interest rate lower than the current market rate for a new loan with similar risk, or (3) debt that was not reaffirmed in bankruptcy. Business, business real estate, construction and land real estate and personal real estate troubled debt restructurings with impairment charges are placed on non-accrual status. The Company measures the impairment loss of a troubled debt restructuring at the time of modification based on the present value of expected future cash flows. Subsequent to modification, troubled debt restructurings are subject to the Company's allowance for credit loss model, which is discussed below and in Note 2, Loans and Allowance for Credit Losses. Troubled debt restructurings that are performing under their contractual terms continue to accrue interest, which is recognized in current earnings.

Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020 and provides financial institutions the option to suspend the requirement to categorize certain modifications related to the global Coronavirus Disease 2019 (COVID-19) pandemic as troubled debt restructurings. Additionally, bank regulatory agencies issued additional guidance on implementing the provisions of the CARES Act. The Company follows the guidance under the CARES Act. Refer to Note 2 for additional information.

### *Allowance for Credit Losses on Loans*

The allowance for credit losses on loans is a valuation amount that is deducted from the amortized cost basis of loans not held at fair value to present the net amount expected to be collected over the contractual term of the loans. The allowance for credit losses on loans is measured using relevant information about past events, including historical credit loss experience on loans with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the loans. An allowance will be created upon origination or acquisition of a loan and is updated at subsequent reporting dates. The methodology is applied consistently for each reporting period and reflects management's current expectations of credit losses. Changes to the allowance for credit losses on loans resulting from periodic evaluations are recorded through increases or decreases to the credit loss expense for loans, which is recorded in provision for credit losses on the consolidated statements of income. Loans that are deemed to be uncollectible are charged off against the related allowance for credit losses on loans.

The allowance for credit losses on loans is measured on a collective (pool) basis. Loans are aggregated into pools based on similar risk characteristics including borrower type, collateral type and expected credit loss patterns. The allowance for credit losses on a troubled debt restructuring which continues to accrue interest is also measured on a collective basis. Loans that do not share similar risk characteristics, primarily large loans on non-accrual status, are evaluated on an individual basis. The allowance related to these large non-accrual loans is measured using the fair value of the collateral (less selling cost, if applicable) as most of these loans are collateral dependent and the borrower is facing financial difficulty.

As noted above, the allowance for credit losses on loans does not include an allowance for accrued interest.

### *Liability for Unfunded Lending Commitments*

The Company's unfunded lending commitments are primarily unfunded loan commitments and letters of credit. Expected credit losses for these unfunded lending commitments are calculated over the contractual period during which the Company is exposed to the credit risk. The methodology used to measure credit losses for unfunded lending commitments is the same as the methodology used for loans, however, the estimate of credit risk for unfunded lending commitments takes into consideration the likelihood that funding will occur. The liability for unfunded lending commitments excludes any exposures that are unconditionally cancellable by the Company. The loss estimate is recorded within other liabilities on the consolidated balance sheet. Changes to the liability for unfunded lending commitments are recorded through increases or decreases to the provision for credit losses on the consolidated statements of income.

### *Investments in Debt and Equity Securities*

The majority of the Company's investment portfolio is comprised of debt securities that are classified as available for sale. From time to time, the Company sells securities and utilizes the proceeds to reduce borrowings, fund loan growth, or modify its interest rate profile. Securities classified as available for sale are carried at fair value. Changes in fair value are reported in other comprehensive income (loss), a component of stockholders' equity. Securities are periodically evaluated for credit losses in accordance with the guidance provided in ASC 326. Further discussion of this evaluation is provided in "*Allowance for Credit Losses on Available for Sale Debt Securities*" below. Gains and losses realized upon sales of securities are calculated using the specific identification method and are included in investment securities gains (losses), net, in the consolidated statements of income. Purchase premiums and discounts are amortized to interest income using a level yield method over the

estimated lives of the securities. For certain callable debt securities purchased at a premium, the amortization is instead recorded to the earliest call date. For mortgage and asset-backed securities, prepayment experience is evaluated quarterly to determine if a change in a bond's estimated remaining life is necessary. A corresponding adjustment is then made in the related amortization of premium or discount accretion.

Accrued interest receivable on available for sale debt securities is reported in other assets on the consolidated balance sheet. The Company has elected the practical expedient to exclude the accrued interest from all required disclosures of amortized cost. Additionally, an election was made not to measure an allowance for credit losses for accrued interest receivables. Interest accrued but not received is reversed against interest income.

Equity securities include common and preferred stock with readily determinable fair values. These are also carried at fair value. Certain equity securities do not have readily determinable fair values. The Company has elected under ASU 2016-01 to measure these equity securities without a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or similar investment of the same issuer. The Company has not recorded any impairment or other adjustments to the carrying amount of these equity investments without readily determinable fair values.

Other securities include Federal Reserve Bank stock and Federal Home Loan Bank stock, which are held for debt and regulatory purposes. They are carried at cost and periodically evaluated for impairment. Also included are investments in portfolio concerns held by the Company's private equity subsidiaries, which consist of both debt and equity instruments. Private equity investments are carried at fair value in accordance with ASC 946-10-15, with changes in fair value reported in current earnings. In the absence of readily ascertainable market values, fair value is estimated using internally developed methods. Changes in fair value which are recognized in current earnings and gains and losses from sales are included in investment securities gains (losses), net in the consolidated statements of income.

Trading account securities, which are debt securities bought and held principally for the purpose of resale in the near term, are carried at fair value. Gains and losses, both realized and unrealized, are recorded in non-interest income.

Purchases and sales of securities are recognized on a trade date basis. A receivable or payable is recognized for pending transaction settlements.

#### *Allowance for Credit Losses on Available for Sale Debt Securities*

For available for sale debt securities in an unrealized loss position, the entire loss in fair value is required to be recognized in current earnings if the Company intends to sell the securities or believes it more likely than not that it will be required to sell the security before the anticipated recovery. If neither condition is met, and the Company does not expect to recover the amortized cost basis, the Company determines whether the decline in fair value resulted from credit losses or other factors. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss has occurred, and an allowance for credit losses is recorded. The allowance for credit losses is limited by the amount that the fair value is less than the amortized cost basis. Any impairment not recorded through the provision for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit losses on the consolidated statements of income. Losses are charged against the allowance for credit losses on securities when management believes the uncollectibility of an available for sale security is confirmed or when either of the conditions regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale debt securities is excluded from the estimate of credit losses.

## 2. Loans and Allowance for Credit Losses

Major classifications within the Company's held for investment loan portfolio at September 30, 2020 and December 31, 2019 are as follows:

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
<b>Commercial:</b>		
Business	\$ 6,683,413	\$ 5,565,449
Real estate – construction and land	1,009,729	899,377
Real estate – business	2,993,192	2,833,554
<b>Personal Banking:</b>		
Real estate – personal	2,753,867	2,354,760
Consumer	2,006,360	1,964,145
Revolving home equity	324,203	349,251
Consumer credit card	647,893	764,977
Overdrafts	2,270	6,304
<b>Total loans<sup>(1)</sup></b>	<b>\$ 16,420,927</b>	<b>\$ 14,737,817</b>

<sup>(1)</sup> Accrued interest receivable totaled \$41.3 million at September 30, 2020 and was included within other assets on the consolidated balance sheet. For the three months ended September 30, 2020, the Company wrote-off accrued interest by reversing interest income of \$89 thousand and \$1.7 million in the Commercial and Personal Banking portfolios, respectively. Similarly, for the nine months ended September 30, 2020, the Company wrote-off accrued interest of \$258 thousand and \$4.4 million in the Commercial and Personal Banking portfolios, respectively.

At September 30, 2020, loans of \$4.1 billion were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of \$1.5 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

### *Allowance for credit losses*

The allowance for credit losses is measured using an average historical loss model which incorporates relevant information about past events, including historical credit loss experience on loans with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the loans. The allowance for credit losses is measured on a collective (pool) basis. Loans are aggregated into pools based on similar risk characteristics including borrower type, collateral type and expected credit loss patterns. Loans that do not share similar risk characteristics, primarily large loans on non-accrual status, are evaluated on an individual basis.

For loans evaluated for credit losses on a collective basis, average historical loss rates are calculated for each pool using the Company's historical net charge-offs (combined charge-offs and recoveries by observable historical reporting period) and outstanding loan balances during a lookback period. Lookback periods can be different based on the individual pool and represent management's credit expectations for the pool of loans over the remaining contractual life. In certain loan pools, if the Company's own historical loss rate is not reflective of the loss expectations, the historical loss rate is augmented by industry and peer data. The calculated average net charge-off rate is then adjusted for current conditions and reasonable and supportable forecasts. These adjustments increase or decrease the average historical loss rate to reflect expectations of future losses given a single path economic forecast of key macroeconomic variables including GDP, disposable income, unemployment rate, various interest rates, CPI inflation rate, HPI, CREPI and market volatility. The adjustments are based on results from various regression models projecting the impact of the macroeconomic variables to loss rates. The forecast is used for a reasonable and supportable period before reverting back to historical averages using a straight-line method. The forecast adjusted loss rate is applied to the loans over the remaining contractual lives, adjusted for expected prepayments. The contractual term excludes expected extensions (except for contractual extensions at the option of the customer), renewals and modifications unless there is a reasonable expectation that a troubled debt restructuring will be executed. Credit cards and certain similar consumer lines of credit do not have stated maturities and therefore, for these loan classes, remaining contractual lives are determined by estimating future cash flows expected to be received from customers until payments have been fully allocated to outstanding balances. Additionally, the allowance for credit losses considers other qualitative factors not included in historical loss rates or macroeconomic forecast such as changes in portfolio composition, underwriting practices, or significant unique events or conditions.

Key model assumptions in the Company’s allowance for credit loss model include the economic forecast, the reasonable and supportable period, prepayment assumptions and qualitative factors applied for portfolio composition changes, underwriting practices, or significant unique events or conditions. The assumptions utilized in estimating the Company’s allowance for credit losses at September 30, 2020 and June 30, 2020 are discussed below.

Key Assumption	September 30, 2020	June 30, 2020
Overall economic forecast	<ul style="list-style-type: none"> <li>The recovery from the Global Coronavirus Recession (GCR) continues to be gradual</li> <li>Assumes no additional systemic lockdown measures</li> <li>Gradual recovery in late 2021 and into 2022</li> <li>Significant uncertainty regarding the pandemic and its impact on economy</li> </ul>	<ul style="list-style-type: none"> <li>The recovery from the Global Coronavirus Recession (GCR) is gradual</li> <li>Assumes no second wave of contagion and states continue to loosen lockdown measures</li> <li>Gradual recovery in late 2021 and into 2022</li> <li>Significant uncertainty regarding the pandemic and its impact on economy</li> </ul>
Reasonable and supportable period and related reversion period	<ul style="list-style-type: none"> <li>Two years for both commercial and personal banking loans</li> <li>Reversion to historical average loss rates within two quarters using a straight-line method</li> </ul>	<ul style="list-style-type: none"> <li>Two years for both commercial and personal banking loans</li> <li>Reversion to historical average loss rates within two quarters using a straight-line method</li> </ul>
Forecasted macro-economic variables	<ul style="list-style-type: none"> <li>Unemployment rate ranging from 8.8% to 5.3% during the supportable forecast period</li> <li>Real GDP growth ranges from 4.4% to 2.4%</li> <li>Prime rate of 3.25%</li> </ul>	<ul style="list-style-type: none"> <li>Unemployment rate ranging from 10.9% to 5.7% during the supportable forecast period</li> <li>Real GDP growth ranges from 3.0% to 25.7%</li> <li>Prime rate of 3.25%</li> </ul>
Prepayment assumptions	Commercial loans <ul style="list-style-type: none"> <li>5% for most loan pools</li> </ul> Personal banking loans <ul style="list-style-type: none"> <li>Ranging from 21.6% to 23.5% for most loan pools</li> <li>58.0% for consumer credit cards</li> </ul>	Commercial loans <ul style="list-style-type: none"> <li>5% for most loan pools</li> </ul> Personal banking loans <ul style="list-style-type: none"> <li>Ranging from 18.7% to 23.3% for most loan pools</li> <li>58.0% for consumer credit cards</li> </ul>
Qualitative factors	Added net reserves using qualitative processes related to: <ul style="list-style-type: none"> <li>Loans originated in our recent expansion markets, loans that are designated as shared national credits, and certain COVID-19 deferral program loans.</li> <li>Changes in the composition of the loan portfolios</li> <li>Loans downgraded to special mention, substandard, or non-accrual status</li> </ul>	Added net reserves using qualitative processes related to: <ul style="list-style-type: none"> <li>Loans originated in our recent expansion markets and loans that are designated as shared national credits</li> <li>Changes in the composition of the loan portfolios</li> <li>Loans downgraded to special mention, substandard, or non-accrual status</li> </ul>

The liability for unfunded lending commitments utilizes the same model as the allowance for credit losses on loans, however, the liability for unfunded lending commitments incorporates an assumption for the portion of unfunded commitments that are expected to be funded.

*Sensitivity in the Allowance for Credit Loss model*

The allowance for credit losses is an estimate that requires significant judgment including projections of the macro-economic environment. The forecasted macro-economic environment continuously changes which can cause fluctuations in estimated expected losses.

The current forecast projects a sharp recession with a recovery in the next two years as a result of the COVID-19 outbreak. This pandemic is unprecedented and information that could be used in the estimation of the allowance for credit losses changes frequently. Events such as the timing of governmental required business lock downs or possible additional waves of infection could prolong and deepen the projected recession.

A summary of the activity in the allowance for credit losses on loans and the liability for unfunded lending commitments during the three and nine months ended September 30, 2020 follows:

<i>(In thousands)</i>	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
<b>ALLOWANCE FOR CREDIT LOSSES ON LOANS</b>						
<b>Balance at end of prior period</b>	\$ 130,553	\$ 110,191	\$ 240,744	\$ 91,760	\$ 68,922	\$ 160,682
Adoption of ASU 2016-13	—	—	—	(29,711)	8,672	(21,039)
<b>Balance at beginning of period</b>	\$ 130,553	\$ 110,191	\$ 240,744	\$ 62,049	\$ 77,594	\$ 139,643
Provision for credit losses on loans	(1,935)	5,135	3,200	69,418	54,141	123,559
Deductions:						
Loans charged off	357	10,292	10,649	4,159	32,127	36,286
Less recoveries on loans	163	2,902	3,065	1,116	8,328	9,444
Net loan charge-offs	194	7,390	7,584	3,043	23,799	26,842
<b>Balance September 30, 2020</b>	\$ 128,424	\$ 107,936	\$ 236,360	\$ 128,424	\$ 107,936	\$ 236,360
<b>LIABILITY FOR UNFUNDED LENDING COMMITMENTS</b>						
<b>Balance at end of prior period</b>	\$ 34,052	\$ 1,247	\$ 35,299	\$ 399	\$ 676	\$ 1,075
Adoption of ASU 2016-13	—	—	—	16,057	33	16,090
<b>Balance at beginning of period</b>	\$ 34,052	\$ 1,247	\$ 35,299	\$ 16,456	\$ 709	\$ 17,165
Provision for credit losses on unfunded lending commitments	(60)	(39)	(99)	17,536	499	18,035
<b>Balance September 30, 2020</b>	\$ 33,992	\$ 1,208	\$ 35,200	\$ 33,992	\$ 1,208	\$ 35,200
<b>ALLOWANCE FOR CREDIT LOSSES ON LOANS AND LIABILITY FOR UNFUNDED LENDING COMMITMENTS</b>	<b>\$ 162,416</b>	<b>\$ 109,144</b>	<b>\$ 271,560</b>	<b>\$ 162,416</b>	<b>\$ 109,144</b>	<b>\$ 271,560</b>

#### *Allowance for loan losses*

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2019 follows:

<i>(In thousands)</i>	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
<b>Balance at beginning of period</b>	\$ 91,808	\$ 69,374	\$ 161,182	\$ 92,869	\$ 67,063	\$ 159,932
Provision for loan losses	553	10,410	10,963	55	35,177	35,232
Deductions:						
Loans charged off	490	13,990	14,480	1,436	42,233	43,669
Less recoveries on loans	199	2,818	3,017	582	8,605	9,187
Net loan charge-offs	291	11,172	11,463	854	33,628	34,482
<b>Balance September 30, 2019</b>	\$ 92,070	\$ 68,612	\$ 160,682	\$ 92,070	\$ 68,612	\$ 160,682

### Delinquent and non-accrual loans

The Company considers loans past due on the day following the contractual repayment date, if the contractual repayment was not received by the Company as of the end of the business day. The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at September 30, 2020 and December 31, 2019.

<i>(In thousands)</i>	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
<b>September 30, 2020</b>					
<b>Commercial:</b>					
Business	\$ 6,636,383	\$ 7,106	\$ 2,629	\$ 37,295	\$ 6,683,413
Real estate – construction and land	991,404	18,320	4	1	1,009,729
Real estate – business	2,987,992	4,137	—	1,063	2,993,192
<b>Personal Banking:</b>					
Real estate – personal	2,743,260	6,029	2,667	1,911	2,753,867
Consumer	1,983,820	20,329	2,211	—	2,006,360
Revolving home equity	322,572	1,237	394	—	324,203
Consumer credit card	629,181	12,181	6,531	—	647,893
Overdrafts	2,080	190	—	—	2,270
<b>Total</b>	<b>\$ 16,296,692</b>	<b>\$ 69,529</b>	<b>\$ 14,436</b>	<b>\$ 40,270</b>	<b>\$ 16,420,927</b>
<b>December 31, 2019</b>					
<b>Commercial:</b>					
Business	\$ 5,545,104	\$ 12,064	\$ 792	\$ 7,489	\$ 5,565,449
Real estate – construction and land	882,826	13,046	3,503	2	899,377
Real estate – business	2,830,494	2,030	—	1,030	2,833,554
<b>Personal Banking:</b>					
Real estate – personal	2,345,243	6,129	1,689	1,699	2,354,760
Consumer	1,928,082	34,053	2,010	—	1,964,145
Revolving home equity	347,258	1,743	250	—	349,251
Consumer credit card	742,659	10,703	11,615	—	764,977
Overdrafts	5,972	332	—	—	6,304
<b>Total</b>	<b>\$ 14,627,638</b>	<b>\$ 80,100</b>	<b>\$ 19,859</b>	<b>\$ 10,220</b>	<b>\$ 14,737,817</b>

At September 30, 2020, the Company had \$20.6 million of non-accrual business loans that had no allowance for credit loss. The Company did not record any interest income on non-accrual loans during the three and nine months ended September 30, 2020.

### Credit quality indicators

The following table provides information about the credit quality of the Commercial loan portfolio. The Company utilizes an internal risk rating system comprised of a series of grades to categorize loans according to perceived risk associated with the expectation of debt repayment based on borrower specific information including but not limited to current financial information, historical payment experience, industry information, collateral levels and collateral types. The “pass” category consists of a range of loan grades that reflect increasing, though still acceptable, risk. A loan is assigned the risk rating at origination and then monitored throughout the contractual term for possible risk rating changes. Movement of risk through the various grade levels in the “pass” category is monitored for early identification of credit deterioration. The “special mention” rating is applied to loans where the borrower exhibits negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. It is a transitional grade that is closely monitored for improvement or deterioration. The “substandard” rating is applied to loans where the borrower exhibits well-defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. Loans are placed on “non-accrual” when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment.

All loans are analyzed for risk rating updates annually. For larger loans, rating assessments may be more frequent if relevant information is obtained earlier through debt covenant monitoring or overall relationship management. Smaller loans are monitored as identified by the loan officer based on the risk profile of the individual borrower or if the loan becomes past

due related to credit issues. Loans rated Special Mention, Substandard or Non-accrual are subject to quarterly review and monitoring processes. In addition to the regular monitoring performed by the lending personnel and credit committees, loans are subject to review by a credit review department which verifies the appropriateness of the risk ratings for the loans chosen as part of its risk-based review plan.

The risk category of loans in the Commercial portfolio as of September 30, 2020 are as follows:

<i>(In thousands)</i>	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2020	2019	2018	2017	2016	Prior		
<b>Business</b>								
Risk Rating:								
Pass	\$ 2,394,434	\$ 1,097,498	\$ 518,966	\$ 356,416	\$ 186,992	\$ 307,681	\$ 1,535,511	\$ 6,397,498
Special mention	29,620	28,518	17,532	1,120	5,773	1,843	63,973	148,379
Substandard	16,118	26,401	2,139	2,849	3,608	13,879	35,247	100,241
Non-accrual	19,948	—	2,065	16	125	3,845	11,296	37,295
Total Business:	\$ 2,460,120	\$ 1,152,417	\$ 540,702	\$ 360,401	\$ 196,498	\$ 327,248	\$ 1,646,027	\$ 6,683,413
<b>Real estate-construction</b>								
Risk Rating:								
Pass	\$ 407,465	\$ 323,632	\$ 131,606	\$ 49,040	\$ 24,660	\$ 682	\$ 32,865	\$ 969,950
Special mention	—	—	10,107	14,555	—	—	—	24,662
Substandard	1,354	—	593	13,169	—	—	—	15,116
Non-accrual	1	—	—	—	—	—	—	1
Total Real estate-construction:	\$ 408,820	\$ 323,632	\$ 142,306	\$ 76,764	\$ 24,660	\$ 682	\$ 32,865	\$ 1,009,729
<b>Real estate- business</b>								
Risk Rating:								
Pass	\$ 713,079	\$ 698,287	\$ 384,214	\$ 283,843	\$ 329,613	\$ 238,663	\$ 46,224	\$ 2,693,923
Special mention	24,660	11,959	45,547	6,943	20,837	1,285	2	111,233
Substandard	57,938	6,099	11,228	57,364	17,306	33,472	3,566	186,973
Non-accrual	1	285	624	—	—	153	—	1,063
Total Real-estate business:	\$ 795,678	\$ 716,630	\$ 441,613	\$ 348,150	\$ 367,756	\$ 273,573	\$ 49,792	\$ 2,993,192
<b>Commercial loans</b>								
Risk Rating:								
Pass	\$ 3,514,978	\$ 2,119,417	\$ 1,034,786	\$ 689,299	\$ 541,265	\$ 547,026	\$ 1,614,600	\$ 10,061,371
Special mention	54,280	40,477	73,186	22,618	26,610	3,128	63,975	284,274
Substandard	75,410	32,500	13,960	73,382	20,914	47,351	38,813	302,330
Non-accrual	19,950	285	2,689	16	125	3,998	11,296	38,359
Total Commercial loans:	\$ 3,664,618	\$ 2,192,679	\$ 1,124,621	\$ 785,315	\$ 588,914	\$ 601,503	\$ 1,728,684	\$ 10,686,334

Information about the credit quality of the Commercial loan portfolio as of December 31, 2019 follows:

<i>(In thousands)</i>	Commercial Loans			
	Business	Real Estate-Construction	Real Estate-Business	Total
<b>December 31, 2019</b>				
Pass	\$ 5,393,928	\$ 856,364	\$ 2,659,827	\$ 8,910,119
Special mention	80,089	42,541	92,626	215,256
Substandard	83,943	470	80,071	164,484
Non-accrual	7,489	2	1,030	8,521
<b>Total</b>	\$ 5,565,449	\$ 899,377	\$ 2,833,554	\$ 9,298,380

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided as of September 30, 2020 below:

<i>(In thousands)</i>	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2020	2019	2018	2017	2016	Prior		
<b>Real estate-personal</b>								
Current to 90 days past due	\$ 897,007	\$ 532,003	\$ 238,092	\$ 227,499	\$ 247,754	\$ 595,713	\$ 11,221	\$ 2,749,289
Over 90 days past due	273	394	422	361	357	860	—	2,667
Non-accrual	—	195	129	45	121	1,421	—	1,911
<b>Total Real estate-personal:</b>	<b>\$ 897,280</b>	<b>\$ 532,592</b>	<b>\$ 238,643</b>	<b>\$ 227,905</b>	<b>\$ 248,232</b>	<b>\$ 597,994</b>	<b>\$ 11,221</b>	<b>\$ 2,753,867</b>
<b>Consumer</b>								
Current to 90 days past due	\$ 446,909	\$ 380,399	\$ 188,186	\$ 137,253	\$ 90,236	\$ 104,466	\$ 656,700	\$ 2,004,149
Over 90 days past due	76	337	158	176	162	278	1,024	2,211
<b>Total Consumer:</b>	<b>\$ 446,985</b>	<b>\$ 380,736</b>	<b>\$ 188,344</b>	<b>\$ 137,429</b>	<b>\$ 90,398</b>	<b>\$ 104,744</b>	<b>\$ 657,724</b>	<b>\$ 2,006,360</b>
<b>Revolving home equity</b>								
Current to 90 days past due	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 323,809	\$ 323,809
Over 90 days past due	—	—	—	—	—	—	394	394
<b>Total Revolving home equity:</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 324,203</b>	<b>\$ 324,203</b>
<b>Consumer credit card</b>								
Current to 90 days past due	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 641,362	\$ 641,362
Over 90 days past due	—	—	—	—	—	—	6,531	6,531
<b>Total Consumer credit card:</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 647,893</b>	<b>\$ 647,893</b>
<b>Overdrafts</b>								
Current to 90 days past due	\$ 2,270	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,270
Over 90 days past due	—	—	—	—	—	—	—	—
<b>Total Overdrafts:</b>	<b>\$ 2,270</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,270</b>
<b>Personal banking loans</b>								
Current to 90 days past due	\$ 1,346,186	\$ 912,402	\$ 426,278	\$ 364,752	\$ 337,990	\$ 700,179	\$ 1,633,092	\$ 5,720,879
Over 90 days past due	349	731	580	537	519	1,138	7,949	11,803
Non-accrual	—	195	129	45	121	1,421	—	1,911
<b>Total Personal banking loans:</b>	<b>\$ 1,346,535</b>	<b>\$ 913,328</b>	<b>\$ 426,987</b>	<b>\$ 365,334</b>	<b>\$ 338,630</b>	<b>\$ 702,738</b>	<b>\$ 1,641,041</b>	<b>\$ 5,734,593</b>

#### Collateral-dependent loans

The Company's collateral-dependent loans are comprised of large loans on non-accrual status. The Company requires that collateral-dependent loans are either over-collateralized or carry collateral equal to the amortized cost of the loan. The following table presents the amortized cost basis of collateral-dependent loans as of September 30, 2020.

<i>(In thousands)</i>	Business Assets	Future Revenue Streams	Energy	Total
<b>Commercial:</b>				
Business	\$ 18,843	\$ 3,616	\$ 14,276	\$ 36,734
<b>Total</b>	<b>\$ 18,843</b>	<b>\$ 3,616</b>	<b>\$ 14,276</b>	<b>\$ 36,734</b>

### Other Personal Banking loan information

As noted above, the credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above section on "Credit quality indicators." In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history and is considered supplementary information utilized by the Company, as management does not consider this information in evaluating the allowance for credit losses on loans. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain personal real estate loans for which FICO scores are not obtained because the loans generally pertain to commercial customer activities and are often underwritten with other collateral considerations. These loans totaled \$183.3 million at September 30, 2020 and \$198.2 million at December 31, 2019. The table also excludes consumer loans related to the Company's patient healthcare loan program, which totaled \$193.2 million at September 30, 2020 and \$199.2 million at December 31, 2019. As the healthcare loans are guaranteed by the hospital, customer FICO scores are not obtained for these loans. The personal real estate loans and consumer loans excluded below totaled less than 7% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at September 30, 2020 and December 31, 2019 by FICO score.

Personal Banking Loans				
% of Loan Category				
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
<b>September 30, 2020</b>				
FICO score:				
Under 600	1.0 %	2.4 %	1.4 %	5.2 %
600 - 659	2.1	3.9	2.5	12.9
660 - 719	8.5	14.5	7.3	32.2
720 - 779	25.7	25.6	22.6	27.5
780 and over	62.7	53.6	66.2	22.2
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
<b>December 31, 2019</b>				
FICO score:				
Under 600	1.0 %	3.0 %	1.7 %	5.6 %
600 - 659	1.9	5.2	1.9	14.3
660 - 719	9.2	15.4	9.0	32.2
720 - 779	25.7	27.0	21.5	26.6
780 and over	62.2	49.4	65.9	21.3
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

### Troubled debt restructurings

Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected. Commercial performing restructured loans are primarily comprised of certain business, construction and business real estate loans classified as substandard but renewed at rates judged to be non-market. These loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card and other small consumer loans under various debt management and assistance programs. Modifications to these loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. Certain personal real estate, revolving home equity, and consumer loans were classified as consumer bankruptcy troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments. Other consumer loans classified as troubled debt restructurings consist of various other workout arrangements with consumer customers.

Section 4013 of the CARES Act was signed into law on March 27, 2020, and includes a provision that short-term modifications are not troubled debt restructurings, if made on a good-faith basis in response to COVID-19 to borrowers who were current prior to December 31, 2019. In addition to the CARES Act, bank regulatory agencies issued interagency guidance stating suspending the troubled debt restructuring classification would be appropriate if the borrower was less than 30 days past due at the time the modification program is implemented. The guidance also provides that loans generally will not be adversely classified if the short-term modification is related to COVID-19 relief programs. The Company follows the guidance under the CARES Act when determining if a customer's modification is subject to troubled debt restructuring classification. If it is deemed the modification is not short-term, not COVID-19 related or the customer does not meet the criteria under the guidance to be scoped out of troubled debt restructuring classification, the Company will evaluate the loan modifications under its existing framework which requires modifications that result in a concession to a borrower experiencing financial difficulty be accounted for as a troubled debt restructuring.

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
<b>Accruing restructured loans:</b>		
Commercial	\$ 50,921	\$ 55,934
Assistance programs	8,208	8,365
Consumer bankruptcy	3,101	3,592
Other consumer	2,418	3,621
Non-accrual loans	8,513	7,938
<b>Total troubled debt restructurings</b>	<b>\$ 73,161</b>	<b>\$ 79,450</b>

The table below shows the balance of troubled debt restructurings by loan classification at September 30, 2020, in addition to the outstanding balances of these restructured loans which the Company considers to have been in default at any time during the past twelve months. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal.

<i>(In thousands)</i>	September 30, 2020	Balance 90 days past due at any time during previous 12 months
<b>Commercial:</b>		
Business	\$ 17,696	\$ 674
Real estate - construction and land	41	—
Real estate - business	40,596	—
<b>Personal Banking:</b>		
Real estate - personal	3,278	252
Consumer	3,530	103
Revolving home equity	56	—
Consumer credit card	7,964	257
<b>Total troubled debt restructurings</b>	<b>\$ 73,161</b>	<b>\$ 1,286</b>

For those loans on non-accrual status also classified as restructured, the modification did not create any further financial effect on the Company as those loans were already recorded at net realizable value. For those performing commercial loans classified as restructured, there were no concessions involving forgiveness of principal or interest and, therefore, there was no financial impact to the Company as a result of modification to these loans. No financial impact resulted from those performing loans where the debt was not reaffirmed in bankruptcy, as no changes to loan terms occurred in that process. However, the effects of modifications to loans under various debt management and assistance programs were estimated to decrease interest income by approximately \$1.1 million on an annual, pre-tax basis, compared to amounts contractually owed. Other modifications to consumer loans mainly involve extensions and other small modifications that did not include the forgiveness of principal or interest.

The allowance for credit losses related to troubled debt restructurings on non-accrual status is determined by individual evaluation, including collateral adequacy, using the same process as loans on non-accrual status which are not classified as troubled debt restructurings. Those performing loans classified as troubled debt restructurings are accruing loans which management expects to collect under contractual terms. Performing commercial loans having no other concessions granted other than being renewed at non-market interest rates are judged to have similar risk characteristics as non-troubled debt commercial loans and are collectively evaluated based on internal risk rating, loan type, delinquency, historical experience and current economic factors. Performing personal banking loans classified as troubled debt restructurings resulted from the borrower not reaffirming the debt during bankruptcy and have had no other concession granted, other than the Bank's future limitations on collecting payment deficiencies or in pursuing foreclosure actions. As such, they have similar risk characteristics as non-troubled debt personal banking loans and are evaluated collectively based on loan type, delinquency, historical experience and current economic factors.

If a troubled debt restructuring defaults and is already on non-accrual status, the allowance for credit losses continues to be based on individual evaluation, using discounted expected cash flows or the fair value of collateral. If an accruing troubled debt restructuring defaults, the loan's risk rating is downgraded to non-accrual status and the loan's related allowance for credit losses is determined based on individual evaluation, or if necessary, the loan is charged off and collection efforts begun.

The Company had commitments of \$13.1 million at September 30, 2020 to lend additional funds to borrowers with restructured loans.

#### *Impaired loans*

*The following Impaired loans disclosures were superceded by ASC 2016-13.*

The table below shows the Company's balances of impaired loans at December 31, 2019. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section above.

<i>(In thousands)</i>	Dec. 31, 2019
Non-accrual loans	\$ 10,220
Restructured loans (accruing)	71,512
<b>Total impaired loans</b>	<b>\$ 81,732</b>

The following table shows the balance in the allowance for loan losses and the related loan balance at December 31, 2019, disaggregated on the basis of impairment methodology. Impaired loans evaluated under Accounting Standards Codification (ASC) 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans deemed to have similar risk characteristics, which are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

<i>(In thousands)</i>	Impaired Loans		All Other Loans	
	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
<b>December 31, 2019</b>				
Commercial	\$ 1,629	\$ 64,500	\$ 90,131	\$ 9,233,880
Personal Banking	1,117	17,232	67,805	5,422,205
<b>Total</b>	<b>\$ 2,746</b>	<b>\$ 81,732</b>	<b>\$ 157,936</b>	<b>\$ 14,656,085</b>

The following table provides additional information about impaired loans held by the Company at December 31, 2019, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

<i>(In thousands)</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>December 31, 2019</b>			
<b>With no related allowance recorded:</b>			
Business	\$ 7,054	\$ 13,738	\$ —
	\$ 7,054	\$ 13,738	\$ —
<b>With an allowance recorded:</b>			
Business	\$ 30,437	\$ 30,487	\$ 837
Real estate – construction and land	46	51	1
Real estate – business	26,963	27,643	791
Real estate – personal	4,729	5,968	258
Consumer	4,421	4,421	35
Revolving home equity	35	35	1
Consumer credit card	8,047	8,047	823
	\$ 74,678	\$ 76,652	\$ 2,746
<b>Total</b>	<b>\$ 81,732</b>	<b>\$ 90,390</b>	<b>\$ 2,746</b>

Total average impaired loans for the three and nine month periods ended September 30, 2019 are shown in the table below.

<i>(In thousands)</i>	Commercial	Personal Banking	Total
<b>Average Impaired Loans:</b>			
<b>For the three months ended September 30, 2019</b>			
Non-accrual loans	\$ 9,655	\$ 1,903	\$ 11,558
Restructured loans (accruing)	53,517	15,644	69,161
<b>Total</b>	<b>\$ 63,172</b>	<b>\$ 17,547</b>	<b>\$ 80,719</b>
<b>For the nine months ended September 30, 2019</b>			
Non-accrual loans	\$ 9,881	\$ 2,074	\$ 11,955
Restructured loans (accruing)	48,248	15,605	63,853
<b>Total</b>	<b>\$ 58,129</b>	<b>\$ 17,679</b>	<b>\$ 75,808</b>

The table below shows interest income recognized during the three and nine month periods ended September 30, 2019, respectively, for impaired loans held at the end of each period. This interest all relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section above.

<i>(In thousands)</i>	For the Three Months Ended September 30 2019	For the Nine Months Ended September 30 2019
<b>Interest income recognized on impaired loans:</b>		
Business	\$ 222	\$ 665
Real estate – construction and land	1	2
Real estate – business	363	1,088
Real estate – personal	31	92
Consumer	76	227
Revolving home equity	1	2
Consumer credit card	181	542
<b>Total</b>	<b>\$ 875</b>	<b>\$ 2,618</b>

### Loans held for sale

The Company designates certain long-term fixed rate personal real estate loans as held for sale, and the Company has elected the fair value option for these loans. The election of the fair value option aligns the accounting for these loans with the related economic hedges discussed in Note 11. The loans are primarily sold to FNMA, FHLMC, and GNMA. At September 30, 2020, the fair value of these loans was \$35.1 million, and the unpaid principal balance was \$33.3 million.

The Company also designates certain student loan originations as held for sale. The borrowers are credit-worthy students who are attending colleges and universities. The loans are intended to be sold in the secondary market, and the Company maintains contracts with Sallie Mae to sell the loans within 210 days after the last disbursement to the student. These loans are carried at lower of cost or fair value, which at September 30, 2020 totaled \$4.4 million.

At September 30, 2020, none of the loans held for sale were on non-accrual status or 90 days past due and still accruing.

### Foreclosed real estate/repossessed assets

The Company's holdings of foreclosed real estate totaled \$57 thousand and \$365 thousand at September 30, 2020 and December 31, 2019, respectively. Personal property acquired in repossession, generally autos, marine and recreational vehicles (RV), totaled \$1.3 million and \$5.5 million at September 30, 2020 and December 31, 2019, respectively. Upon acquisition, these assets are recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. They are subsequently carried at the lower of this cost basis or fair value less estimated selling costs.

## 3. Investment Securities

Investment securities consisted of the following at September 30, 2020 and December 31, 2019.

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Available for sale debt securities	\$ 11,539,061	\$ 8,571,626
Trading debt securities	25,805	28,161
Equity securities:		
Readily determinable fair value	2,803	2,929
No readily determinable fair value	1,400	1,280
Other:		
Federal Reserve Bank stock	34,070	33,770
Federal Home Loan Bank stock	10,000	10,000
Private equity investments	78,462	94,122
<b>Total investment securities <sup>(1)</sup></b>	<b>\$ 11,691,601</b>	<b>\$ 8,741,888</b>

<sup>(1)</sup> Accrued interest receivable totaled \$39.7 million at September 30, 2020 and was included within other assets on the consolidated balance sheet.

The Company has elected to measure equity securities with no readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or similar investment of the same issuer. This portfolio includes the Company's holdings of Visa Class B shares, which have a carrying value of zero, as there have not been observable price changes in orderly transactions for identical or similar investments of the same issuer. During the period, the Company did not record any impairment or other adjustments to the carrying amount of these equity securities without a readily determinable fair value.

Other investment securities include Federal Reserve Bank (FRB) stock, Federal Home Loan Bank (FHLB) stock, and investments in portfolio concerns held by the Company's private equity subsidiaries. FRB stock and FHLB stock are held for debt and regulatory purposes. Investment in FRB stock is based on the capital structure of the investing bank, and investment in FHLB stock is tied to the level of borrowings from the FHLB. These holdings are carried at cost. The private equity investments, in the absence of readily ascertainable market values, are carried at estimated fair value.

The majority of the Company's investment portfolio is comprised of available for sale debt securities, which are carried at fair value with changes in fair value reported in accumulated other comprehensive income (AOCI). A summary of the available for sale debt securities by maturity groupings as of September 30, 2020 is shown below. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, and GNMA, in addition to non-agency mortgage-backed securities, which have no guarantee but are collateralized by commercial and residential mortgages. Also included are certain other asset-backed securities, which are primarily collateralized by credit cards,

automobiles, student loans, and commercial loans. These securities differ from traditional debt securities primarily in that they may have uncertain maturity dates and are priced based on estimated prepayment rates on the underlying collateral.

<i>(In thousands)</i>	Amortized Cost	Fair Value
<b>U.S. government and federal agency obligations:</b>		
Within 1 year	\$ 59,367	\$ 59,706
After 1 but within 5 years	489,042	521,797
After 5 but within 10 years	225,159	253,555
<b>Total U.S. government and federal agency obligations</b>	<b>773,568</b>	<b>835,058</b>
<b>Government-sponsored enterprise obligations:</b>		
Within 1 year	55,185	54,770
After 10 years	35,818	40,531
<b>Total government-sponsored enterprise obligations</b>	<b>91,003</b>	<b>95,301</b>
<b>State and municipal obligations:</b>		
Within 1 year	68,787	69,179
After 1 but within 5 years	764,831	803,168
After 5 but within 10 years	597,276	624,525
After 10 years	464,375	472,272
<b>Total state and municipal obligations</b>	<b>1,895,269</b>	<b>1,969,144</b>
<b>Mortgage and asset-backed securities:</b>		
Agency mortgage-backed securities	5,919,500	6,081,802
Non-agency mortgage-backed securities	324,266	332,970
Asset-backed securities	1,633,988	1,658,579
<b>Total mortgage and asset-backed securities</b>	<b>7,877,754</b>	<b>8,073,351</b>
<b>Other debt securities:</b>		
Within 1 year	23,565	23,701
After 1 but within 5 years	252,180	264,096
After 5 but within 10 years	240,814	249,136
After 10 years	28,195	29,274
<b>Total other debt securities</b>	<b>544,754</b>	<b>566,207</b>
<b>Total available for sale debt securities</b>	<b>\$ 11,182,348</b>	<b>\$ 11,539,061</b>

Investments in U.S. government and federal agency obligations include U.S. Treasury inflation-protected securities, which totaled \$429.8 million, at fair value, at September 30, 2020. Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index.

*Allowance for credit losses on available for sale debt securities*

As described in Note 1, the Company adopted ASU 2016-13, Measurement of Credit Losses on Financial Instruments, on January 1, 2020. The adoption of ASU 2016-13 had no impact to the Company's available for sale securities reported in its consolidated financial statements at January 1, 2020. For the three and nine months ended September 30, 2020, the Company did not recognize a credit loss expense on any available for sale debt securities.

The Company's impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis is placed on securities whose credit rating has fallen below Baa3 (Moody's) or BBB- (Standard & Poor's), whose fair values have fallen more than 20% below purchase price, or who have been identified based on management's judgment. These securities are placed on a watch list and cash flow analyses are prepared on an individual security basis. Inputs to these models include factors such as cash flow projections, contractual payments required, delinquency rates, credit support from other tranches, prepayment speeds, collateral loss severity rates (including loan to values), and various other information related to the underlying collateral. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At September 30, 2020, the fair value of securities on this watch list was \$53.3 million compared to \$51.6 million at December 31, 2019.

The Company's model for establishing its allowance for credit losses uses cash flows projected to be received over the estimated life of the securities, discounted to present value, and compared to the current amortized cost bases of the securities. As of September 30, 2020, the Company did not identify any securities for which a credit loss exists. Significant inputs to the cash flow models used at September 30, 2020 to quantify credit losses included the following:

Significant Inputs	Range		
Prepayment CPR	0%	-	25%
Projected cumulative default	13%	-	54%
Credit support	0%	-	20%
Loss severity	7%	-	63%

The table below summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at September 30, 2020. Unrealized losses on these available for sale securities have not been recognized into income because the issuers' bonds are of investment grade quality (rated Baa3, BBB- or higher), their fair values have not fallen more than 20% below purchase price, and they have not been identified by management as a security needing a more detailed review. Additionally, management does not intend to sell the securities, and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery. The cash flow analyses prepared for securities included on the watch list discussed above did not identify any instances where the present value of expected cash flows were less than the amortized cost basis of the security.

The following table summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at September 30, 2020, aggregated by major security type and length of impairment period.

<i>(In thousands)</i>	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2020</b>						
Government-sponsored enterprise obligations	\$ 14,489	\$ 503	\$ —	\$ —	\$ 14,489	\$ 503
State and municipal obligations	84,876	578	—	—	84,876	578
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	287,620	5,402	—	—	287,620	5,402
Non-agency mortgage-backed securities	68,513	234	1,069	45	69,582	279
Asset-backed securities	97,592	1,100	245,198	6,196	342,790	7,296
Total mortgage and asset-backed securities	453,725	6,736	246,267	6,241	699,992	12,977
Other debt securities	43,600	493	—	—	43,600	493
<b>Total</b>	<b>\$ 596,690</b>	<b>\$ 8,310</b>	<b>\$ 246,267</b>	<b>\$ 6,241</b>	<b>\$ 842,957</b>	<b>\$ 14,551</b>

Debt securities available for sale in an unrealized loss position, aggregated by major security type and length of impairment period, are as follows:

<i>(In thousands)</i>	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2019</b>						
U.S. government and federal agency obligations	\$ 31,787	\$ 21	\$ 25,405	\$ 21	\$ 57,192	\$ 42
Government-sponsored enterprise obligations	6,155	187	—	—	6,155	187
State and municipal obligations	6,700	31	1,554	1	8,254	32
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	652,352	5,306	147,653	867	800,005	6,173
Non-agency mortgage-backed securities	102,931	254	189,747	451	292,678	705
Asset-backed securities	330,876	3,610	152,461	2,108	483,337	5,718
Total mortgage and asset-backed securities	1,086,159	9,170	489,861	3,426	1,576,020	12,596
Other debt securities	5,496	4	997	3	6,493	7
<b>Total</b>	<b>\$ 1,136,297</b>	<b>\$ 9,413</b>	<b>\$ 517,817</b>	<b>\$ 3,451</b>	<b>\$ 1,654,114</b>	<b>\$ 12,864</b>

The entire available for sale debt portfolio included \$843.0 million of securities that were in a loss position at September 30, 2020, compared to \$1.7 billion at December 31, 2019. The total amount of unrealized loss on these securities was \$14.6 million

at September 30, 2020, an increase of \$1.7 million compared to the loss at December 31, 2019. Securities with significant unrealized losses are discussed in the "Allowance for credit losses on available for sale debt securities" section above.

For debt securities classified as available for sale, the following table shows the amortized cost, fair value, and allowance for credit losses of securities available for sale at September 30, 2020 and the corresponding amounts of gross unrealized gains and losses (pre-tax) in AOCI, by security type.

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
<b>September 30, 2020</b>					
U.S. government and federal agency obligations	\$ 773,568	\$ 61,490	\$ —	\$ —	\$ 835,058
Government-sponsored enterprise obligations	91,003	4,801	(503)	—	95,301
State and municipal obligations	1,895,269	74,453	(578)	—	1,969,144
Mortgage and asset-backed securities:					
Agency mortgage-backed securities	5,919,500	167,704	(5,402)	—	6,081,802
Non-agency mortgage-backed securities	324,266	8,983	(279)	—	332,970
Asset-backed securities	1,633,988	31,887	(7,296)	—	1,658,579
Total mortgage and asset-backed securities	7,877,754	208,574	(12,977)	—	8,073,351
Other debt securities	544,754	21,946	(493)	—	566,207
<b>Total</b>	<b>\$ 11,182,348</b>	<b>\$ 371,264</b>	<b>\$ (14,551)</b>	<b>\$ —</b>	<b>\$ 11,539,061</b>

For debt securities classified as available for sale, the following table shows the amortized cost and fair value of securities available-for-sale at December 31, 2019 and the corresponding amounts of gross unrealized gains and losses (pre-tax) in AOCI, by security type.

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2019</b>				
U.S. government and federal agency obligations	\$ 827,861	\$ 23,957	\$ (42)	\$ 851,776
Government-sponsored enterprise obligations	138,734	730	(187)	139,277
State and municipal obligations	1,225,532	42,427	(32)	1,267,927
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,893,247	50,890	(6,173)	3,937,964
Non-agency mortgage-backed securities	796,451	14,036	(705)	809,782
Asset-backed securities	1,228,151	11,056	(5,718)	1,233,489
Total mortgage and asset-backed securities	5,917,849	75,982	(12,596)	5,981,235
Other debt securities	325,555	5,863	(7)	331,411
<b>Total</b>	<b>\$ 8,435,531</b>	<b>\$ 148,959</b>	<b>\$ (12,864)</b>	<b>\$ 8,571,626</b>

The following tables present proceeds from sales of securities and the components of investment securities gains and losses which have been recognized in earnings.

<i>(In thousands)</i>	For the Nine Months Ended September 30	
	2020	2019
<b>Proceeds from sales of securities:</b>		
Available for sale debt securities	\$ 574,374	\$ 368,939
Equity securities	2	3,459
Other	—	7,243
<b>Total proceeds</b>	<b>\$ 574,376</b>	<b>\$ 379,641</b>
<b>Investment securities gains (losses), net:</b>		
<b>Available for sale debt securities:</b>		
Gains realized on sales	\$ 16,965	\$ 2,287
Losses realized on sales	—	(1,559)
Other-than-temporary impairment recognized on debt securities	—	(133)
<b>Equity securities:</b>		
Gains realized on sales	2	2,865
Fair value adjustments, net	(126)	318
<b>Other:</b>		
Gains realized on sales	—	1,094
Fair value adjustments, net	(18,116)	(998)
<b>Total investment securities gains (losses), net</b>	<b>\$ (1,275)</b>	<b>\$ 3,874</b>

Net gains and losses on investment securities for the nine months ended September 30, 2020 included net gains of \$17.0 million realized on sales of available for sale debt securities as well as net losses in fair value of \$126 thousand and \$18.1 million on equity securities and private equity investments, respectively, due to fair value adjustments.

At September 30, 2020, securities totaling \$4.5 billion in fair value were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowings at the FRB and FHLB. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated \$218.0 million, while the remaining securities were pledged under agreements pursuant to which the secured parties may not sell or re-pledge the collateral. Except for obligations of various government-sponsored enterprises such as FNMA, FHLB and FHLMC, no investment in a single issuer exceeded 10% of stockholders' equity.

#### 4. Goodwill and Other Intangible Assets

The following table presents information about the Company's intangible assets which have estimable useful lives.

<i>(In thousands)</i>	September 30, 2020				December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
<b>Amortizable intangible assets:</b>								
Core deposit premium	\$ 31,270	\$ (29,818)	\$ —	\$ 1,452	\$ 31,270	\$ (29,485)	\$ —	\$ 1,785
Mortgage servicing rights	13,983	(6,102)	(2,150)	5,731	12,942	(4,866)	(327)	7,749
<b>Total</b>	<b>\$ 45,253</b>	<b>\$ (35,920)</b>	<b>\$ (2,150)</b>	<b>\$ 7,183</b>	<b>\$ 44,212</b>	<b>\$ (34,351)</b>	<b>\$ (327)</b>	<b>\$ 9,534</b>

Aggregate amortization expense on intangible assets was \$859 thousand and \$395 thousand for the three month periods ended September 30, 2020 and 2019, respectively, and \$1.6 million and \$1.1 million for the nine month periods ended September 30, 2020 and 2019, respectively. The following table shows the estimated annual amortization expense for the next five fiscal years. This expense is based on existing asset balances and the interest rate environment as of September 30, 2020. The Company's actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

<i>(In thousands)</i>	
2020	\$ 2,143
2021	1,243
2022	1,013
2023	834
2024	689

Changes in the carrying amount of goodwill and net other intangible assets for the nine month period ended September 30, 2020 are as follows:

<i>(In thousands)</i>	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
<b>Balance January 1, 2020</b>	\$ 138,921	\$ 1,785	\$ 7,749
Originations	—	—	1,041
Amortization	—	(333)	(1,236)
Impairment	—	—	(1,823)
<b>Balance September 30, 2020</b>	\$ 138,921	\$ 1,452	\$ 5,731

Goodwill allocated to the Company's operating segments at September 30, 2020 and December 31, 2019 is shown below.

<i>(In thousands)</i>	
Consumer segment	\$ 70,721
Commercial segment	67,454
Wealth segment	746
<b>Total goodwill</b>	\$ 138,921

## 5. Guarantees

The Company, as a provider of financial services, routinely issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Company generally to guarantee the payment or performance obligation of a customer to a third party. While these represent a potential outlay by the Company, a significant amount of the commitments may expire without being drawn upon. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. The letters of credit are subject to the same credit policies, underwriting standards and approval process as loans made by the Company. Most of the standby letters of credit are secured, and in the event of nonperformance by customers, the Company has rights to the underlying collateral, which could include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

Upon issuance of standby letters of credit, the Company recognizes a liability for the fair value of the obligation undertaken, which is estimated to be equivalent to the amount of fees received from the customer over the life of the agreement. At September 30, 2020, that net liability was \$3.3 million, which will be accreted into income over the remaining life of the respective commitments. The contractual amount of these letters of credit, which represents the maximum potential future payments guaranteed by the Company, was \$318.0 million at September 30, 2020.

The Company periodically enters into credit risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral and at September 30, 2020, believes sufficient collateral is available to cover potential swap losses. The RPAs are carried at fair value throughout their term with all changes in fair value, including those due to a change in the third party's creditworthiness, recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 2 years to 11 years. At September 30, 2020, the fair value of the Company's guarantee liabilities for RPAs was \$1.2 million, and the notional amount of the underlying swaps was \$272.8 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated but is dependent upon the fair value of the interest rate swaps at the time of default.

## 6. Leases

The Company has net investments in direct financing and sales-type leases to commercial, industrial, and tax-exempt entities. These leases are included within business loans on the Company's consolidated balance sheets. The Company primarily leases various types of equipment, trucks and trailers, and office furniture and fixtures. Lease agreements may include options to renew or for the lessee to purchase the leased equipment at the end of the lease term. The Company has elected to adopt the lease component expedient in which the lease and nonlease components are combined into the total lease receivable. The Company also leases office space to third parties, and these leases are classified as operating leases. The leases may include options to renew or expand the leased space, and currently the leases have remaining terms of 6 months to 7 years.

The following table provides the components of lease income.

(in thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Direct financing and sales-type leases	\$ 6,437	\$ 6,092	\$ 19,099	\$ 17,988
Operating leases <sup>(a)</sup>	2,270	1,984	6,491	5,816
<b>Total lease income</b>	<b>\$ 8,707</b>	<b>\$ 8,076</b>	<b>\$ 25,590</b>	<b>\$ 23,804</b>

(a) Includes rent from Tower Properties Company, a related party, of \$19 thousand for the three month periods ended September 30, 2020 and 2019, and \$57 thousand and \$56 thousand, respectively, for the nine months ended September 30, 2020 and 2019.

## 7. Pension

The amount of net pension cost is shown in the table below:

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Service cost - benefits earned during the period	\$ 93	\$ 159	\$ 295	\$ 477
Interest cost on projected benefit obligation	818	1,065	2,463	3,195
Expected return on plan assets	(1,317)	(1,196)	(3,911)	(3,589)
Amortization of prior service cost	(67)	(68)	(203)	(203)
Amortization of unrecognized net loss	503	586	1,587	1,757
<b>Net periodic pension cost</b>	<b>\$ 30</b>	<b>\$ 546</b>	<b>\$ 231</b>	<b>\$ 1,637</b>

All benefits accrued under the Company's defined benefit pension plan have been frozen since January 1, 2011. During the first nine months of 2020, the Company made no funding contributions to its defined benefit pension plan and made minimal funding contributions to a supplemental executive retirement plan (the CERP), which carries no segregated assets.

## 8. Common Stock \*

Presented below is a summary of the components used to calculate basic and diluted income per share. The Company applies the two-class method of computing income per share, as nonvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. The two-class method requires the calculation of separate income per share amounts for the nonvested share-based awards and for common stock. Income per share attributable to common stock is shown in the table below. Nonvested share-based awards are further discussed in Note 13.

<i>(In thousands, except per share data)</i>	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
<b>Basic income per common share:</b>				
Net income attributable to Commerce Bancshares, Inc.	\$ 132,448	\$ 109,242	\$ 224,168	\$ 314,351
Less preferred stock dividends	7,466	2,250	11,966	6,750
Net income available to common shareholders	124,982	106,992	212,202	307,601
Less income allocated to nonvested restricted stock	1,173	1,040	1,996	2,996
Net income allocated to common stock	\$ 123,809	\$ 105,952	\$ 210,206	\$ 304,605
Weighted average common shares outstanding	110,720	112,982	110,848	114,475
Basic income per common share	\$ 1.12	\$ .93	\$ 1.90	\$ 2.65
<b>Diluted income per common share:</b>				
Net income available to common shareholders	\$ 124,982	\$ 106,992	\$ 212,202	\$ 307,601
Less income allocated to nonvested restricted stock	1,170	1,039	1,993	2,991
Net income allocated to common stock	\$ 123,812	\$ 105,953	\$ 210,209	\$ 304,610
Weighted average common shares outstanding	110,720	112,982	110,848	114,475
Net effect of the assumed exercise of stock-based awards - based on				
the treasury stock method using the average market price for the respective periods	179	267	209	284
Weighted average diluted common shares outstanding	110,899	113,249	111,057	114,759
Diluted income per common share	\$ 1.11	\$ .93	\$ 1.89	\$ 2.65

Unexercised stock appreciation rights of 394 thousand and 378 thousand for the three month periods ended September 30, 2020 and 2019, respectively, and 281 thousand and 351 thousand for the nine month periods ended September 30, 2020 and 2019, respectively, were excluded from the computation of diluted income per common share because their inclusion would have been anti-dilutive.

On September 1, 2020, the Company redeemed all outstanding shares of its 6.00% Series B Non-Cumulative Perpetual Preferred Stock, \$1.00 par value per share (Series B Preferred Stock) and the corresponding depositary shares representing fractional interests in the Series B Preferred Stock (Series B Depositary Shares). The 6,000,000 depositary shares, each representing a 1/1,000th interest in a share of Series B Preferred Stock, were redeemed simultaneously with the redemption of the Series B Preferred Stock at a redemption price of \$25 per depositary share. Regular dividends on the outstanding shares of the Series B Preferred Stock were paid separately on September 1, 2020 to all holders of record as of August 14, 2020, in the customary manner, and future dividends ceased to accrue. For the nine month period ended September 30, 2020, preferred stock dividends totaled \$12.0 million, and included \$5.2 million related to the preferred stock redemption, which is the excess of the redemption costs over the book value of the preferred stock.

\* All prior year share and per share amounts in this note have been restated for the 5% common stock dividend distributed in December 2019.

## 9. Accumulated Other Comprehensive Income

The table below shows the activity and accumulated balances for components of other comprehensive income. The largest component is the unrealized holding gains and losses on available for sale debt securities. Another component is the amortization from other comprehensive income of losses associated with pension benefits, which occurs as the losses are included in current net periodic pension cost. The remaining component is gains and losses in fair value on certain interest rate floors that have been designated as cash flow hedging instruments. Information about unrealized gains and losses on securities can be found in Note 3, and information about unrealized gains and losses on cash flow hedge derivatives is located in Note 11.

The Company adopted ASU 2016-13 (CECL) on January 1, 2020, which changed the impairment model for available for sale debt securities. The new standard requires an allowance for credit losses when the present value of the cash flows expected to be collected is less than the security's amortized cost basis. See further discussion of the Company's CECL adoption in Note 1 and Note 3 to the consolidated financial statements. Further, the new standard superceded the guidance related to other-than-temporary impairment (OTTI), including the requirement to separately disclose the unrealized gains and losses on securities with OTTI. Prior to the Company's adoption of CECL, unrealized gains and losses on debt securities for which an OTTI has been recorded in current earnings were shown separately below. As a result of adopting CECL, the table below will separately disclose unrealized gains and losses on debt securities for which an allowance for credit losses has been recorded. During the first nine months of 2020, there were no securities for which an allowance for credit losses was recorded.

(In thousands)	Unrealized Gains (Losses) on Securities (1)		Pension Loss	Unrealized Gains (Losses) on Cash Flow Hedge Derivatives (2)	Total Accumulated Other Comprehensive Income (Loss)
	OTTI	Other			
<b>Balance January 1, 2020</b>	\$ 3,264	\$ 98,809	\$ (21,940)	\$ 30,311	\$ 110,444
Adoption of ASU 2016-13	(3,264)	3,264	—	—	—
<b>Balance January 1, 2020, adjusted</b>	—	102,073	(21,940)	30,311	110,444
Other comprehensive income before reclassifications to current earnings	—	237,583	—	94,702	332,285
Amounts reclassified to current earnings from accumulated other comprehensive income	—	(16,965)	1,384	(6,050)	(21,631)
Current period other comprehensive income, before tax	—	220,618	1,384	88,652	310,654
Income tax expense	—	(55,154)	(346)	(22,163)	(77,663)
Current period other comprehensive income, net of tax	—	165,464	1,038	66,489	232,991
<b>Balance September 30, 2020</b>	\$ —	\$ 267,537	\$ (20,902)	\$ 96,800	\$ 343,435
<b>Balance January 1, 2019</b>	\$ 3,861	\$ (52,278)	\$ (23,107)	\$ 6,855	\$ (64,669)
Other comprehensive income (loss) before reclassifications to current earnings	(709)	229,288	—	46,165	274,744
Amounts reclassified to current earnings from accumulated other comprehensive income	133	(728)	1,554	2,751	3,710
Current period other comprehensive income (loss), before tax	(576)	228,560	1,554	48,916	278,454
Income tax (expense) benefit	144	(57,139)	(388)	(12,229)	(69,612)
Current period other comprehensive income (loss), net of tax	(432)	171,421	1,166	36,687	208,842
Transfer of unrealized gain on securities for which impairment was not previously recognized	35	(35)	—	—	—
<b>Balance September 30, 2019</b>	\$ 3,464	\$ 119,108	\$ (21,941)	\$ 43,542	\$ 144,173

(1) The pre-tax amounts reclassified from accumulated other comprehensive income to current earnings are included in "investment securities gains (losses), net" in the consolidated statements of income.

(2) The pre-tax amounts reclassified from accumulated other comprehensive income to current earnings are included in "interest and fees on loans" in the consolidated statements of income.

## 10. Segments

The Company segregates financial information for use in assessing its performance and allocating resources among three operating segments: Consumer, Commercial and Wealth. The Consumer segment consists of various consumer loan and deposit products offered through its retail branch network of approximately 160 locations. This segment also includes indirect and other consumer loan financing businesses, along with debit and credit card loan and fee businesses. Residential mortgage origination, sales and servicing functions are included in this Consumer segment, but residential mortgage loans retained by the Company are not considered part of this segment and are instead included in the Other segment. The Commercial segment provides corporate lending, leasing, and international services, along with business and governmental deposit products and commercial cash management services. This segment includes both merchant and commercial bank card products. It also

includes the Capital Markets Group, which sells fixed income securities and provides safekeeping and accounting services to its business and correspondent bank customers. The Wealth segment provides traditional trust and estate planning, advisory and discretionary investment management, and brokerage services. This segment also provides various loan and deposit related services to its private banking customers.

The following table presents selected financial information by segment and reconciliations of combined segment totals to consolidated totals. There were no material intersegment revenues among the three segments. Management periodically makes changes to methods of assigning costs and income to its business segments to better reflect operating results. If appropriate, these changes are reflected in prior year information presented below.

<i>(In thousands)</i>	Consumer	Commercial	Wealth	Segment Totals	Other/Elimination	Consolidated Totals
<b>Three Months Ended September 30, 2020</b>						
Net interest income	\$ 80,944	\$ 111,807	\$ 15,310	\$ 208,061	\$ 7,901	\$ 215,962
Provision for credit losses	(7,654)	(200)	13	(7,841)	4,740	(3,101)
Non-interest income	37,116	47,920	47,701	132,737	(3,165)	129,572
Investment securities gains, net	—	—	—	—	16,155	16,155
Non-interest expense	(73,074)	(78,283)	(31,013)	(182,370)	(8,488)	(190,858)
Income before income taxes	\$ 37,332	\$ 81,244	\$ 32,011	\$ 150,587	\$ 17,143	\$ 167,730
<b>Nine Months Ended September 30, 2020</b>						
Net interest income	\$ 241,195	\$ 300,307	\$ 41,686	\$ 583,188	\$ 36,896	\$ 620,084
Provision for credit losses	(23,885)	(3,122)	10	(26,997)	(114,596)	(141,593)
Non-interest income	107,492	143,747	139,700	390,939	(20,189)	370,750
Investment securities losses, net	—	—	—	—	(1,275)	(1,275)
Non-interest expense	(225,791)	(237,350)	(93,156)	(556,297)	(15,771)	(572,068)
Income before income taxes	\$ 99,011	\$ 203,582	\$ 88,240	\$ 390,833	\$ (114,935)	\$ 275,898
<b>Three Months Ended September 30, 2019</b>						
Net interest income	\$ 80,111	\$ 85,402	\$ 11,525	\$ 177,038	\$ 26,474	\$ 203,512
Provision for loan losses	(10,757)	(345)	(197)	(11,299)	336	(10,963)
Non-interest income	36,049	53,462	45,721	135,232	(2,489)	132,743
Investment securities gains, net	—	—	—	—	4,909	4,909
Non-interest expense	(73,872)	(76,105)	(30,248)	(180,225)	(10,795)	(191,020)
Income before income taxes	\$ 31,531	\$ 62,414	\$ 26,801	\$ 120,746	\$ 18,435	\$ 139,181
<b>Nine Months Ended September 30, 2019</b>						
Net interest income	\$ 236,215	\$ 256,649	\$ 35,662	\$ 528,526	\$ 90,108	\$ 618,634
Provision for loan losses	(33,061)	(1,053)	(165)	(34,279)	(953)	(35,232)
Non-interest income	98,840	151,655	133,556	384,051	(2,809)	381,242
Investment securities gains, net	—	—	—	—	3,874	3,874
Non-interest expense	(223,355)	(231,790)	(91,708)	(546,853)	(25,371)	(572,224)
Income before income taxes	\$ 78,639	\$ 175,461	\$ 77,345	\$ 331,445	\$ 64,849	\$ 396,294

The information presented above was derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting procedures and methods, which have been developed to reflect the underlying economics of the businesses. The methodologies are applied in connection with funds transfer pricing and assignment of overhead costs among segments. Funds transfer pricing was used in the determination of net interest income by assigning a standard cost (credit) for funds used (provided) by assets and liabilities based on their maturity, prepayment and/or repricing characteristics.

The segment activity, as shown above, includes both direct and allocated items. Amounts in the “Other/Elimination” column include activity not related to the segments, such as that relating to administrative functions, the investment securities portfolio, and the effect of certain expense allocations to the segments. The provision for credit losses in this category contains the difference between net loan charge-offs assigned directly to the segments and the recorded provision for credit loss expense. Included in this category’s net interest income are earnings of the investment portfolio, which are not allocated to a segment.

The performance measurement of the operating segments is based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The information is also not necessarily indicative of the segments’ financial condition and results of operations if they were independent entities.

## 11. Derivative Instruments

The notional amounts of the Company's derivative instruments are shown in the table below. These contractual amounts, along with other terms of the derivative, are used to determine amounts to be exchanged between counterparties and are not a measure of loss exposure. At September 30, 2020, with the exception of the interest rate floor (discussed below), the Company's derivative instruments are accounted for as free-standing derivatives, and changes in their fair value are recorded in current earnings.

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Interest rate swaps	\$ 2,425,837	\$ 2,606,181
Interest rate floors	500,000	1,500,000
Interest rate caps	113,495	59,316
Credit risk participation agreements	365,611	316,225
Foreign exchange contracts	9,293	10,936
Mortgage loan commitments	60,311	13,755
Mortgage loan forward sale contracts	9,451	1,943
Forward TBA contracts	64,500	17,500
<b>Total notional amount</b>	<b>\$ 3,548,498</b>	<b>\$ 4,525,856</b>

The largest group of notional amounts relate to interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. The customers are engaged in a variety of businesses, including real estate, manufacturing, retail product distribution, education, and retirement communities. These customer swaps are offset by matching contracts purchased by the Company from other financial dealer institutions. Contracts with dealers that require central clearing are novated to a clearing agency who becomes the Company's counterparty. Because of the matching terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings.

Many of the Company's interest rate swap contracts with large financial institutions contain contingent features relating to debt ratings or capitalization levels. Under these provisions, if the Company's debt rating falls below investment grade or if the Company ceases to be "well-capitalized" under risk-based capital guidelines, certain counterparties can require immediate and ongoing collateralization on interest rate swaps in net liability positions or instant settlement of the contracts. The Company maintains debt ratings and capital well above these minimum requirements.

As of September 30, 2020, the Company has entered into one interest rate floor with a notional value of \$500.0 million, to hedge the risk of declining interest rates on certain floating rate commercial loans indexed to one month LIBOR. The interest rate floor has a purchased strike rate of 2.00% and is effective on December 15, 2020 and matures on December 15, 2026. The premium paid for the floor totaled \$10.7 million. As of September 30, 2020, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is approximately 6.2 years. The interest rate floor qualified and was designated as a cash flow hedge, and was assessed for effectiveness using regression analysis. The change in the fair value of the interest rate floor is recorded in AOCI, net of the amortization of the premium paid, which is recorded against interest and fees on loans in the consolidated statements of income. As of September 30, 2020, net deferred gains on the interest rate floor totaled \$38.7 million (pre-tax) and was recorded in AOCI in the consolidated balance sheet. As of September 30, 2020, it is expected that \$1.4 million (pre-tax) of interest rate floor premium amortization will be reclassified from AOCI into earnings over the next twelve months.

During the quarter ended September 30, 2020, the Company monetized two interest rate floors that were previously classified as cash flow hedges with a combined notional balance of \$1.0 billion and an asset fair value of \$115.9 million. As of September 30, 2020, the total unrealized gains on the monetized cash flow hedges remaining in AOCI was \$90.4 million (pre-tax). The unrealized gains will be reclassified into interest income as the underlying forecasted transactions impact earnings through the original maturity dates of the hedged forecasted transactions, or approximately 5.7 years.

In October 2020, the Company monetized the above interest rate floor that is effective on December 15, 2020 and will amortize a gain of \$37.6 million into earnings through December 15, 2026, the original maturity date.

The Company also contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps through risk participation agreements. The Company's risks and responsibilities as guarantor are further discussed in Note 5 on Guarantees. In addition, the Company enters into foreign exchange contracts, which are mainly comprised of contracts to purchase or deliver foreign currencies for customers at specific future dates.

Under its program to sell residential mortgage loans in the secondary market, the Company designates certain newly-originated residential mortgage loans as held for sale. Derivative instruments arising from this activity include mortgage loan commitments and forward loan sale contracts. Changes in the fair values of the loan commitments and funded loans prior to sale that are due to changes in interest rates are economically hedged with forward contracts to sell residential mortgage-backed securities in the to-be-announced (TBA) market. These forward TBA contracts are also considered to be derivatives and are settled in cash at the security settlement date.

The fair values of the Company's derivative instruments, whose notional amounts are listed above, are shown in the table below. Information about the valuation methods used to determine fair value is provided in Note 17 on Fair Value Measurements in the 2019 Annual Report on Form 10-K.

The Company's policy is to present its derivative assets and derivative liabilities on a gross basis in its consolidated balance sheets and these are reported in other assets and other liabilities. Certain collateral posted to and from the Company's clearing counterparty has been applied to the fair values of the cleared swaps, such that at September 30, 2020 in the table below, there were no reductions to the positive fair values of cleared swaps and the negative fair values of cleared swaps were reduced by \$77.8 million. At December 31, 2019, the positive fair values of cleared swaps were reduced by \$617 thousand and the negative fair values of cleared swaps were reduced by \$28.5 million.

	Asset Derivatives		Liability Derivatives	
	Sept. 30, 2020	Dec. 31, 2019	Sept. 30, 2020	Dec. 31, 2019
<i>(In thousands)</i>	Fair Value		Fair Value	
<b>Derivatives designated as hedging instruments:</b>				
Interest rate floors	\$ 47,306	\$ 67,192	\$ —	\$ —
<b>Total derivatives designated as hedging instruments</b>	<b>\$ 47,306</b>	<b>\$ 67,192</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Derivative instruments not designated as hedging instruments:</b>				
Interest rate swaps	\$ 96,866	\$ 37,774	\$ (18,981)	\$ (9,916)
Interest rate caps	1	4	(1)	(4)
Credit risk participation agreements	440	140	(1,185)	(230)
Foreign exchange contracts	32	97	(50)	(32)
Mortgage loan commitments	3,137	459	—	—
Mortgage loan forward sale contracts	29	6	(6)	(2)
Forward TBA contracts	39	2	(147)	(35)
<b>Total derivatives not designated as hedging instruments</b>	<b>\$ 100,544</b>	<b>\$ 38,482</b>	<b>\$ (20,370)</b>	<b>\$ (10,219)</b>
<b>Total</b>	<b>\$ 147,850</b>	<b>\$ 105,674</b>	<b>\$ (20,370)</b>	<b>\$ (10,219)</b>

The pre-tax effects of derivative instruments on the consolidated statements of income are shown in the tables below.

<i>(In thousands)</i>	Amount of Gain or (Loss) Recognized in OCI			Location of Gain (Loss) Reclassified from AOCI into Income	Amount of Gain (Loss) Reclassified from AOCI into Income		
	Total	Included Component	Excluded Component		Total	Included Component	Excluded Component
<b>For the Three Months Ended September 30, 2020</b>							
Derivatives in cash flow hedging relationships:							
Interest rate floors	\$ (4,481)	\$ (4,087)	\$ (394)	Interest and fees on loans	\$ 4,163	\$ 5,509	\$ (1,346)
<b>Total</b>	<b>\$ (4,481)</b>	<b>\$ (4,087)</b>	<b>\$ (394)</b>	<b>Total</b>	<b>\$ 4,163</b>	<b>\$ 5,509</b>	<b>\$ (1,346)</b>
<b>For the Nine Months Ended September 30, 2020</b>							
Derivatives in cash flow hedging relationships:							
Interest rate floors	\$ 94,702	\$ 121,621	\$ (26,919)	Interest and fees on loans	\$ 6,050	\$ 9,458	\$ (3,408)
<b>Total</b>	<b>\$ 94,702</b>	<b>\$ 121,621</b>	<b>\$ (26,919)</b>	<b>Total</b>	<b>\$ 6,050</b>	<b>\$ 9,458</b>	<b>\$ (3,408)</b>
<b>For the Three Months Ended September 30, 2019</b>							
Derivatives in cash flow hedging relationships:							
Interest rate floors	\$ 17,760	\$ 31,422	\$ (13,662)	Interest and fees on loans	\$ (1,042)	\$ —	\$ (1,042)
<b>Total</b>	<b>\$ 17,760</b>	<b>\$ 31,422</b>	<b>\$ (13,662)</b>	<b>Total</b>	<b>\$ (1,042)</b>	<b>\$ —</b>	<b>\$ (1,042)</b>
<b>For the Nine Months Ended September 30, 2019</b>							
Derivatives in cash flow hedging relationships:							
Interest rate floors	\$ 46,165	\$ 77,559	\$ (31,394)	Interest and fees on loans	\$ (2,751)	\$ —	\$ (2,751)
<b>Total</b>	<b>\$ 46,165</b>	<b>\$ 77,559</b>	<b>\$ (31,394)</b>	<b>Total</b>	<b>\$ (2,751)</b>	<b>\$ —</b>	<b>\$ (2,751)</b>

<i>(In thousands)</i>		Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives			
			For the Three Months Ended September 30		For the Nine Months Ended September 30	
			2020	2019	2020	2019
Derivative instruments:						
Interest rate swaps	Other non-interest income	\$ 81	\$ 1,519	\$ 369	\$ 2,646	
Interest rate caps	Other non-interest income	1	—	20	—	
Credit risk participation agreements	Other non-interest income	(87)	37	153	78	
Foreign exchange contracts	Other non-interest income	—	(5)	(82)	(2)	
Mortgage loan commitments	Loan fees and sales	589	(112)	2,678	287	
Mortgage loan forward sale contracts	Loan fees and sales	20	(2)	19	1	
Forward TBA contracts	Loan fees and sales	(709)	(1,412)	(482)	(819)	
<b>Total</b>		<b>\$ (105)</b>	<b>\$ 25</b>	<b>\$ 2,675</b>	<b>\$ 2,191</b>	

The following table shows the extent to which assets and liabilities relating to derivative instruments have been offset in the consolidated balance sheets. It also provides information about these instruments which are subject to an enforceable master netting arrangement, irrespective of whether they are offset, and the extent to which the instruments could potentially be offset. Also shown is collateral received or pledged in the form of other financial instruments, which is generally cash or marketable securities. The collateral amounts in this table are limited to the outstanding balances of the related asset or liability (after netting is applied); thus, amounts of excess collateral are not shown. Most of the derivatives in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

Collateral exchanged between the Company and dealer bank counterparties is generally subject to thresholds and transfer minimums, and usually consists of marketable securities. By contract, these may be sold or re-pledged by the secured party until recalled at a subsequent valuation date by the pledging party. For those swap transactions requiring central clearing, the Company posts cash or securities to its clearing agent. Collateral positions are valued daily, and adjustments to amounts received and pledged by the Company are made as appropriate to maintain proper collateralization for these transactions. Swap derivative transactions with customers are generally secured by rights to non-financial collateral, such as real and personal property, which is not shown in the table below.

<i>(In thousands)</i>	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments Available for Offset	Collateral Received/Pledged	
<b>September 30, 2020</b>						
<b>Assets:</b>						
Derivatives subject to master netting agreements	\$ 144,440	\$ —	\$ 144,440	\$ (9,933)	\$ (37,441)	\$ 97,066
Derivatives not subject to master netting agreements	3,410	—	3,410			
<b>Total derivatives</b>	<b>\$ 147,850</b>	<b>\$ —</b>	<b>\$ 147,850</b>			
<b>Liabilities:</b>						
Derivatives subject to master netting agreements	\$ 19,915	\$ —	\$ 19,915	\$ (9,933)	\$ (8,719)	\$ 1,263
Derivatives not subject to master netting agreements	455	—	455			
<b>Total derivatives</b>	<b>\$ 20,370</b>	<b>\$ —</b>	<b>\$ 20,370</b>			
<b>December 31, 2019</b>						
<b>Assets:</b>						
Derivatives subject to master netting agreements	\$ 105,147	\$ —	\$ 105,147	\$ (8,104)	\$ (59,525)	\$ 37,518
Derivatives not subject to master netting agreements	527	—	527			
<b>Total derivatives</b>	<b>\$ 105,674</b>	<b>\$ —</b>	<b>\$ 105,674</b>			
<b>Liabilities:</b>						
Derivatives subject to master netting agreements	\$ 10,083	\$ —	\$ 10,083	\$ (8,104)	\$ (437)	\$ 1,542
Derivatives not subject to master netting agreements	136	—	136			
<b>Total derivatives</b>	<b>\$ 10,219</b>	<b>\$ —</b>	<b>\$ 10,219</b>			

## 12. Resale and Repurchase Agreements

The following table shows the extent to which assets and liabilities relating to securities purchased under agreements to resell (resale agreements) and securities sold under agreements to repurchase (repurchase agreements) have been offset in the consolidated balance sheets, in addition to the extent to which they could potentially be offset. Also shown is collateral received or pledged, which consists of marketable securities. The collateral amounts in the table are limited to the outstanding balances of the related asset or liability (after netting is applied); thus, amounts of excess collateral are not shown. The agreements in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

Resale and repurchase agreements are agreements to purchase/sell securities subject to an obligation to resell/repurchase the same or similar securities. They are accounted for as collateralized financing transactions, not as sales and purchases of the securities portfolio. The securities collateral accepted or pledged in resale and repurchase agreements with other financial institutions also may be sold or re-pledged by the secured party but is usually delivered to and held by third party trustees. The Company generally retains custody of securities pledged for repurchase agreements with customers.

The Company is party to agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resale agreements with the same financial institution counterparty. These repurchase and resale agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the consolidated balance sheets, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled \$200.0 million at September 30, 2020 and December 31, 2019. At September 30, 2020, the Company had posted collateral of \$209.6 million in marketable securities, consisting of agency mortgage-backed bonds, and had accepted \$209.0 million in agency mortgage-backed bonds.

<i>(In thousands)</i>	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		Net Amount
				Financial Instruments Available for Offset	Securities Collateral Received/Pledged	
<b>September 30, 2020</b>						
Total resale agreements, subject to master netting arrangements	\$ 1,050,000	\$ (200,000)	\$ 850,000	\$ —	\$ (850,000)	\$ —
Total repurchase agreements, subject to master netting arrangements	1,846,294	(200,000)	1,646,294	—	(1,646,294)	—
<b>December 31, 2019</b>						
Total resale agreements, subject to master netting arrangements	\$ 1,050,000	\$ (200,000)	\$ 850,000	\$ —	\$ (850,000)	\$ —
Total repurchase agreements, subject to master netting arrangements	2,030,737	(200,000)	1,830,737	—	(1,830,737)	—

The table below shows the remaining contractual maturities of repurchase agreements outstanding at September 30, 2020 and December 31, 2019, in addition to the various types of marketable securities that have been pledged by the Company as collateral for these borrowings.

<i>(In thousands)</i>	Remaining Contractual Maturity of the Agreements				Total
	Overnight and continuous	Up to 90 days	Greater than 90 days		
<b>September 30, 2020</b>					
Repurchase agreements, secured by:					
U.S. government and federal agency obligations	\$ 146,935	\$ —	\$ —	\$ —	\$ 146,935
Government-sponsored enterprise obligations	21,386	—	—	—	21,386
Agency mortgage-backed securities	1,167,467	58,729	214,896	—	1,441,092
Non-agency mortgage-backed securities	98,651	—	—	—	98,651
Asset-backed securities	103,861	—	—	—	103,861
Other debt securities	34,369	—	—	—	34,369
<b>Total repurchase agreements, gross amount recognized</b>	<b>\$ 1,572,669</b>	<b>\$ 58,729</b>	<b>\$ 214,896</b>	<b>\$ —</b>	<b>\$ 1,846,294</b>
<b>December 31, 2019</b>					
Repurchase agreements, secured by:					
U.S. government and federal agency obligations	\$ 526,283	\$ —	\$ —	\$ —	\$ 526,283
Government-sponsored enterprise obligations	32,575	—	—	—	32,575
Agency mortgage-backed securities	973,774	48,517	227,802	—	1,250,093
Non-agency mortgage-backed securities	71,399	—	—	—	71,399
Asset-backed securities	60,012	40,000	—	—	100,012
Other debt securities	50,375	—	—	—	50,375
<b>Total repurchase agreements, gross amount recognized</b>	<b>\$ 1,714,418</b>	<b>\$ 88,517</b>	<b>\$ 227,802</b>	<b>\$ —</b>	<b>\$ 2,030,737</b>

### 13. Stock-Based Compensation

The Company issues stock-based compensation in the form of nonvested restricted stock and stock appreciation rights (SARs). Most of the awards are issued during the first quarter of each year. The stock-based compensation expense that has been charged against income was \$3.8 million and \$3.5 million in the three months ended September 30, 2020 and 2019, respectively, and \$11.2 million and \$10.4 million in the nine months ended September 30, 2020 and 2019, respectively.

Nonvested stock awards granted generally vest in 4 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company's nonvested share awards as of September 30, 2020, and changes during the nine month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
<b>Nonvested at January 1, 2020</b>	1,104,211	\$47.57
Granted	218,257	64.22
Vested	(275,070)	33.97
Forfeited	(6,730)	55.42
<b>Nonvested at September 30, 2020</b>	1,040,668	\$54.61

SARs are granted with exercise prices equal to the market price of the Company's stock at the date of grant. SARs vest ratably over 4 years of continuous service and have contractual terms of 10 years. All SARs must be settled in stock under provisions of the plan. In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of SARs on date of grant. The current year per share average fair value and the model assumptions are shown in the table below.

Weighted per share average fair value at grant date	\$10.12
Assumptions:	
Dividend yield	1.7 %
Volatility	20.2 %
Risk-free interest rate	1.0 %
Expected term	5.8 years

A summary of SAR activity during the first nine months of 2020 is presented below.

<i>(Dollars in thousands, except per share data)</i>	Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<b>Outstanding at January 1, 2020</b>	1,049,816	\$43.55		
Granted	103,210	63.18		
Forfeited	(5,600)	58.15		
Expired	(150)	57.07		
Exercised	(150,029)	34.52		
<b>Outstanding at September 30, 2020</b>	997,247	\$46.86	6.4 years	\$ 10,582

### 14. Revenue from Contracts with Customers

The core principle of ASU 2014-09, "Revenue from Contracts with Customers," is that an entity should recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the nine months ended September 30, 2020, approximately 63% of the Company's total revenue was comprised of net interest income, which is not within the scope of this guidance. Of the remaining revenue, those items that were subject to this guidance mainly included fees for bank card, trust, deposit account services and consumer brokerage services.

The following table disaggregates non-interest income subject to ASU 2014-09 by major product line.

<i>(In thousands)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Bank card transaction fees	\$ 37,873	\$ 44,510	\$ 111,818	\$ 126,800
Trust fees	40,769	39,592	118,676	115,223
Deposit account charges and other fees	23,107	24,032	69,063	71,009
Consumer brokerage services	4,011	4,030	11,099	11,665
Other non-interest income	7,566	9,809	23,718	27,003
Total non-interest income from contracts with customers	113,326	121,973	334,374	351,700
Other non-interest income <sup>(1)</sup>	16,246	10,770	36,376	29,542
<b>Total non-interest income</b>	<b>\$ 129,572</b>	<b>\$ 132,743</b>	<b>\$ 370,750</b>	<b>\$ 381,242</b>

*(1) This revenue is not within the scope of ASU 2014-09, and includes fees relating to capital market activities, loan fees and sales, derivative instruments, standby letters of credit and various other transactions.*

For bank card transaction fees, the majority of debit and credit card fees are earned in the Consumer segment, while corporate card and merchant fees are earned in the Commercial segment. The Consumer and Commercial segments each contribute approximately half of the Company's deposit account charge revenue. All trust fees and nearly all of the consumer brokerage services income are earned in the Wealth segment.

The following table presents the opening and closing receivable balances for the nine month periods ended September 30, 2020 and 2019 for the Company's significant revenue categories subject to ASU 2014-09.

<i>(In thousands)</i>	September 30, 2020	December 31, 2019	September 30, 2019	December 31, 2018
Bank card transaction fees	\$ 11,501	\$ 13,915	\$ 10,871	\$ 13,035
Trust fees	2,122	2,093	2,666	2,721
Deposit account charges and other fees	5,839	6,523	5,154	6,107
Consumer brokerage services	476	596	655	559

For these revenue categories, none of the transaction price has been allocated to performance obligations that are unsatisfied as of the end of a reporting period.

## 15. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain financial and nonfinancial assets and liabilities and to determine fair value disclosures. Various financial instruments such as available for sale debt securities, equity securities, trading debt securities, certain investments relating to private equity activities, and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets and liabilities on a nonrecurring basis, such as mortgage servicing rights and certain other investment securities. These nonrecurring fair value adjustments typically involve lower of cost or fair value accounting or write-downs of individual assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. For accounting disclosure purposes, a three-level valuation hierarchy of fair value measurements has been established. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs that are observable for the assets or liabilities, either directly or indirectly (such as interest rates, yield curves, and prepayment speeds).
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value. These may be internally developed, using the Company's best information and assumptions that a market participant would consider.

The valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis are described in the Fair Value Measurements note in the Company's 2019 Annual Report on Form 10-K. There have been no significant changes in these methodologies since then.

**Instruments Measured at Fair Value on a Recurring Basis**

The table below presents the September 30, 2020 and December 31, 2019 carrying values of assets and liabilities measured at fair value on a recurring basis. There were no transfers among levels during the first nine months of 2020 or the year ended December 31, 2019.

<i>(In thousands)</i>	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2020</b>				
<b>Assets:</b>				
Residential mortgage loans held for sale	\$ 35,076	\$ —	\$ 35,076	\$ —
Available for sale debt securities:				
U.S. government and federal agency obligations	835,058	835,058	—	—
Government-sponsored enterprise obligations	95,301	—	95,301	—
State and municipal obligations	1,969,144	—	1,961,278	7,866
Agency mortgage-backed securities	6,081,802	—	6,081,802	—
Non-agency mortgage-backed securities	332,970	—	332,970	—
Asset-backed securities	1,658,579	—	1,658,579	—
Other debt securities	566,207	—	566,207	—
Trading debt securities	25,805	—	25,805	—
Equity securities	2,803	2,803	—	—
Private equity investments	78,462	—	—	78,462
Derivatives *	147,850	—	144,273	3,577
Assets held in trust for deferred compensation plan	17,294	17,294	—	—
<b>Total assets</b>	<b>11,846,351</b>	<b>855,155</b>	<b>10,901,291</b>	<b>89,905</b>
<b>Liabilities:</b>				
Derivatives *	20,370	—	19,185	1,185
Liabilities held in trust for deferred compensation plan	17,294	17,294	—	—
<b>Total liabilities</b>	<b>\$ 37,664</b>	<b>\$ 17,294</b>	<b>\$ 19,185</b>	<b>\$ 1,185</b>
<b>December 31, 2019</b>				
<b>Assets:</b>				
Residential mortgage loans held for sale	\$ 9,181	\$ —	\$ 9,181	\$ —
Available for sale debt securities:				
U.S. government and federal agency obligations	851,776	851,776	—	—
Government-sponsored enterprise obligations	139,277	—	139,277	—
State and municipal obligations	1,267,927	—	1,258,074	9,853
Agency mortgage-backed securities	3,937,964	—	3,937,964	—
Non-agency mortgage-backed securities	809,782	—	809,782	—
Asset-backed securities	1,233,489	—	1,233,489	—
Other debt securities	331,411	—	331,411	—
Trading debt securities	28,161	—	28,161	—
Equity securities	2,929	2,929	—	—
Private equity investments	94,122	—	—	94,122
Derivatives *	105,674	—	105,075	599
Assets held in trust for deferred compensation plan	16,518	16,518	—	—
<b>Total assets</b>	<b>8,828,211</b>	<b>871,223</b>	<b>7,852,414</b>	<b>104,574</b>
<b>Liabilities:</b>				
Derivatives *	10,219	—	9,989	230
Liabilities held in trust for deferred compensation plan	16,518	16,518	—	—
<b>Total liabilities</b>	<b>\$ 26,737</b>	<b>\$ 16,518</b>	<b>\$ 9,989</b>	<b>\$ 230</b>

\* The fair value of each class of derivative is shown in Note 11.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	State and Municipal Obligations	Private Equity Investments	Derivatives	Total
<i>(In thousands)</i>				
<b>For the three months ended September 30, 2020</b>				
Balance June 30, 2020	\$ 9,490	\$ 73,846	\$ 1,888	\$ 85,224
Total gains or losses (realized/unrealized):				
Included in earnings	—	2,389	504	2,893
Included in other comprehensive income *	271	—	—	271
Investment securities called	(2,000)	—	—	(2,000)
Discount accretion	105	—	—	105
Purchases of private equity investments	—	2,522	—	2,522
Sale/pay down of private equity investments	—	(295)	—	(295)
Balance September 30, 2020	\$ 7,866	\$ 78,462	\$ 2,392	\$ 88,720
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2020	\$ —	\$ 2,409	\$ 3,050	\$ 5,459
Total gains or losses for the three months included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2020	\$ 258	\$ —	\$ —	\$ 258
<b>For the nine months ended September 30, 2020</b>				
Balance January 1, 2020	\$ 9,853	\$ 94,122	\$ 369	\$ 104,344
Total gains or losses (realized/unrealized):				
Included in earnings	—	(18,116)	2,832	(15,284)
Included in other comprehensive income *	(101)	—	—	(101)
Investment securities called	(2,000)	—	—	(2,000)
Discount accretion	114	—	—	114
Purchases of private equity investments	—	2,791	—	2,791
Sale/pay down of private equity investments	—	(364)	—	(364)
Capitalized interest/dividends	—	29	—	29
Sale of risk participation agreement	—	—	(809)	(809)
Balance September 30, 2020	\$ 7,866	\$ 78,462	\$ 2,392	\$ 88,720
Total gains or losses for the nine months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2020	\$ —	\$ (18,096)	\$ 3,262	\$ (14,834)
Total gains or losses for the nine months included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2020	\$ (52)	\$ —	\$ —	\$ (52)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	State and Municipal Obligations	Private Equity Investments	Derivatives	Total
<i>(In thousands)</i>				
<b>For the three months ended September 30, 2019</b>				
Balance June 30, 2019	\$ 11,641	\$ 86,411	\$ 883	\$ 98,935
Total gains or losses (realized/unrealized):				
Included in earnings	—	2,020	(75)	1,945
Included in other comprehensive income *	(65)	—	—	(65)
Investment securities called	(1,715)	—	—	(1,715)
Discount accretion	36	—	—	36
Purchases of private equity investments	—	5,010	—	5,010
Purchase of risk participation agreement	—	—	200	200
Sale of risk participation agreement	—	—	(241)	(241)
Balance September 30, 2019	\$ 9,897	\$ 93,441	\$ 767	\$ 104,105
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2019	\$ —	\$ 2,020	\$ 860	\$ 2,880
<b>For the nine months ended September 30, 2019</b>				
Balance January 1, 2019	\$ 14,158	\$ 85,659	\$ 490	\$ 100,307
Total gains or losses (realized/unrealized):				
Included in earnings	—	(998)	365	(633)
Included in other comprehensive income *	294	—	—	294
Investment securities called	(4,635)	—	—	(4,635)
Discount accretion	80	—	—	80
Purchases of private equity investments	—	14,899	—	14,899
Sale/pay down of private equity investments	—	(6,150)	—	(6,150)
Capitalized interest/dividends	—	31	—	31
Purchase of risk participation agreement	—	—	226	226
Sale of risk participation agreement	—	—	(314)	(314)
Balance September 30, 2019	\$ 9,897	\$ 93,441	\$ 767	\$ 104,105
Total gains or losses for the nine months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2019	\$ —	\$ (2,448)	\$ 916	\$ (1,532)

\* Included in "net unrealized gains (losses) on other securities" in the consolidated statements of comprehensive income.

Gains and losses included in earnings for the Level 3 assets and liabilities in the previous table are reported in the following line items in the consolidated statements of income:

<i>(In thousands)</i>	Loan Fees and Sales	Other Non- Interest Income	Investment Securities Gains (Losses), Net	Total
<b>For the three months ended September 30, 2020</b>				
Total gains or losses included in earnings	\$ 591	\$ (87)	\$ 2,389	\$ 2,893
Change in unrealized gains or losses relating to assets still held at September 30, 2020	\$ 3,137	\$ (87)	\$ 2,409	\$ 5,459
<b>For the nine months ended September 30, 2020</b>				
Total gains or losses included in earnings	\$ 2,679	\$ 153	\$ (18,116)	\$ (15,284)
Change in unrealized gains or losses relating to assets still held at September 30, 2020	\$ 3,137	\$ 125	\$ (18,096)	\$ (14,834)
<b>For the three months ended September 30, 2019</b>				
Total gains or losses included in earnings	\$ (112)	\$ 37	\$ 2,020	\$ 1,945
Change in unrealized gains or losses relating to assets still held at September 30, 2019	\$ 823	\$ 37	\$ 2,020	\$ 2,880
<b>For the nine months ended September 30, 2019</b>				
Total gains or losses included in earnings	\$ 287	\$ 78	\$ (998)	\$ (633)
Change in unrealized gains or losses relating to assets still held at September 30, 2019	\$ 823	\$ 93	\$ (2,448)	\$ (1,532)

### Level 3 Inputs

The Company's significant Level 3 measurements, which employ unobservable inputs that are readily quantifiable, pertain to auction rate securities (ARS), investments in portfolio concerns held by the Company's private equity subsidiaries, and held for sale residential mortgage loan commitments. ARS are included in state and municipal securities and totaled \$7.9 million at September 30, 2020, while private equity investments, included in other securities, totaled \$78.5 million.

Information about these inputs is presented in the table below.

<u>Quantitative Information about Level 3 Fair Value Measurements</u>					Weighted	
	Valuation Technique	Unobservable Input	Range		Average*	
Auction rate securities	Discounted cash flow	Estimated market recovery period	5 years		5 years	
		Estimated market rate	1.9%	-	2.3%	1.9%
Private equity investments	Market comparable companies	EBITDA multiple	4.0	-	6.0	5.3
Mortgage loan commitments	Discounted cash flow	Probability of funding	58.7%	-	99.8%	84.1%
		Embedded servicing value	.6%	-	1.0%	0.9%

\* Unobservable inputs were weighted by the relative fair value of the instruments.

### Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during the first nine months of 2020 and 2019, and still held as of September 30, 2020 and 2019, the following table provides the adjustments to fair value recognized during the respective periods, the level of valuation inputs used to determine each adjustment, and the carrying value of the related individual assets or portfolios at September 30, 2020 and 2019.

<i>(In thousands)</i>	Fair Value	Fair Value Measurements Using			Total Gains (Losses) Recognized During the Nine Months Ended September 30
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>September 30, 2020</b>					
Collateral dependent impaired loans	\$ 11,772	\$ —	\$ —	\$ 11,772	\$ (3,214)
Mortgage servicing rights	5,731	—	—	5,731	(1,823)
<b>September 30, 2019</b>					
Collateral dependent impaired loans	\$ 171	\$ —	\$ —	\$ 171	\$ (139)
Mortgage servicing rights	7,235	—	—	7,235	(404)
Long-lived assets	820	—	—	820	(318)

The Company's significant Level 3 measurements that are measured on a nonrecurring basis pertain to the Company's mortgage servicing rights retained on certain fixed rate personal real estate loan originations. Mortgage servicing rights are included in other assets on the consolidated balance sheet, and information about these inputs is presented in the table below.

	Quantitative Information about Level 3 Fair Value Measurements			Weighted Average*
	Valuation Technique	Unobservable Input	Range	
Mortgage servicing rights	Discounted cash flow	Discount rate	9.16 % - 9.30 %	9.28 %
		Prepayment speeds (CPR)*	13.22 % - 14.80 %	14.58 %
	Loan servicing costs - annually per loan			
		Performing loans	\$ 71 - \$ 72	\$ 72
		Delinquent loans	\$ 200 - \$ 750	
		Loans in foreclosure	\$ 1,000	

\*Ranges and weighted averages based on interest rate tranches.

The significant unobservable inputs used in the fair value measurement of the Company's mortgage servicing rights are updated periodically for changes in market conditions. Actual rates may differ from our estimates. Increases in prepayment speed and discount rates negatively impact the fair value of our mortgage servicing rights.

### 16. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments held by the Company are set forth below. Fair value estimates are made at a specific point in time based on relevant market information. They do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for many of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, risk characteristics and economic conditions. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Company's financial instruments and the classification of their fair value measurement within the valuation hierarchy are as follows at September 30, 2020 and December 31, 2019:

<i>(In thousands)</i>	Carrying Amount	Estimated Fair Value at September 30, 2020			Total
		Level 1	Level 2	Level 3	
<b>Financial Assets</b>					
Loans:					
Business	\$ 6,683,413	\$ —	\$ —	\$ 6,623,709	\$ 6,623,709
Real estate - construction and land	1,009,729	—	—	978,403	978,403
Real estate - business	2,993,192	—	—	2,986,961	2,986,961
Real estate - personal	2,753,867	—	—	2,766,421	2,766,421
Consumer	2,006,360	—	—	1,990,589	1,990,589
Revolving home equity	324,203	—	—	320,264	320,264
Consumer credit card	647,893	—	—	576,898	576,898
Overdrafts	2,270	—	—	2,227	2,227
<b>Total loans</b>	<b>16,420,927</b>	<b>—</b>	<b>—</b>	<b>16,245,472</b>	<b>16,245,472</b>
Loans held for sale	39,483	—	39,483	—	39,483
Investment securities	11,691,601	837,861	10,721,942	131,798	11,691,601
Federal funds sold	2,275	2,275	—	—	2,275
Securities purchased under agreements to resell	850,000	—	—	903,772	903,772
Interest earning deposits with banks	1,171,697	1,171,697	—	—	1,171,697
Cash and due from banks	357,616	357,616	—	—	357,616
Derivative instruments	147,850	—	144,273	3,577	147,850
Assets held in trust for deferred compensation plan	17,294	17,294	—	—	17,294
<b>Total</b>	<b>\$ 30,698,743</b>	<b>\$ 2,386,743</b>	<b>\$ 10,905,698</b>	<b>\$ 17,284,619</b>	<b>\$ 30,577,060</b>
<b>Financial Liabilities</b>					
Non-interest bearing deposits	\$ 10,727,827	\$ 10,727,827	\$ —	\$ —	\$ 10,727,827
Savings, interest checking and money market deposits	12,983,505	12,983,505	—	—	12,983,505
Certificates of deposit	1,990,447	—	—	2,002,118	2,002,118
Federal funds purchased	6,770	6,770	—	—	6,770
Securities sold under agreements to repurchase	1,646,294	—	—	1,646,338	1,646,338
Derivative instruments	20,370	—	19,185	1,185	20,370
Liabilities held in trust for deferred compensation plan	17,294	17,294	—	—	17,294
<b>Total</b>	<b>\$ 27,392,507</b>	<b>\$ 23,735,396</b>	<b>\$ 19,185</b>	<b>\$ 3,649,641</b>	<b>\$ 27,404,222</b>

<i>(In thousands)</i>	Estimated Fair Value at December 31, 2019				
	Carrying Amount	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
Loans:					
Business	\$ 5,565,449	\$ —	\$ —	\$ 5,526,303	\$ 5,526,303
Real estate - construction and land	899,377	—	—	898,152	898,152
Real estate - business	2,833,554	—	—	2,849,213	2,849,213
Real estate - personal	2,354,760	—	—	2,333,002	2,333,002
Consumer	1,964,145	—	—	1,938,505	1,938,505
Revolving home equity	349,251	—	—	344,424	344,424
Consumer credit card	764,977	—	—	708,209	708,209
Overdrafts	6,304	—	—	4,478	4,478
<b>Total loans</b>	<b>14,737,817</b>	<b>—</b>	<b>—</b>	<b>14,602,286</b>	<b>14,602,286</b>
Loans held for sale	13,809	—	13,809	—	13,809
Investment securities	8,741,888	854,705	7,738,158	149,025	8,741,888
Securities purchased under agreements to resell	850,000	—	—	869,592	869,592
Interest earning deposits with banks	395,850	395,850	—	—	395,850
Cash and due from banks	491,615	491,615	—	—	491,615
Derivative instruments	105,674	—	105,075	599	105,674
Assets held in trust for deferred compensation plan	16,518	16,518	—	—	16,518
<b>Total</b>	<b>\$ 25,353,171</b>	<b>\$ 1,758,688</b>	<b>\$ 7,857,042</b>	<b>\$ 15,621,502</b>	<b>\$ 25,237,232</b>
<b>Financial Liabilities</b>					
Non-interest bearing deposits	\$ 6,890,687	\$ 6,890,687	\$ —	\$ —	\$ 6,890,687
Savings, interest checking and money market deposits	11,621,716	11,621,716	—	—	11,621,716
Certificates of deposit	2,008,012	—	—	2,022,629	2,022,629
Federal funds purchased	20,035	20,035	—	—	20,035
Securities sold under agreements to repurchase	1,830,737	—	—	1,831,518	1,831,518
Other borrowings	988	—	988	—	988
Derivative instruments	10,219	—	9,989	230	10,219
Liabilities held in trust for deferred compensation plan	16,518	16,518	—	—	16,518
<b>Total</b>	<b>\$ 22,398,912</b>	<b>\$ 18,548,956</b>	<b>\$ 10,977</b>	<b>\$ 3,854,377</b>	<b>\$ 22,414,310</b>

## 17. Legal and Regulatory Proceedings

The Company has various legal proceedings pending at September 30, 2020, arising in the normal course of business. While some matters pending against the Company specify damages claimed by plaintiffs, others do not seek a specified amount of damages or are at early stages of the legal process. The Company records a loss accrual for all legal and regulatory matters for which it deems a loss is probable and can be reasonably estimated. Some matters, which are in the early stages, have not yet progressed to the point where a loss amount can be determined to be probable and estimable.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as the Company's 2019 Annual Report on Form 10-K. Results of operations for the three and nine month periods ended September 30, 2020 are not necessarily indicative of results to be attained for any other period.

## Forward-Looking Information

This report may contain "forward-looking statements" that are subject to risks and uncertainties and include information about possible or assumed future results of operations. Many possible events or factors could affect the future financial results and performance of the Company. This could cause results or performance to differ materially from those expressed in the forward-looking statements. Words such as "expects", "anticipates", "believes", "estimates", variations of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed throughout this report. Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. Such possible events or factors include: changes in economic conditions in the Company's market area, the effects of the COVID-19 pandemic, changes in policies by regulatory agencies, governmental legislation and regulation, fluctuations in interest rates, changes in liquidity requirements, demand for loans in the Company's market area, changes in accounting and tax principles, estimates made on income taxes, competition with other entities that offer financial services, cybersecurity threats, and such other factors as discussed in Part I Item 1A - "Risk Factors" and Part II Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2019 Annual Report on Form 10-K and in Part II Item 1A of this Quarterly Report on Form 10-Q. Except as set forth in Part II, Item 1A, during the quarter ended September 30, 2020, there were no material changes to the Risk Factors disclosed in the Company's 2019 Annual Report on Form 10-K.

## Critical Accounting Policies

The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for credit losses and the valuation of certain investment securities. A discussion of these policies can be found in the sections captioned "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2019 Annual Report on Form 10-K. On January 1, 2020, the Company adopted ASU 2016-13 (CECL), and as a result, the Company's "Allowance for Loan Losses" accounting policy has been replaced by its "Allowance for Credit Losses" policy. There have been no other changes in the Company's application of critical accounting policies since December 31, 2019.

### *Allowance for Credit Losses*

The Company's Allowance for Credit Losses policy covers the collectability of its loan portfolio, the exposure of its unfunded lending commitments, and the potential for credit losses in its available for sale investment portfolio. The Company performs periodic and systematic detailed reviews of its loan portfolio and unfunded lending commitments to assess overall collectability. The level of the allowance for credit losses on loans and unfunded lending commitments reflects the Company's estimate of the losses inherent in the loan portfolio and unfunded lending commitments at any point in time. While these estimates are based on substantive methods for determining allowance requirements, actual outcomes may differ significantly from estimated results, especially when determining allowances for business, construction and business real estate loans, as well as for their related unfunded lending commitments. These loans and commitments are normally larger and more complex, and their collection rates are harder to predict. Personal banking loans, including personal real estate, credit card and consumer loans, are individually smaller and perform in a more homogenous manner, making loss estimates more predictable. Additionally, the allowance for credit losses requires the calculation of expected lifetime credit losses utilizing a forward-looking forecast of macroeconomic conditions, which may differ significantly from actual results. Further discussion of the methodology used in establishing the allowance is provided in the Allowance for Credit Losses on Loans and Liability for Unfunded Lending Commitments section of Item 2 and in Note 1 to the consolidated financial statements.

The level of the allowance for credit losses on available for sale securities reflects the Company's estimate of the losses inherent in the available for sale debt security portfolio. In order to estimate the allowance for credit losses on available for sale debt securities, the Company performs quarterly reviews of its investment portfolio to identify securities in an unrealized loss position. If the unrealized loss is not expected to be recovered, the Company performs further analyses to determine whether any portion of the unrealized loss indicates that a credit loss exists. Further discussion of the methodology used in establishing the allowance for credit losses on available for sale securities is provided in Note 1 to the consolidated financial statements.

**Selected Financial Data**

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
<b>Per Share Data</b>				
Net income per common share — basic	\$ 1.12	\$ .93 *	\$ 1.90	\$ 2.65 *
Net income per common share — diluted	1.11	.93 *	1.89	2.65 *
Cash dividends on common stock	.270	.248 *	.810	.744 *
Book value per common share			29.64	26.27 *
Market price			56.29	57.76 *
<b>Selected Ratios</b>				
<i>(Based on average balance sheets)</i>				
Loans to deposits <sup>(1)</sup>	66.23 %	72.48 %	69.12 %	71.47 %
Non-interest bearing deposits to total deposits	39.61	31.85	36.96	31.86
Equity to loans <sup>(1)</sup>	20.54	21.88	20.96	21.58
Equity to deposits	13.60	15.86	14.49	15.43
Equity to total assets	10.90	12.41	11.42	12.21
Return on total assets	1.71	1.72	1.04	1.68
Return on common equity	15.21	14.21	8.93	14.11
<i>(Based on end-of-period data)</i>				
Non-interest income to revenue <sup>(2)</sup>	37.50	39.48	37.42	38.13
Efficiency ratio <sup>(3)</sup>	55.00	56.66	57.37	57.08
Tier I common risk-based capital ratio			13.45	13.76
Tier I risk-based capital ratio			13.45	14.50
Total risk-based capital ratio			14.62	15.33
Tangible common equity to tangible assets ratio <sup>(4)</sup>			10.11	10.95
Tier I leverage ratio			9.39	11.32

\* Restated for the 5% stock dividend distributed in December 2019.

(1) Includes loans held for sale.

(2) Revenue includes net interest income and non-interest income.

(3) The efficiency ratio is calculated as non-interest expense (excluding intangibles amortization) as a percent of revenue.

(4) The tangible common equity to tangible assets ratio is a measurement which management believes is a useful indicator of capital adequacy and utilization. It provides a meaningful basis for period to period and company to company comparisons, and also assists regulators, investors and analysts in analyzing the financial position of the Company. Tangible common equity and tangible assets are non-GAAP measures and should not be viewed as substitutes for, or superior to, data prepared in accordance with GAAP.

The following table is a reconciliation of the GAAP financial measures of total equity and total assets to the non-GAAP measures of total tangible common equity and total tangible assets.

	September 30	
	2020	2019
<i>(Dollars in thousands)</i>		
Total equity	\$ 3,306,264	\$ 3,106,014
Less non-controlling interest	601	3,414
Less preferred stock	—	144,784
Less goodwill	138,921	138,921
Less core deposit premium	1,452	1,904
<b>Total tangible common equity (a)</b>	<b>\$ 3,165,290</b>	<b>\$ 2,816,991</b>
Total assets	\$ 31,453,817	\$ 25,876,479
Less goodwill	138,921	138,921
Less core deposit premium	1,452	1,904
<b>Total tangible assets (b)</b>	<b>\$ 31,313,444</b>	<b>\$ 25,735,654</b>
<b>Tangible common equity to tangible assets ratio (a)/(b)</b>	<b>10.11 %</b>	<b>10.95 %</b>

## Results of Operations

### Summary

<i>(Dollars in thousands)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% change	2020	2019	% change
Net interest income	\$ 215,962	\$ 203,512	6.1 %	\$ 620,084	\$ 618,634	.2 %
Provision for credit losses	(3,101)	(10,963)	(71.7)	(141,593)	(35,232)	N.M.
Non-interest income	129,572	132,743	(2.4)	370,750	381,242	(2.8)
Investment securities gains (losses), net	16,155	4,909	N.M.	(1,275)	3,874	N.M.
Non-interest expense	(190,858)	(191,020)	(0.1)	(572,068)	(572,224)	—
Income taxes	(34,375)	(29,101)	18.1	(54,209)	(80,860)	(33.0)
Non-controlling interest income (expense)	(907)	(838)	8.2	2,479	(1,083)	N.M.
<b>Net income attributable to Commerce Bancshares, Inc.</b>	<b>132,448</b>	<b>109,242</b>	<b>21.2</b>	<b>224,168</b>	<b>314,351</b>	<b>(28.7)</b>
Preferred stock dividends	(7,466)	(2,250)	N.M.	(11,966)	(6,750)	77.3
<b>Net income available to common shareholders</b>	<b>\$ 124,982</b>	<b>\$ 106,992</b>	<b>16.8 %</b>	<b>\$ 212,202</b>	<b>\$ 307,601</b>	<b>(31.0)%</b>

N.M. - Not meaningful.

For the quarter ended September 30, 2020, net income attributable to Commerce Bancshares, Inc. (net income) amounted to \$132.4 million, an increase of \$23.2 million, or 21.2%, compared to the third quarter of the previous year. For the current quarter, the annualized return on average assets was 1.71%, the annualized return on average common equity was 15.21%, and the efficiency ratio was 55.00%. Diluted earnings per common share was \$1.11, an increase of 19.4% compared to \$.93 per share in the third quarter of 2019, and increased 226.5% compared to \$.34 per share in the previous quarter.

Compared to the third quarter of last year, net interest income increased \$12.5 million, or 6.1%, mainly due to a decline of \$21.1 million in interest expense on deposits and borrowings, and increases in interest income on long-term securities purchased under agreements to resell and investment securities of \$7.6 million and \$1.9 million, respectively. These increases to net interest income were partly offset by a decrease of \$17.2 million in interest income on loans. The provision for credit losses totaled \$3.1 million for the current quarter, representing a decrease of \$7.8 million from the third quarter of 2019. Non-interest income decreased \$3.2 million, or 2.4%, compared to the third quarter of 2019, mainly due to lower net bank card fees, partly offset by growth in loan fees and sales. Net investment securities gains totaled \$16.2 million in the current quarter compared to gains of \$4.9 million in the same quarter last year. Net securities gains in the current quarter primarily resulted from gains of \$13.4 million on the sales of mortgage-backed securities coupled with unrealized gains of \$2.4 million in the Company's private equity investment portfolio. Non-interest expense decreased \$162 thousand, from the third quarter of 2019 mainly due to lower travel and entertainment, marketing and supplies and communication expense, partly offset by higher salaries and employee benefits expense.

Net income for the first nine months of 2020 was \$224.2 million, a decrease of \$90.2 million, or 28.7%, from the same period last year. Diluted earnings per common share was \$1.89, a decrease of 28.7% compared to \$2.65 per share in the same period last year. For the first nine months of 2020, the annualized return on average assets was 1.04%, the annualized return on average common equity was 8.93% and the efficiency ratio was 57.37%. Net interest income increased \$1.5 million over the same period last year. This increase was largely due to an increase of \$18.4 million in interest income on long-term securities purchased under agreements to resell and a decrease of \$41.5 million in interest expense on deposits and borrowings, partly offset by decreases in interest income on loans and investment securities of \$41.0 million and \$14.3 million, respectively. The provision for credit losses was \$141.6 million for the first nine months of 2020, up \$106.4 million over the same period last year. Non-interest income decreased \$10.5 million, or 2.8%, from the first nine months of last year due to lower net bank card fees and swap fees, partly offset by growth in loan fees and sales, capital market fees and trust fees. Non-interest expense was flat with the prior year as higher salaries and benefits expense of \$17.0 million was offset by lower marketing and travel and entertainment expense and higher deferred origination costs.

## Net Interest Income

The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates. Changes not solely due to volume or rate changes are allocated to rate.

### Analysis of Changes in Net Interest Income

<i>(In thousands)</i>	Three Months Ended September 30, 2020 vs. 2019			Nine Months Ended September 30, 2020 vs. 2019		
	Change due to			Change due to		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
<b>Interest income, fully taxable equivalent basis:</b>						
Loans:						
Business	\$ 14,850	\$ (16,241)	\$ (1,391)	\$ 36,880	\$ (44,164)	\$ (7,284)
Real estate - construction and land	743	(4,245)	(3,502)	817	(10,102)	(9,285)
Real estate - business	1,181	(6,787)	(5,606)	2,149	(16,376)	(14,227)
Real estate - personal	5,378	(2,488)	2,890	12,521	(5,131)	7,390
Consumer	833	(3,493)	(2,660)	1,504	(4,517)	(3,013)
Revolving home equity	(321)	(1,574)	(1,895)	(825)	(3,489)	(4,314)
Consumer credit card	(3,659)	(1,722)	(5,381)	(8,390)	(2,407)	(10,797)
Overdrafts	—	—	—	—	—	—
Total interest on loans	19,005	(36,550)	(17,545)	44,656	(86,186)	(41,530)
Loans held for sale	12	(56)	(44)	(310)	(105)	(415)
Investment securities:						
U.S. government and federal agency securities	(327)	2,606	2,279	(1,463)	(2,760)	(4,223)
Government-sponsored enterprise obligations	(535)	(137)	(672)	(1,402)	815	(587)
State and municipal obligations	4,704	(2,754)	1,950	4,772	(3,660)	1,112
Mortgage-backed securities	10,152	(10,492)	(340)	17,380	(22,036)	(4,656)
Asset-backed securities	1,572	(3,480)	(1,908)	(1,276)	(5,384)	(6,660)
Other securities	899	(177)	722	1,675	(969)	706
Total interest on investment securities	16,465	(14,434)	2,031	19,686	(33,994)	(14,308)
Federal funds sold and short-term securities purchased under agreements to resell						
	(5)	(2)	(7)	(46)	(3)	(49)
Long-term securities purchased under agreements to resell	692	6,934	7,626	2,289	16,090	18,379
Interest earning deposits with banks	4,352	(5,332)	(980)	14,693	(17,810)	(3,117)
<b>Total interest income</b>	<b>40,521</b>	<b>(49,440)</b>	<b>(8,919)</b>	<b>80,968</b>	<b>(122,008)</b>	<b>(41,040)</b>
<b>Interest expense:</b>						
Deposits:						
Savings	74	(68)	6	139	(116)	23
Interest checking and money market	1,255	(8,280)	(7,025)	1,937	(16,549)	(14,612)
Certificates of deposit of less than \$100,000	(131)	(581)	(712)	(151)	(183)	(334)
Certificates of deposit of \$100,000 and over	(244)	(4,784)	(5,028)	(217)	(8,899)	(9,116)
Total interest on deposits	954	(13,713)	(12,759)	1,708	(25,747)	(24,039)
Federal funds purchased and securities sold under agreements to repurchase						
	(624)	(7,243)	(7,867)	1,107	(19,185)	(18,078)
Other borrowings	(444)	(9)	(453)	2,464	(1,895)	569
<b>Total interest expense</b>	<b>(114)</b>	<b>(20,965)</b>	<b>(21,079)</b>	<b>5,279</b>	<b>(46,827)</b>	<b>(41,548)</b>
<b>Net interest income, tax equivalent basis</b>	<b>\$ 40,635</b>	<b>\$ (28,475)</b>	<b>\$ 12,160</b>	<b>\$ 75,689</b>	<b>\$ (75,181)</b>	<b>\$ 508</b>

Net interest income in the third quarter of 2020 was \$216.0 million, an increase of \$12.5 million over the third quarter of 2019. On a tax equivalent (T/E) basis, net interest income totaled \$219.1 million in the third quarter of 2020, up \$12.2 million over the same period last year and up \$12.9 million over the previous quarter. The increase in net interest income compared to the third quarter of 2019 was mainly due to lower interest expense on interest bearing deposits and borrowings of \$21.1 million and higher interest income on long-term securities purchased under agreements to resell of \$7.6 million and investment securities (T/E) of \$2.0 million, partly offset by lower interest income on loans (T/E) of \$17.5 million. The decrease in interest

earned on loans (T/E) was mainly the result of lower yields on all loan products, especially commercial loans, many of which have variable rates, partly offset by higher business and personal real estate loan balances. Total interest income on investment securities (T/E) increased \$2.0 million over the third quarter of last year mainly due to growth in average balances, while the decrease in expense on interest bearing deposits and borrowings was a result of a decline in the average rate paid. The Company's net yield on earning assets (T/E) was 2.97% in the current quarter compared to 3.43% in the third quarter of 2019.

Total interest income (T/E) decreased \$8.9 million from the third quarter of 2019. Interest income on loans (T/E) was \$152.0 million during the third quarter of 2020, and decreased \$17.5 million, or 10.4%, from the same quarter last year. The decrease in interest income from the same quarter last year was primarily due to a decline of 102 basis points in the average rate earned, partly offset by growth of \$2.1 billion, or 14.5%, in average loan balances. Most of the decrease in interest income occurred in the business, business real estate, consumer credit card, construction, and consumer loan categories. Business loan interest decreased \$1.4 million mainly due to a 90 basis point decline in the average rate earned, partly offset by growth of \$1.4 billion in average balances. The growth in average balances was mainly the result of Paycheck Protection Plan (PPP) loans secured for customers in the second quarter of 2020 as part of the program sponsored by the Small Business Administration ("SBA"). Business real estate loan interest income fell \$5.6 million due to an 89 basis point decrease in the average rate earned, partly offset by higher average balances of \$106.3 million, or 3.7%. Consumer credit card loan interest declined \$5.4 million due to a decline of \$117.2 million, or 15.4%, in average balances, coupled with a decrease of 102 basis points in the average rate earned. Construction loan interest decreased \$3.5 million due to a decline of 172 basis points in the average rate earned, partly offset by growth in the average balance of \$54.1 million. Consumer loan interest declined \$2.7 million due to a decrease of 69 basis points in the average rate earned, partly offset by growth in the average balance of \$67.9 million, or 3.5%. These decreases to interest income (T/E) were partly offset by an increase of \$2.9 million in interest income on personal real estate loans, due to growth of \$547.1 million, or 25.2%, in average balances, while the average rate earned on these loans declined 35 basis points.

Interest income on investment securities (T/E) was \$62.5 million during the third quarter of 2020, which was an increase of \$2.0 million over the same quarter last year. The increase in interest income occurred mainly in interest income on U.S. government & federal agency obligations, which grew \$2.3 million due to higher inflation income on the Company's U.S. Treasury inflation-protected securities (TIPS). Interest income related to TIPS, which is tied to the Consumer Price Index, grew \$2.3 million over the same quarter last year. In addition, interest income on state and municipal obligations increased \$2.0 million and resulted from growth in the average balance of \$595.3 million, or 50.8%, partly offset by a 61 basis point decrease in the average rate earned. These increases to interest income on investment securities (T/E) was partly offset by a decline in interest income on asset-backed securities of \$1.9 million, mainly due to a decline in the average rate earned of 90 basis points, partly offset by higher average balances of \$223.3 million. Interest earned on mortgage-backed securities declined slightly by \$340 thousand due to a 66 basis point decline in the average rate earned offset by an increase of \$1.5 billion in the average balance. Adjustments to premium amortization, due to faster prepayment speeds on various mortgage-backed and asset-backed securities, increased interest income \$1.0 million in the current quarter, compared to a \$368 thousand decrease in the same quarter last year. The average balance of the total investment portfolio (excluding unrealized fair value adjustments on available for sale debt securities) was \$11.1 billion in the third quarter of 2020, compared to \$8.7 billion in the third quarter of 2019.

Interest income on long-term securities purchased under agreements to resell increased \$7.6 million over the same quarter last year, due to an increase of 325 basis points in the average rate earned, as these assets were structured with floor spreads to protect against falling rates. Of the \$850 million in securities purchased under agreements to resell held by the Company throughout 2020, \$450 million of those agreements will mature throughout 2021. Interest income on balances at the Federal Reserve declined \$980 thousand mainly due to a 207 basis point decrease in the average rate earned, partly offset by a \$797.9 million increase in the average balance invested.

The average tax equivalent yield on total interest earning assets was 3.07% in the third quarter of 2020, down from 3.90% in the third quarter of 2019.

Total interest expense decreased \$21.1 million compared to the third quarter of 2019 due to a \$12.8 million decrease in interest expense on interest bearing deposits and an \$8.3 million decrease in interest expense on borrowings. The decrease in deposit interest expense resulted mainly from a 40 basis point decline in the overall average rate paid, slightly offset by higher average balances of \$1.5 billion. Interest expense on interest checking and money market accounts declined \$7.0 million, due to a 28 basis point decrease in the average rate paid, while interest expense on jumbo certificates of deposit (CD) declined \$5.0 million due to a 130 basis point decrease in the average rate paid. Interest expense on borrowings decreased due to lower rates paid, mainly on customer repurchase agreements. The overall average rate incurred on all interest bearing liabilities was .17% and .73% in the third quarters of 2020 and 2019, respectively.

Net interest income (T/E) for the first nine months of 2020 was \$629.8 million compared to \$629.3 million for the same period in 2019. For the first nine months of 2020, the net interest margin was 3.07% compared to 3.52% for the same period in 2019.

Total interest income (T/E) for the first nine months of 2020 decreased \$41.0 million from the same period last year mainly due to lower interest income on loans. Loan interest income (T/E) declined \$41.5 million, or 8.2%, due to an 84 basis point decline in the average rate earned, partly offset by a \$1.6 billion increase in total average loan balances. Interest rates were impacted by actions taken by the Federal Reserve during the first quarter of 2020 to lower short-term interest rates. Most of the decrease in loan interest occurred in business real estate, construction and business loans, due to lower interest rates, partly offset by higher average loan balances in these categories. Consumer credit card loan interest decreased due to declines in both the average balance and rate. These decreases to income were partly offset by an increase in interest income on personal real estate loans of \$7.4 million due to higher average balances, partly offset by a decline in the average rate earned. Interest income on investment securities (T/E) declined \$14.3 million mainly due to a 47 basis point decline in the average rate earned, partly offset by an increase of \$935.1 million in average balances. Interest earned on asset-backed securities declined \$6.7 million due to lower average balances and rates, while interest earned on mortgage-backed securities declined \$4.7 million due to lower average rates earned, partly offset by higher average balances. U.S. government and federal agency obligations declined \$4.2 million, mainly due to lower TIPS interest income of \$3.6 million. Interest income on balances at the Federal Reserve decreased \$3.1 million due to a 211 basis point decline in the average rate earned, partly offset by an \$835.2 million increase in the average balance invested. These decreases to interest income were partly offset by an increase of \$18.4 million in interest income earned on long-term securities purchased under agreements to resell due to higher average balances and rates.

Total interest expense for the first nine months of 2020 decreased \$41.5 million compared to the same period last year. Interest expense on interest bearing deposits decreased \$24.0 million, mainly due to a 26 basis point decrease in the overall rate paid. Interest expense on interest checking and money market account balances decreased \$14.6 million due to a 20 basis point decrease in rates paid. Interest expense on jumbo CD's declined \$9.1 million due to an 87 basis point decline in rates paid. Interest expense on borrowings decreased \$17.5 million, mainly due to lower rates paid on customer repurchase agreements. The overall cost of total interest bearing liabilities decreased to .31% compared to .69% in the same period last year.

Summaries of average assets and liabilities and the corresponding average rates earned/paid appear on the last page of this discussion.

## Non-Interest Income

<i>(Dollars in thousands)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% change	2020	2019	% change
Bank card transaction fees	\$ 37,873	\$ 44,510	(14.9)%	\$ 111,818	\$ 126,800	(11.8)%
Trust fees	40,769	39,592	3.0	118,676	115,223	3.0
Deposit account charges and other fees	23,107	24,032	(3.8)	69,063	71,009	(2.7)
Capital market fees	3,194	1,787	78.7	10,756	5,610	91.7
Consumer brokerage services	4,011	4,030	(0.5)	11,099	11,665	(4.9)
Loan fees and sales	9,769	4,755	105.4	17,653	12,302	43.5
Other	10,849	14,037	(22.7)	31,685	38,633	(18.0)
<b>Total non-interest income</b>	<b>\$ 129,572</b>	<b>\$ 132,743</b>	<b>(2.4)%</b>	<b>\$ 370,750</b>	<b>\$ 381,242</b>	<b>(2.8)%</b>
Non-interest income as a % of total revenue*	37.5 %	39.5 %		37.4 %	38.1 %	

\* Total revenue includes net interest income and non-interest income.

The table below is a summary of net bank card transaction fees for the three and nine month periods ended September 30, 2020 and 2019.

<i>(Dollars in thousands)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% change	2020	2019	% change
Net debit card fees	\$ 9,721	\$ 10,490	(7.3)%	\$ 27,863	\$ 29,605	(5.9)%
Net credit card fees	3,359	3,642	(7.8)	9,749	10,667	(8.6)
Net merchant fees	4,551	4,495	1.2	13,165	14,249	(7.6)
Net corporate card fees	20,242	25,883	(21.8)	61,041	72,279	(15.5)
<b>Total bank card transaction fees</b>	<b>\$ 37,873</b>	<b>\$ 44,510</b>	<b>(14.9)%</b>	<b>\$ 111,818</b>	<b>\$ 126,800</b>	<b>(11.8)%</b>

For the third quarter of 2020, total non-interest income amounted to \$129.6 million compared with \$132.7 million in the same quarter last year, which was a decrease of \$3.2 million, or 2.4%. The decrease was mainly due to lower net bank card fees and other non-interest income, partly offset by higher loan fees and sales. Bank card transaction fees for the current quarter declined \$6.6 million, or 14.9%, from the same period last year, due to lower net corporate card fees of \$5.6 million, net debit card fees of \$769 thousand and net credit card fees of \$283 thousand. The decline in net corporate card fees from the same quarter last year was mainly due to lower transaction volume, while the decrease in net debit and credit card fees was mainly due to lower interchange income. Trust fees for the quarter increased \$1.2 million, or 3.0%, over the same quarter last year, resulting mainly from higher private client fees, which were up 3.5%. Compared to the same period last year, deposit account fees decreased \$925 thousand, or 3.8%, mainly due to lower overdraft and return item fees, partly offset by an increase in corporate cash management fees. Capital market fees increased \$1.4 million, or 78.7%, while consumer brokerage service fees decreased slightly from the same quarter last year. Loan fees and sales increased \$5.0 million, or 105.4%, due to higher mortgage banking revenue. Other non-interest income decreased \$3.2 million, or 22.7%, mainly due to lower interest rate swap fees, cash sweep commissions and gains on sales of leased assets to customers upon termination. These decreases were partly offset by growth in tax credit sales income.

Non-interest income for the first nine months of 2020 was \$370.8 million compared to \$381.2 million last year, resulting in a decrease of \$10.5 million, or 2.8%. Bank card fees decreased \$15.0 million, or 11.8%, due to declines in net corporate card fees of \$11.2 million, net debit card fees of \$1.7 million, net merchant fees of \$1.1 million and net credit card fees of \$918 thousand. Trust fee income increased \$3.5 million, or 3.0%, as a result of growth in private client trust fees, partly offset by a decline in corporate trust fee income. Deposit account fees decreased \$1.9 million due to lower overdraft and return item fees of \$6.0 million, partly offset by higher corporate cash management fees of \$4.1 million. Capital market fees increased \$5.1 million, or 91.7%, as a result of higher sales volume, while consumer brokerage fees declined \$566 thousand, or 4.9%. Loan fees and sales increased \$5.4 million, or 43.5%, due to higher mortgage banking revenue. Other non-interest income decreased \$6.9 million, mainly due to lower swap fees and lower gains on sales of leased assets. In addition, fair value adjustments on the Company's deferred compensation plan assets, which are held in a trust and recorded as both an asset and a liability, decreased \$1.4 million from the same period last year, affecting both other income and other expense. These decreases were partly offset by an increase in tax credit sales income.

### Investment Securities Gains (Losses), Net

<i>(In thousands)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Net gains on sales of available for sale debt securities	\$ 13,674	\$ 38	\$ 16,965	\$ 728
Net gains on sales of equity securities	—	2,865	2	2,865
Net losses on sales and fair value adjustments of private equity investments	2,389	2,020	(18,116)	96
Fair value adjustments on equity securities, net	92	56	(126)	318
Other	—	(70)	—	(133)
<b>Total investment securities gains (losses), net</b>	<b>\$ 16,155</b>	<b>\$ 4,909</b>	<b>\$ (1,275)</b>	<b>\$ 3,874</b>

Net gains on investment securities, which were recognized in earnings during the three months ended September 30, 2020 and 2019, are shown in the table above. Net securities gains of \$16.2 million were reported in the third quarter of 2020, compared to net gains of \$4.9 million in the same period last year. The net gains in the third quarter of 2020 were primarily comprised of net gains of \$13.7 million on sales of available for sale debt securities and \$2.4 million of net gains in fair value on the Company's private equity investments. The net gains on investment securities for the same quarter last year were mainly comprised of a gain of \$2.9 million on the sale of an equity investment and \$2.0 million of net gains in fair value on the Company's private equity investments.

Net losses on investment securities of \$1.3 million were recognized in earnings for the nine months ended September 30, 2020, compared to net gains of \$3.9 million for the same period in 2019. Net losses in the first nine months of 2020 were mainly comprised of fair value adjustments on private equity investments partly offset by net gains on the sales of available for sale debt securities. Net gains in the first nine months of 2019 were mainly comprised of net gains on the sales of available for sale debt securities and equity securities. The portion of private equity activity attributable to minority interests is reported as non-controlling interest in the consolidated statements of income and resulted in income of \$3.2 million during the first nine months of 2020 and expense of \$291 thousand during the first nine months of 2019.

## Non-Interest Expense

<i>(Dollars in thousands)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% change	2020	2019	% change
Salaries and employee benefits	\$ 127,308	\$ 123,836	2.8 %	\$ 383,004	\$ 366,026	4.6 %
Net occupancy	12,058	12,293	(1.9)	35,075	34,939	.4
Equipment	4,737	4,941	(4.1)	14,313	14,202	.8
Supplies and communication	4,141	5,106	(18.9)	13,226	15,543	(14.9)
Data processing and software	23,610	23,457	.7	71,002	68,965	3.0
Marketing	4,926	6,048	(18.6)	14,706	17,963	(18.1)
Other	14,078	15,339	(8.2)	40,742	54,586	(25.4)
<b>Total non-interest expense</b>	<b>\$ 190,858</b>	<b>\$ 191,020</b>	<b>(.1)%</b>	<b>\$ 572,068</b>	<b>\$ 572,224</b>	<b>—%</b>

Non-interest expense for the third quarter of 2020 amounted to \$190.9 million, a decrease of \$162 thousand, or .1%, compared to expense of \$191.0 million in the third quarter of last year. The decrease in expense was primarily due to lower travel and entertainment, marketing, and supplies and communication expense, partly offset by higher costs for salaries and employee benefits. Salaries expense increased \$2.9 million, or 2.8%, driven by growth in full-time salary costs and incentive compensation. Employee benefits expense totaled \$18.7 million, reflecting an increase of \$559 thousand, or 3.1%, mainly as a result of higher healthcare expense. Full-time equivalent employees totaled 4,825 at September 30, 2020, compared to 4,873 at September 30, 2019. Supplies and communication expense declined \$965 thousand, or 18.9%, due to lower supplies, postage and bank card issuance expense, while marketing expense declined \$1.1 million, or 18.6%. Other non-interest expense decreased \$1.3 million mainly due to lower travel and entertainment expense, partly offset by an increase in FDIC insurance expense, resulting from higher deposit account balances during the current quarter than in the third quarter of 2019.

Non-interest expense amounted to \$572.1 million for the first nine months of 2020, a decrease of \$156 thousand compared to expense of \$572.2 million in the same period last year. Salaries and benefits expense increased \$17.0 million, or 4.6%, mainly due to higher costs for full-time salaries and incentive compensation. Supplies and communication expense declined \$2.3 million, or 14.9%, mainly due to lower debit and credit card reissuance expense. Data processing expense increased \$2.0 million, or 3.0%, mostly due to higher costs for service providers, partly offset by lower bank card processing expense, while marketing expense declined \$3.3 million, or 18.1%. Other non-interest expense decreased \$13.8 million, or 25.4%, mainly due to lower travel and entertainment expense and higher deferred origination costs, in addition to the previously mentioned fair value equity adjustments of \$1.4 million on the Company's deferred compensation plan assets. These decreases to expense were partly offset by a \$1.4 million increase in impairment expense on the Company's mortgage servicing rights and an increase in FDIC insurance expense.

**Provision and Allowance for Credit Losses on Loans and Liability for Unfunded Lending Commitments**

	Three Months Ended			Nine Months Ended September 30	
	Sept. 30, 2020	June 30, 2020	Sept. 30, 2019	2020	2019
<b>ALLOWANCE FOR CREDIT LOSSES ON LOANS</b>					
<b>Balance at end of prior period</b>	\$ 240,744	\$ 171,653	\$ 161,182	\$ 160,682	\$ 159,932
Adoption of ASU 2016-13	—	—	—	(21,039)	—
<b>Balance at beginning of period</b>	\$ 240,744	\$ 171,653	\$ 161,182	\$ 139,643	\$ 159,932
Provision for credit losses on loans	3,200	77,491	10,963	123,559	35,232
Net loan charge-offs (recoveries):					
Commercial:					
Business	208	3,249	335	3,084	1,066
Real estate-construction and land	(1)	—	—	(1)	(117)
Real estate-business	(13)	(6)	(44)	(40)	(95)
Commercial net loan charge-offs	194	3,243	291	3,043	854
Personal Banking:					
Real estate-personal	(198)	(71)	(30)	(273)	50
Consumer	211	1,362	2,069	3,284	5,716
Revolving home equity	(86)	(34)	119	(158)	254
Consumer credit card	7,263	3,584	8,568	20,004	26,592
Overdrafts	200	316	446	942	1,016
Personal banking net loan charge-offs	7,390	5,157	11,172	23,799	33,628
<b>Total net loan charge-offs</b>	<b>7,584</b>	<b>8,400</b>	<b>11,463</b>	<b>26,842</b>	<b>34,482</b>
<b>Balance at end of period</b>	<b>\$ 236,360</b>	<b>\$ 240,744</b>	<b>\$ 160,682</b>	<b>\$ 236,360</b>	<b>\$ 160,682</b>
<b>LIABILITY FOR UNFUNDED LENDING COMMITMENTS</b>					
<b>Balance at end of prior period</b>	\$ 35,299	\$ 32,250	\$ 1,075	\$ 1,075	\$ 1,075
Adoption of ASU 2016-13	—	—	—	16,090	—
<b>Balance at beginning of period</b>	<b>35,299</b>	<b>32,250</b>	<b>1,075</b>	<b>17,165</b>	<b>1,075</b>
Provision for credit losses on unfunded lending commitments	(99)	3,049	—	18,035	—
<b>Balance at end of period</b>	<b>35,200</b>	<b>35,299</b>	<b>1,075</b>	<b>35,200</b>	<b>1,075</b>
<b>ALLOWANCE FOR CREDIT LOSSES ON LOANS AND LIABILITY FOR UNFUNDED LENDING COMMITMENTS</b>	<b>\$ 271,560</b>	<b>\$ 276,043</b>	<b>\$ 161,757</b>	<b>\$ 271,560</b>	<b>\$ 161,757</b>

	Three Months Ended			Nine Months Ended September 30	
	Sept. 30, 2020	June 30, 2020	Sept. 30, 2019	2020	2019
Annualized net loan charge-offs (recoveries)*:					
<b>Commercial:</b>					
Business	.01 %	.19 %	.03 %	.07 %	.03 %
Real estate-construction and land	—	—	—	—	(.02)
Real estate-business	—	—	(.01)	—	—
Commercial net loan charge-offs	.01	.12	.01	.04	.01
<b>Personal Banking:</b>					
Real estate-personal	(.03)	(.01)	(.01)	(.01)	—
Consumer	.04	.28	.43	.22	.40
Revolving home equity	(.10)	(.04)	.13	(.06)	.09
Consumer credit card	4.47	2.17	4.45	3.93	4.62
Overdrafts	29.59	43.65	19.15	39.16	22.16
Personal banking net loan charge-offs	.52	.37	.85	.57	.86
<b>Total annualized net loan charge-offs</b>	<b>.18 %</b>	<b>.21 %</b>	<b>.32 %</b>	<b>.23 %</b>	<b>.33 %</b>

\* as a percentage of average loans (excluding loans held for sale)

The Company has an established process to determine the amount of the allowance for credit losses on loans and the liability for unfunded lending commitments, which assesses the risks and losses inherent in its portfolios. This process provides an allowance based on estimates of allowances for pools of loans and unfunded commitments, as well as a second, smaller component based on certain individually evaluated loans and unfunded lending commitments. The Company's policies and processes for determining the allowance for credit losses on loans and the liability for unfunded lending commitments are discussed in Note 1 to the consolidated financial statements and in the "Allowance for Credit Losses" discussion within *Critical Accounting Policies* in Item 2 above.

Net loan charge-offs in the third quarter of 2020 amounted to \$7.6 million compared to \$8.4 million in the prior quarter and \$11.5 million in the third quarter of last year. During the third quarter of 2020, the Company recorded net charge-offs on commercial loans of \$194 thousand, compared to charge-offs of \$3.2 million in the prior quarter. The decrease in commercial loan net charge-offs was primarily driven by a \$3.0 million decrease in net charge-offs on business loans this quarter, compared to the second quarter of 2020. In addition to the decrease in commercial net loan charge-offs, net charge-offs on consumer loans decreased \$1.2 million in the third quarter of 2020 compared to the prior quarter. These decreases were partially offset by an increase of \$3.7 million in net charge-offs on consumer credit card loans in the third quarter of 2020 compared to the prior quarter. Compared to the same period last year, net loan charge-offs in the third quarter of 2020 decreased \$3.9 million. The decrease in net charge-offs during the third quarter of 2020 was driven by lower net charge-offs on consumer loans and consumer credit card loans of \$1.9 million and \$1.3 million, respectively. These decreases were primarily the result of various COVID-19 relief programs that allowed customers to defer loan payments without advancing in past due or charge-off status.

For the three months ended September 30, 2020, annualized net charge-offs on average consumer credit card loans totaled 4.47%, compared to 2.17% in the previous quarter and 4.45% in the same period last year. Consumer loan annualized net charge-offs in the current quarter amounted to .04%, compared to .28% in the prior quarter and .43% in the same period last year. In the third quarter of 2020, total annualized net loan charge-offs were .18%, compared to .21% in the previous quarter, and .32% in the same period last year.

As noted in Note 1, the Company adopted ASU 2016-13, known as CECL, on January 1, 2020. Upon adoption, the allowance for credit losses on loans was reduced \$21.0 million and the liability for unfunded lending commitments increased \$16.1 million. The decrease in the allowance for credit losses on loans was significantly influenced by the forecasted economic environment used in the estimation process as required by CECL, which was forecasted to be stable in both the short term and the long term, characterized by low unemployment. As the estimation model for credit losses on lending commitments became governed by CECL, the Company increased the related liability for unfunded lending commitments, mostly related to construction lending as the Company expected to fully fund the commitments under these contracts.

In the current quarter, the provision for credit losses on loans totaled \$3.2 million, a \$74.3 million decrease from the provision of \$77.5 million in the prior quarter, and decreased \$7.8 million compared to the third quarter of 2019. In the current quarter, there was a recovery on the provision for credit losses on unfunded lending commitments of \$99 thousand, compared to provision expense of \$3.0 million in the prior quarter. The economic forecast used to estimate the allowance for credit losses in

September was slightly more optimistic than the forecast utilized in June, which resulted in no additional increase to the allowance for credit losses as of September 30, 2020, and significantly decreased the provision for credit losses this quarter, compared to the prior quarter.

For the quarter ended September 30, 2020, the allowance for credit losses related to commercial loans decreased \$2.1 million and the allowance for credit losses related to personal banking loans decreased \$2.3 million, compared to the allowance for credit losses on loans as of June 30, 2020. The decrease was primarily due to the slight improvement in the forecasted economic environment compared to the forecast as of June 30, 2020. Due to the pandemic induced recession that started during the first quarter of 2020, the allowance for credit losses increased in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2020 to capture the expected losses over the life of loans using projections of how the pandemic will impact the economic environment along with other data and assumptions. At September 30, 2020 the projected economic environment was similar to the projected environment at June 30, 2020, just slightly improved. As such, additional reserves were not needed to estimate the expected losses over the life of the loans. Businesses continue to experience disruptions caused by COVID-19 even though state and local governments have partially reopened non-essential businesses throughout the country. Consumer spending has been negatively impacted by the sudden and dramatic increase in unemployment in addition to health risks associated with the virus. The allowance for credit losses related to business loans decreased \$11.0 million due to slight decreases in loan balances coupled with the slight improvement in the economic forecast and was partially offset by an increase in the allowance for credit losses on business real estate loans of \$8.1 million, primarily related to certain loans with a potential to be impacted by the pandemic. Additionally, the allowance for credit losses on personal banking loans decreased \$2.3 million compared to June 30, 2020, primarily related to the slightly improved forecast projections.

For the nine months ended September 30, 2020, net loan charge-offs totaled \$26.8 million, compared to \$34.5 million in the same period last year. During the first nine months of 2020, the Company recorded net charge-offs of \$3.0 million on commercial loans, compared to net charge-offs of \$854 thousand in the first nine months of 2019. Offsetting the increase in commercial loan net charge-offs, consumer credit card loan and consumer loan net charge-offs decreased \$6.6 million and \$2.4 million, respectively, in the first nine months of 2020, compared to the first nine months of the prior year. The provision for credit losses on loans for the first nine months of 2020 was \$123.6 million and exceeded net loan charge-offs for the period by \$96.7 million. In the same period last year, provision expense totaled \$35.2 million and exceeded net loan charge-offs by \$750 thousand.

At September 30, 2020, the allowance for credit losses on loans amounted to \$236.4 million, an increase of \$96.8 million compared to \$139.6 million at January 1, 2020, the adoption date of CECL. Additionally, the liability for unfunded lending commitments increased \$18.0 million from \$17.2 million at January 1, 2020 to \$35.2 million at September 30, 2020. The allowance for credit losses related to commercial loans increased \$66.4 million, due to increases in the allowance on business, construction and business real estate loans of \$40.7 million, \$9.3 million, and \$16.4 million, respectively. Compared to January 1, 2020, the allowance for credit losses on consumer credit card, personal real estate, and consumer loans increased \$22.7 million, \$3.9 million, and \$3.6 million, respectively. These large increases resulted from the sudden entrance into a sharp recession brought on by an unprecedented pandemic. The economic outlook quickly shifted from a stable economy with low unemployment at the beginning of the year to an uncertain economic projection at September 30, 2020, defined by high unemployment, periods of governmental shut down of non-essential businesses, and other business and personal disruptions caused by COVID-19. Given the significant uncertainty of the economic projections of a pandemic induced recession, the estimate uses a short reasonable and supportable forecasted period. As the length and depth of the current recession becomes more certain in the coming months, key assumptions utilized in the Company's CECL model may be modified. See Note 2 for explanations of the various model assumptions utilized in this estimate. Traditional credit quality indicators, such as net charge-off experience, greater than 90 days delinquent statistics and decreases in the internal risk rating to special mention or substandard ratings, are lagging credit quality indicators and do not yet reflect the expected impacts of this crisis. Changes in these indicators are delayed as the Company offered certain assistance programs to impacted customers as allowed by various regulations and as customers are able to participate in various governmental support programs. See Note 2 for further discussion of the credit quality indicators, and refer to *Risk Elements of the Loan Portfolio, Loans with Special Risk Characteristics* for further information about the assistance programs offered by the Company to its customers.

The allowance for credit losses on loans and the liability for unfunded lending commitments are estimates that require significant judgment including projections of the macro-economic environment. The Company utilizes a third-party macro-economic forecast that continuously changes due to economic conditions and events. These changes in the forecast cause fluctuations in the allowance for credit losses on loans and the liability for unfunded lending commitments. The Company used its best judgment to assess the macro-economic forecast and internal loss data in estimating the allowance for credit losses on loans and the liability for unfunded lending commitments. These estimates are subject to periodic refinement based on changes in the underlying external and internal data. Events such as the timing of governmental required business lock downs or possible additional waves of infection could prolong and deepen the projected recession. Alternatively, events such as

additional government stimulus payments or the development of a vaccine to cure the virus could shorten the projected recession and accelerate a recovery.

The table below shows the composition of the allowance by loan class at January 1, 2020 (at the adoption of CECL), June 30, 2020, and September 30, 2020.

<i>(Dollars in thousands)</i>	January 1, 2020 (Implementation)		June 30, 2020		September 30, 2020	
	Allowance for Credit Losses	ACL as a % of Loans	Allowance for Credit Losses	ACL as a % of Loans	Allowance for Credit Losses	ACL as a % of Loans
<b>Commercial:</b>						
Business	\$ 37,940	.68 %	\$ 89,706	1.31 %	\$ 78,659	1.18 %
RE - construction and land	9,204	1.02	17,594	1.89	18,455	1.83
RE - business	14,905	.53	23,253	.79	31,310	1.05
	62,049	.67	130,553	1.22	128,424	1.20
<b>Personal Banking:</b>						
RE - personal	4,855	.21	7,712	.29	8,725	.32
Consumer	14,518	.74	24,341	1.24	18,140	.90
Revolving home equity	1,624	.46	2,087	.62	1,783	.55
Consumer credit card	56,495	7.39	75,953	11.39	79,230	12.23
Overdrafts	102	1.62	98	1.89	58	2.56
	77,594	1.43	110,191	1.95	107,936	1.88
<b>Total</b>	<b>\$ 139,643</b>	<b>.95 %</b>	<b>\$ 240,744</b>	<b>1.47 %</b>	<b>\$ 236,360</b>	<b>1.44 %</b>

At September 30, 2020, the allowance for credit losses on loans amounted to \$236.4 million, compared to \$240.7 million and \$139.6 million at June 30, 2020 and January 1, 2020, respectively, and was 1.44%, 1.47% and .95% of total loans at September 30, 2020, June 30, 2020 and January 1, 2020, respectively. The Company considers the allowance for credit losses and the liability for unfunded commitments adequate to cover losses expected in the loan portfolio, including unfunded commitments, at September 30, 2020.

### Risk Elements of Loan Portfolio

The following table presents non-performing assets and loans which are past due 90 days and still accruing interest. Non-performing assets include non-accruing loans and foreclosed real estate. Loans are placed on non-accrual status when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment. Loans that are 90 days past due as to principal and/or interest payments are generally placed on non-accrual, unless they are both well-secured and in the process of collection, or they are personal banking loans that are exempt under regulatory rules from being classified as non-accrual.

<i>(Dollars in thousands)</i>	September 30, 2020	December 31, 2019
Non-accrual loans	\$ 40,270	\$ 10,220
Foreclosed real estate	57	365
<b>Total non-performing assets</b>	<b>\$ 40,327</b>	<b>\$ 10,585</b>
Non-performing assets as a percentage of total loans	.25 %	.07 %
Non-performing assets as a percentage of total assets	.13 %	.04 %
<b>Total loans past due 90 days and still accruing interest</b>	<b>\$ 14,436</b>	<b>\$ 19,859</b>

Non-accrual loans totaled \$40.3 million at September 30, 2020, an increase of \$30.1 million from the balance at December 31, 2019. The increase occurred mainly in business loans which increased \$29.8 million. At September 30, 2020, non-accrual loans were comprised mainly of business (92.6%), personal real estate (4.8%), and business real estate (2.6%) loans. Total loans past due 90 days or more and still accruing interest were \$14.4 million as of September 30, 2020, a decrease of \$5.4 million from December 31, 2019. Balances by class for non-accrual loans and loans past due 90 days and still accruing interest are shown in the "Delinquent and non-accrual loans" section in Note 2 to the consolidated financial statements.

In addition to the non-performing and past due loans mentioned above, the Company also has identified loans for which management has concerns about the ability of the borrowers to meet existing repayment terms. They are classified as substandard under the Company's internal rating system. The loans are generally secured by either real estate or other borrower assets, reducing the potential for loss should they become non-performing. Although these loans are generally identified as potential problem loans, they may never become non-performing. Such loans totaled \$304.2 million at September 30, 2020 compared with \$164.8 million at December 31, 2019, resulting in an increase of \$139.5 million, or 84.6%.

<i>(In thousands)</i>	September 30, 2020	December 31, 2019
Potential problem loans:		
Business	\$ 100,241	\$ 83,943
Real estate – construction and land	15,116	470
Real estate – business	186,973	80,071
Real estate – personal	1,911	283
<b>Total potential problem loans</b>	<b>\$ 304,241</b>	<b>\$ 164,767</b>

At September 30, 2020, the Company had \$73.2 million of loans whose terms have been modified or restructured under a troubled debt restructuring. These loans have been extended to borrowers who are experiencing financial difficulty and who have been granted a concession, as defined by accounting guidance, and are further discussed in the "Troubled debt restructurings" section in Note 2 to the consolidated financial statements. This balance includes certain commercial loans totaling \$50.9 million which are classified as substandard and included in the table above because of this classification.

### ***Loans with Special Risk Characteristics***

Management relies primarily on an internal risk rating system, in addition to delinquency status, to assess risk in the loan portfolio, and these statistics are presented in Note 2 to the consolidated financial statements. However, certain types of loans are considered at high risk of loss due to their terms, location, or special conditions. Additional information about the major types of loans in these categories and their risk features are provided below. Information based on loan-to-value (LTV) ratios was generally calculated with valuations at loan origination date. The Company normally obtains an updated appraisal or valuation at the time a loan is renewed or modified, or if the loan becomes significantly delinquent or is in the process of being foreclosed upon.

#### *Real Estate – Construction and Land Loans*

The Company's portfolio of construction and land loans, as shown in the table below, amounted to 6.1% of total loans outstanding at September 30, 2020. The largest component of construction and land loans was commercial construction, which increased \$124.0 million during the nine months ended September 30, 2020. At September 30, 2020, multi-family residential construction loans totaled approximately \$259.1 million, or 32.6%, of the commercial construction loan portfolio, compared to \$213.4 million, or 31.8%, at December 31, 2019.

<i>(Dollars in thousands)</i>	September 30, 2020	% of Total	% of Total Loans	December 31, 2019	% of Total	% of Total Loans
Residential land and land development	\$ 58,381	5.7 %	.4 %	\$ 65,687	7.3 %	.4 %
Residential construction	114,839	11.4	.6	128,575	14.3	.9
Commercial land and land development	41,934	4.2	.3	34,525	3.8	.2
Commercial construction	794,575	78.7	4.8	670,590	74.6	4.6
<b>Total real estate - construction and land loans</b>	<b>\$ 1,009,729</b>	<b>100.0 %</b>	<b>6.1 %</b>	<b>\$ 899,377</b>	<b>100.0 %</b>	<b>6.1 %</b>

### Real Estate – Business Loans

Total business real estate loans were \$3.0 billion at September 30, 2020 and comprised 18.2% of the Company's total loan portfolio. These loans include properties such as manufacturing and warehouse buildings, small office and medical buildings, churches, hotels and motels, shopping centers, and other commercial properties. At September 30, 2020, 36.3% of business real estate loans were for owner-occupied real estate properties, which have historically resulted in lower net charge-off rates than non-owner-occupied commercial real estate loans.

<i>(Dollars in thousands)</i>	September 30, 2020	% of Total	% of Total Loans	December 31, 2019	% of Total	% of Total Loans
Owner-occupied	\$ 1,087,880	36.3 %	6.6 %	\$ 1,048,716	37.0 %	7.1 %
Multi-family	341,374	11.4	2.1	306,577	10.8	2.1
Office	340,801	11.4	2.1	297,278	10.5	2.0
Retail	355,359	11.9	2.2	383,234	13.5	2.6
Hotels	265,819	8.9	1.6	210,557	7.4	1.4
Farm	178,441	6.0	1.1	177,669	6.3	1.2
Senior living	192,887	6.4	1.2	164,000	5.8	1.1
Industrial	97,824	3.3	.6	108,285	3.8	.7
Other	132,807	4.4	.7	137,238	4.9	1.0
<b>Total real estate - business loans</b>	<b>\$ 2,993,192</b>	<b>100.0 %</b>	<b>18.2 %</b>	<b>\$ 2,833,554</b>	<b>100.0 %</b>	<b>19.2 %</b>

### Revolving Home Equity Loans

The Company had \$324.2 million in revolving home equity loans at September 30, 2020 that were generally collateralized by residential real estate. Most of these loans (93.1%) are written with terms requiring interest only monthly payments. These loans are offered in three main product lines: LTV up to 80%, 80% to 90%, and 90% to 100%. As of September 30, 2020, the outstanding principal of loans with an original LTV higher than 80% was \$34.1 million, or 10.5% of the portfolio, compared to \$41.1 million as of December 31, 2019. Total revolving home equity loan balances over 30 days past due or on non-accrual status were \$1.6 million at September 30, 2020 compared to \$2.0 million at December 31, 2019. The weighted average FICO score for the total current portfolio balance is 794. At maturity, the accounts are re-underwritten, and if they qualify under the Company's credit, collateral and capacity policies, the borrower is given the option to renew the line of credit or convert the outstanding balance to an amortizing loan. If criteria are not met, amortization is required, or the borrower may pay off the loan. During the remainder of 2020 through 2022, approximately 12.8% of the Company's current outstanding balances are expected to mature. Of these balances, approximately 94% have a FICO score of 700 or higher. The Company does not expect a significant increase in losses as these loans mature, due to their high FICO scores, low LTVs, and low historical loss levels.

### Consumer Loans

Within the consumer loan portfolio are several direct and indirect product lines, which include loans for the purchase of automobiles, motorcycles, marine and RVs. Outstanding balances for auto loans were \$901.3 million and \$908.3 million at September 30, 2020 and December 31, 2019, respectively. The balances over 30 days past due amounted to \$7.5 million at September 30, 2020 compared to \$13.2 million at December 31, 2019, and comprised .8% and 1.5% of the outstanding balances of these loans at September 30, 2020 and December 31, 2019, respectively. For the nine months ended September 30, 2020, \$321.1 million of new auto loans were originated, compared to \$311.2 million during the first nine months of 2019. At September 30, 2020, the automobile loan portfolio had a weighted average FICO score of 759.

Outstanding balances for motorcycle loans were \$70.9 million at September 30, 2020, compared to \$71.9 million at December 31, 2019. The balances over 30 days past due amounted to \$766 thousand and \$1.3 million at September 30, 2020 and December 31, 2019, respectively, and comprised 1.1% of the outstanding balance of these loans at September 30, 2020, compared to 1.9% at December 31, 2019. During the first nine months of 2020, new motorcycle loan originations totaled \$28.3 million compared to \$19.8 million during the first nine months of 2019.

The Company's balance of marine and RV loans totaled \$27.3 million at September 30, 2020, compared to \$35.4 million at December 31, 2019, and the balances over 30 days past due amounted to \$810 thousand and \$1.5 million at September 30, 2020 and December 31, 2019, respectively. The net charge-offs on marine and RV loans decreased from \$216 thousand in the first nine months of 2019 to \$86 thousand in the first nine months of 2020.

### Consumer Credit Card Loans

The Company offers low promotional rates on selected consumer credit card products. Out of a portfolio at September 30, 2020 of \$647.9 million in consumer credit card loans outstanding, approximately \$98.3 million, or 15.2%, carried a low promotional rate. Within the next six months, \$42.1 million of these loans are scheduled to convert to the ongoing higher contractual rate. To mitigate some of the risk involved with this credit card product, the Company performs credit checks and detailed analysis of the customer borrowing profile before approving the loan application. Management believes that the risks in the consumer loan portfolio are reasonable and the anticipated loss ratios are within acceptable parameters.

### Energy Lending

The Company's energy lending portfolio is comprised of lending to the petroleum and natural gas sectors and totaled \$169.9 million, or 1.0% of total loans at September 30, 2020, and \$197.4 million at December 31, 2019, a decrease of \$27.5 million.

<i>(In thousands)</i>	September 30, 2020	December 31, 2019	Unfunded commitments at September 30, 2020
Extraction	\$ 153,013	\$ 177,903	\$ 35,330
Mid-stream shipping and storage	4,400	4,763	58,603
Downstream distribution and refining	5,201	7,168	35,269
Support activities	7,288	7,598	13,919
<b>Total energy lending portfolio</b>	<b>\$ 169,902</b>	<b>\$ 197,432</b>	<b>\$ 143,121</b>

Information about the credit quality of the Company's energy lending portfolio as of September 30, 2020 and December 31, 2019 is provided in the table below.

<i>(Dollars in thousands)</i>	September 30, 2020	% of Energy Lending	December 31, 2019	% of Energy Lending
Pass	\$ 107,083	63.0 %	\$ 170,938	86.6 %
Special mention	18,351	10.8	6,961	3.5
Substandard	30,193	17.8	16,600	8.4
Non-accrual	14,275	8.4	2,933	1.5
<b>Total</b>	<b>\$ 169,902</b>	<b>100.0 %</b>	<b>\$ 197,432</b>	<b>100.0 %</b>

Energy lending balances classified as substandard and non-accrual represented 17.8% and 8.4% respectively, of total energy lending loan balances at September 30, 2020. The Company recorded \$3.0 million of net loan charge-offs on energy loans during the nine months ended September 30, 2020. There were no net loan charge-offs on energy loans for the year ended December 31, 2019.

### Pandemic-Sensitive Industry Lending

As a result of the ongoing COVID-19 global pandemic, the United States economy is currently in an unprecedented state of uncertainty. While nearly every industry has been impacted to some degree by business disruptions, the Company identified the following industries and lending exposures, excluding PPP loans, within its loan portfolio at September 30, 2020 and December 31, 2019.

<i>(In thousands)</i>	September 30, 2020	% of Loan Portfolio at September 30, 2020	December 31, 2019	Unfunded commitments at September 30, 2020
Hospitals	\$ 757,728	5.1 %	\$ 678,466	\$ 1,709,338
Multifamily and student housing	608,334	4.1	528,280	260,066
Commercial real estate - retail	388,619	2.6	405,795	28,062
Senior living	310,012	2.1	301,441	95,932
Hotels	291,131	2.0	256,512	50,673
Energy	149,617	1.0	198,162	143,121
Retail stores	141,012	.9	147,223	155,050
Restaurants	66,935	.4	82,398	21,541
<b>Total</b>	<b>\$ 2,713,388</b>	<b>18.2 %</b>	<b>\$ 2,598,277</b>	<b>\$ 2,463,783</b>

Due to the significant deterioration of the U.S. economy resulting from the COVID-19 pandemic, the Company saw an increase in loan payment deferral requests through the end of the second quarter. Loans on active deferral decreased significantly in the third quarter. A summary of loan balances related to active loan payment deferral requests as of September 30, 2020 are shown in the table below.

<i>(Dollars in thousands)</i>	Number of Payment Deferral Requests <sup>(1)</sup>	Loan Balance Outstanding at September 30, 2020	% of Portfolio - based on September 30, 2020 Loan Balance	
Commercial <sup>(2)</sup>	11	\$ 48,148	.5	%
Real estate - personal	111	\$ 24,847	.9	%
Consumer credit card	73	\$ 496	.1	%
Consumer	629	\$ 11,044	.6	%
<b>Total</b>	<b>824</b>	<b>\$ 84,535</b>	<b>.5</b>	<b>%</b>

<sup>(1)</sup> Excludes deferrals offered through the Company's skip pay program.

<sup>(2)</sup> Excludes commercial card payment deferral requests.

Active payment deferral requests on commercial loans as of September 30, 2020, categorized by industry, are listed below:

<i>(Dollars in thousands)</i>	Number of Payment Deferral Requests	Loan Balance Outstanding at September 30, 2020
Nursing and residential care facilities	2	\$ 30,237
Hotels	3	16,842
Merchant wholesalers, equipment and appliances	2	472
Real estate developer/owner	1	337
Personal and laundry services	1	136
Restaurants and dining	1	87
Truck transportation	1	37
<b>Total <sup>(1)</sup></b>	<b>11</b>	<b>\$ 48,148</b>

<sup>(1)</sup> As of October 21, 2020, \$43.5 million of commercial requests have been deferred more than 90 days.

### *Small Business Lending*

During April 2020, in response to the COVID-19 crisis, the federal government created the Paycheck Protection Program, sponsored by the Small Business Administration ("SBA"), under the CARES Act. As a participating lender under the program, the Company funded loans of \$1.5 billion for 7,618 customers, with a median loan size of \$34 thousand. The Company understands that the loans are fully guaranteed by the SBA. Therefore, there was no increase in the allowance for credit losses on loans related to these loans as there is no expectation of credit loss. The maximum term of the loans range from two to five years, however, the Company believes that the majority of the loan balances are expected to be forgiven by the SBA. The process of loan forgiveness began during the third quarter of 2020, and the Company believes the majority of loan balances will be forgiven in 2021.

### *Shared National Credits*

The Company participates in credits of large, publicly traded companies which are defined by regulation as shared national credits, or SNCs. Regulations define SNCs as loans exceeding \$100 million that are shared by three or more financial institutions. The Company typically participates in these loans when business operations are maintained in the local communities or regional markets and opportunities to provide other banking services are present. The balance of SNC loans totaled \$1.0 billion at September 30, 2020, compared to \$1.1 billion at December 31, 2019. Additional unfunded commitments at September 30, 2020 totaled \$1.7 billion. During the quarter ended September 30, 2020, the Company placed a SNC loan on non-accrual status of approximately \$16.1 million. The SNC loan had additional unfunded commitments of \$15.4 million as of September 30, 2020.

### **Income Taxes**

Income tax expense was \$34.4 million in the third quarter of 2020, compared to \$9.7 million in the second quarter of 2020 and \$29.1 million in the third quarter of 2019. The Company's effective tax rate, including the effect of non-controlling interest, was 20.6% in the third quarter of 2020, compared to 19.5% in the second quarter of 2020 and 21.0% in the third quarter of 2019. For the nine months ended September 30, 2020, income tax expense was \$54.2 million, compared to \$80.9 million for the same period during the previous year, resulting in effective tax rates of 19.5% and 20.5%, respectively.

### **Financial Condition**

#### **Balance Sheet**

Total assets of the Company were \$31.5 billion at September 30, 2020 and \$26.1 billion at December 31, 2019. Earning assets (excluding the allowance for credit losses on loans and fair value adjustments on debt securities) amounted to \$28.8 billion at September 30, 2020 and \$24.6 billion at December 31, 2019, and consisted of 55% in loans and 38% in investment securities at September 30, 2020.

At September 30, 2020, total loans increased \$1.6 billion, or 11.2%, compared with balances at December 31, 2019. This increase was mainly due to growth in business loans of \$1.1 billion. Growth in business loans was mainly the result of increased commercial and industrial lending activities for PPP loans. Lease and commercial card lending also grew, offset by lower tax free loans. During the nine months ended September 30, 2020, personal real estate loans grew \$339.1 million, business real estate loans grew \$159.6 million, and construction loans increased \$110.4 million. These increases were partially offset by decreases of \$117.1 million in consumer card loans and \$25.0 million in revolving home equity loans. Consumer loans, which includes automobile, marine and RV, fixed rate home equity and other consumers loans, increased \$42.2 million compared to balances at December 31, 2019, primarily due to growth in other consumer loans of \$88.0 million, partly offset by lower automobile, marine and RV, and fixed rate home equity loans.

Available for sale investment securities, excluding fair value adjustments, increased \$2.7 billion at September 30, 2020 compared to December 31, 2019. Purchases of securities during this period totaled \$5.2 billion, offset by sales, maturities, and pay downs of \$2.4 billion. The largest increases in outstanding balances occurred in agency mortgage-backed securities, state and municipal obligations, and asset-backed securities which increased \$2.0 billion, \$669.7 million, and \$405.8 million, respectively. These increases were partially offset by a decrease in non-agency mortgage-backed securities of \$472.2 million at September 30, 2020 compared to December 31, 2019. At September 30, 2020, the duration of the investment portfolio was 3.4 years, and maturities and pay downs of approximately \$1.7 billion are expected to occur during the next 12 months.

Total deposits at September 30, 2020 amounted to \$25.7 billion, an increase of \$5.2 billion compared to December 31, 2019. The increase in deposits largely resulted from increases in demand deposits, mainly business demand deposits (increase of \$3.2

billion) and money market deposits (increase of \$786.3 million). Savings and interest checking deposits also increased \$575.5 million at September 30, 2020 compared to balances at December 31, 2019. The Company's borrowings totaled \$1.7 billion at September 30, 2020, a decrease of \$199.3 million from balances at December 31, 2019, mainly due to a decline in customer repurchase agreements.

## Liquidity and Capital Resources

### Liquidity Management

The Company's most liquid assets are comprised of available for sale debt securities, federal funds sold, securities purchased under agreements to resell (resale agreements), and balances at the Federal Reserve Bank, as follows:

<i>(In thousands)</i>	September 30, 2020	June 30, 2020	December 31, 2019
<b>Liquid assets:</b>			
Available for sale debt securities	\$ 11,539,061	\$ 10,317,427	\$ 8,571,626
Federal funds sold	2,275	—	—
Long-term securities purchased under agreements to resell	850,000	850,000	850,000
Balances at the Federal Reserve Bank	1,171,697	1,404,968	395,850
<b>Total</b>	<b>\$ 13,563,033</b>	<b>\$ 12,572,395</b>	<b>\$ 9,817,476</b>

Federal funds sold, which are funds lent to the Company's correspondent bank customers with overnight maturities, totaled \$2.3 million as of September 30, 2020. Long-term resale agreements, maturing through 2023, totaled \$850.0 million at September 30, 2020. Under these agreements, the Company lends funds to upstream financial institutions and holds marketable securities, safe-kept by a third-party custodian, as collateral. This collateral totaled \$896.9 million in fair value at September 30, 2020. Interest earning balances at the Federal Reserve Bank, which have overnight maturities and are used for general liquidity purposes, totaled \$1.2 billion at September 30, 2020. The fair value of the available for sale debt portfolio was \$11.5 billion at September 30, 2020 and included an unrealized net gain of \$356.7 million. The total net unrealized gain included net gains of \$195.6 million on mortgage-backed and asset-backed securities, \$73.9 million on state and municipal obligations, \$61.5 million on U.S. government and federal agency obligations, \$21.4 million on other debt securities, and \$4.3 million on government-sponsored enterprise obligations.

Approximately \$1.7 billion of the available for sale debt portfolio is expected to mature or pay down during the next 12 months, and these funds offer substantial resources to meet new loan demand or help offset potential reductions in the Company's deposit funding base. The Company pledges portions of its investment securities portfolio to secure public fund deposits, securities sold under agreements to repurchase, trust funds, letters of credit issued by the FHLB, and borrowing capacity at the Federal Reserve Bank. Total investment securities pledged for these purposes were as follows:

<i>(In thousands)</i>	September 30, 2020	June 30, 2020	December 31, 2019
<b>Investment securities pledged for the purpose of securing:</b>			
Federal Reserve Bank borrowings	\$ 41,568	\$ 44,039	\$ 48,304
FHLB borrowings and letters of credit	5,873	6,462	7,637
Securities sold under agreements to repurchase *	1,905,050	1,958,464	2,083,716
Other deposits and swaps	2,529,873	2,542,103	2,149,575
Total pledged securities	4,482,364	4,551,068	4,289,232
Unpledged and available for pledging	5,602,707	4,119,554	3,029,268
Ineligible for pledging	1,453,990	1,646,805	1,253,126
<b>Total available for sale debt securities, at fair value</b>	<b>\$ 11,539,061</b>	<b>\$ 10,317,427</b>	<b>\$ 8,571,626</b>

\* Includes securities pledged for collateral swaps, as discussed in Note 12 to the consolidated financial statements.

Liquidity is also available from the Company's large base of core customer deposits, defined as non-interest bearing, interest checking, savings, and money market deposit accounts. At September 30, 2020, such deposits totaled \$23.7 billion and represented 92.3% of total deposits. These core deposits are normally less volatile, as they are often with customer relationships tied to other products offered by the Company, promoting long lasting relationships and stable funding sources. Certificates of deposit of \$100,000 and over totaled \$1.4 billion at September 30, 2020. These accounts are normally considered more volatile and higher costing and comprised 5.6% of total deposits at September 30, 2020.

<i>(In thousands)</i>	September 30, 2020	June 30, 2020	December 31, 2019
Core deposit base:			
Non-interest bearing	\$ 10,727,827	\$ 9,700,261	\$ 6,890,687
Interest checking	1,926,133	1,812,871	2,130,591
Savings and money market	11,057,372	10,980,122	9,491,125
<b>Total</b>	<b>\$ 23,711,332</b>	<b>\$ 22,493,254</b>	<b>\$ 18,512,403</b>

Other important components of liquidity are the level of borrowings from third-party sources and the availability of future credit. The Company's outside borrowings are mainly comprised of federal funds purchased and repurchase agreements, as follows:

<i>(In thousands)</i>	September 30, 2020	June 30, 2020	December 31, 2019
Borrowings:			
Federal funds purchased	\$ 6,770	\$ 36,965	\$ 20,035
Securities sold under agreements to repurchase	1,646,294	1,703,473	1,830,737
Other debt	782	1,475	2,418
<b>Total</b>	<b>\$ 1,653,846</b>	<b>\$ 1,741,913</b>	<b>\$ 1,853,190</b>

Federal funds purchased are unsecured overnight borrowings obtained mainly from upstream correspondent banks with which the Company maintains approved lines of credit. Repurchase agreements are collateralized by securities in the Company's investment portfolio and are comprised of non-insured customer funds totaling \$1.6 billion, which generally mature overnight. The Company also borrows on a secured basis through advances from the FHLB. The advances are generally short-term, fixed interest rate borrowings. There were no advances outstanding from the FHLB at September 30, 2020.

The Company pledges certain assets, including loans and investment securities, to both the Federal Reserve Bank and the FHLB as security to establish lines of credit and borrow from these entities. Based on the amount and type of collateral pledged, the FHLB establishes a collateral value from which the Company may draw advances against the collateral. Also, this collateral is used to enable the FHLB to issue letters of credit in favor of public fund depositors of the Company. The Federal Reserve Bank also establishes a collateral value of assets pledged and permits borrowings from the discount window. The following table reflects the collateral value of assets pledged, borrowings, and letters of credit outstanding, in addition to the estimated future funding capacity available to the Company at September 30, 2020.

<i>(In thousands)</i>	September 30, 2020		
	FHLB	Federal Reserve	Total
Collateral value pledged	\$ 2,736,771	\$ 1,175,780	\$ 3,912,551
Letters of credit issued	(121,445)	—	(121,445)
<b>Available for future advances</b>	<b>\$ 2,615,326</b>	<b>\$ 1,175,780</b>	<b>\$ 3,791,106</b>

In addition to those mentioned above, several other sources of liquidity are available. No commercial paper has been issued or outstanding during the past ten years. The Company has no subordinated debt or hybrid instruments which could affect future borrowing capacity. Because of its lack of significant long-term debt, the Company believes that it could generate additional liquidity through its Capital Markets Group from sources such as jumbo certificates of deposit or privately placed corporate debt. The Company receives strong outside rankings from both Standard & Poor's and Moody's on both the consolidated company level and its subsidiary bank, Commerce Bank, which would support future financing efforts, should the need arise. These ratings are as follows:

	Standard & Poor's	Moody's
<b>Commerce Bancshares, Inc.</b>		
Issuer rating	A-	
Rating outlook	Stable	Stable
Preferred stock <sup>(1)</sup>	BBB-	Baa1
<b>Commerce Bank</b>		
Issuer rating	A	A2
Baseline credit assessment		a1
Short-term rating	A-1	P-1
Rating outlook	Stable	Stable

<sup>(1)</sup>Ratings at time of preferred stock redemption.

The cash flows from the operating, investing and financing activities of the Company resulted in a net increase in cash, cash equivalents and restricted cash of \$649.7 million during the first nine months of 2020, as reported in the consolidated statements of cash flows in this report. Operating activities, consisting mainly of net income adjusted for certain non-cash items, provided cash flow of \$472.4 million and has historically been a stable source of funds. Investing activities, which occur mainly in the loan and investment securities portfolios, used cash of \$4.4 billion. Activity in the investment securities portfolio used cash of \$2.7 billion from purchases (net of sales, maturities and pay downs), while growth in the loan portfolio used cash of \$1.7 billion. Financing activities provided cash of \$4.6 billion, largely resulting from an increase in deposits of \$5.1 billion partially offset by a decrease of \$197.7 million in federal funds purchased and securities sold under agreements to repurchase, preferred stock redemption of \$150.0 million, dividend payments of \$97.4 million on common and preferred stock, and treasury stock purchases of \$53.8 million. While the future short-term liquidity needs arising from daily operations might vary more than the prior few years due to the COVID-19 pandemic, the Company believes it will be able to meet these cash flow needs.

## Capital Management

The Company met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well-capitalized institutions at September 30, 2020 and December 31, 2019, as shown in the following table.

<i>(Dollars in thousands)</i>	September 30, 2020	December 31, 2019	Minimum Ratios under Capital Adequacy Guidelines	Minimum Ratios for Well-Capitalized Banks *
Risk-adjusted assets	\$ 21,217,792	\$ 19,713,813		
Tier I common risk-based capital	2,853,960	2,745,538		
Tier I risk-based capital	2,853,960	2,890,322		
Total risk-based capital	3,101,780	3,052,079		
Tier I common risk-based capital ratio	13.45 %	13.93 %	7.00 %	6.50 %
Tier I risk-based capital ratio	13.45 %	14.66 %	8.50 %	8.00 %
Total risk-based capital ratio	14.62 %	15.48 %	10.50 %	10.00 %
Tier I leverage ratio	9.39 %	11.38 %	4.00 %	5.00 %

\*under Prompt Corrective Action requirements

In the first quarter of 2020, the interim final rule of the Federal Reserve Bank and other U.S. banking agencies became effective, providing banks that adopt CECL (ASU 2016-13) during the 2020 calendar year the option to delay recognizing the estimated impact on regulatory capital until after a two year deferral period, followed by a three year transition period. In connection with the adoption of CECL on January 1, 2020, the Company has elected to utilize this option. As a result, the two-year deferral period for the Company extends through December 31, 2021. Beginning on January 1, 2022, the Company will be required to phase in 25% of the previously deferred estimated capital impact of CECL, with an additional 25% to be phased in at the beginning of each subsequent year until fully phased in by the first quarter of 2025.

The Company maintains a treasury stock buyback program under authorizations by its Board of Directors (the Board) and normally purchases stock in the open market. During the nine months ended September 30, 2020, the Company purchased

880,419 shares at an average price of \$61.06 in open market purchases and through stock-based compensation transactions. At September 30, 2020, 3,550,539 shares remained available for purchase under the Board authorization.

The Company's common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital and liquidity levels, and alternative investment options. The Company paid a \$.27 per share cash dividend on its common stock in the third quarter of 2020, which was an 8.9% increase compared to its 2019 quarterly dividend.

On September 1, 2020, the Company redeemed all 6,000 outstanding shares of its 6.00% Series B Non-Cumulative Perpetual Preferred Stock and the corresponding depositary shares representing fractional interests in the Series B Preferred Stock at a redemption price of \$25 per depositary share (equivalent to \$1,000 per share of preferred stock). Regular dividends on the outstanding shares of the Series B Preferred Stock were paid separately on September 1, 2020 to holders of record as of the close of business on August 14, 2020, in the customary manner. On and after the September 1, 2020, all dividends on the shares of Series B Preferred Stock ceased to accrue.

### **Commitments, Off-Balance Sheet Arrangements and Contingencies**

In the normal course of business, various commitments and contingent liabilities arise which are not required to be recorded on the balance sheet. The most significant of these are loan commitments, which at September 30, 2020 totaled \$12.8 billion (including \$4.9 billion in unused, approved credit card lines). In addition, the Company enters into standby and commercial letters of credit. These contracts totaled \$318.0 million and \$30.4 million, respectively, at September 30, 2020. As many commitments expire unused or only partially used, these totals do not necessarily reflect future cash requirements. The carrying value of the guarantee obligations associated with the standby letters of credit, which has been recorded as a liability on the consolidated balance sheet, amounted to \$3.3 million at September 30, 2020. In conjunction with its adoption of ASU 2016-13, the Company recorded an increase to the allowance for credit losses on these unfunded lending commitments. The allowance is recorded in the Company's liability for unfunded lending commitments within other liabilities on its consolidated balance sheet. At September 30, 2020, the liability for unfunded commitments totaled \$35.2 million. See further discussion of the liability for unfunded lending commitments in Note 1 and Note 2 to the consolidated financial statements.

During the third quarter of 2020, the Company signed a \$106.6 million agreement with U.S. Capital Development to develop a 280,000 square foot commercial office building in a two building complex in Clayton, Missouri. While the Company intends to occupy a portion of the office building for executive offices, a 15 year lease agreement has been signed by an anchor tenant to lease approximately 40% of the office building.

The Company regularly purchases various state tax credits arising from third-party property redevelopment. These credits are either resold to third-parties at a profit or retained for use by the Company. During the first nine months of 2020, purchases and sales of tax credits amounted to \$121.6 million and \$116.6 million, respectively. Fees from sales of tax credits were \$3.7 million for the nine months ended September 30, 2020, compared to \$2.7 million in the same period last year. At September 30, 2020, the Company expected to fund outstanding purchase commitments of \$62.0 million during the remainder of 2020 and \$120.3 million in 2021.

## Segment Results

The table below is a summary of segment pre-tax income results for the first nine months of 2020 and 2019.

<i>(Dollars in thousands)</i>	Consumer	Commercial	Wealth	Segment Totals	Other/ Elimination	Consolidated Totals
<b>Nine Months Ended September 30, 2020</b>						
Net interest income	\$ 241,195	\$ 300,307	\$ 41,686	\$ 583,188	\$ 36,896	\$ 620,084
Provision for credit losses	(23,885)	(3,122)	10	(26,997)	(114,596)	(141,593)
Non-interest income	107,492	143,747	139,700	390,939	(20,189)	370,750
Investment securities losses, net	—	—	—	—	(1,275)	(1,275)
Non-interest expense	(225,791)	(237,350)	(93,156)	(556,297)	(15,771)	(572,068)
Income before income taxes	\$ 99,011	\$ 203,582	\$ 88,240	\$ 390,833	\$ (114,935)	\$ 275,898
<b>Nine Months Ended September 30, 2019</b>						
Net interest income	\$ 236,215	\$ 256,649	\$ 35,662	\$ 528,526	\$ 90,108	\$ 618,634
Provision for loan losses	(33,061)	(1,053)	(165)	(34,279)	(953)	(35,232)
Non-interest income	98,840	151,655	133,556	384,051	(2,809)	381,242
Investment securities losses, net	—	—	—	—	3,874	3,874
Non-interest expense	(223,355)	(231,790)	(91,708)	(546,853)	(25,371)	(572,224)
Income before income taxes	\$ 78,639	\$ 175,461	\$ 77,345	\$ 331,445	\$ 64,849	\$ 396,294
Increase (decrease) in income before income taxes:						
Amount	\$ 20,372	\$ 28,121	\$ 10,895	\$ 59,388	\$ (179,784)	\$ (120,396)
Percent	25.9 %	16.0 %	14.1 %	17.9 %	N.M.	(30.4 %)

### Consumer

For the nine months ended September 30, 2020, income before income taxes for the Consumer segment increased \$20.4 million, or 25.9%, compared to the first nine months of 2019. This increase in income before income taxes was mainly due to growth in net interest income of \$5.0 million, or 2.1%, non-interest income of \$8.7 million, or 8.8%, and a decrease in the provision for credit losses of \$9.2 million. These increases to income were partly offset by higher non-interest expense of \$2.4 million, or 1.1%. Net interest income increased due to a \$15.5 million increase in net allocated funding credits assigned to the Consumer segment's loan and deposit portfolios, partly offset by a \$13.6 million decrease in loan interest income. Non-interest income increased mainly due to growth in mortgage banking revenue, partly offset by decreases in deposit account fees (mainly overdraft and return item fees) and net credit and debit card fees (mainly lower interchange fees, partly offset by lower rewards expense). Non-interest expense increased over the same period in the previous year due to higher salaries and allocated support costs for information technology and an impairment on mortgage servicing rights. These increases were partly offset by lower supplies and communication expense and allocated support costs for marketing expense. The provision for credit losses totaled \$23.9 million, a \$9.2 million decrease from the first nine months of 2019, mainly due to lower credit card and personal loan net charge-offs.

### Commercial

For the nine months ended September 30, 2020, income before income taxes for the Commercial segment increased \$28.1 million, or 16.0%, compared to the same period in the previous year. This increase was mainly due to higher net interest income, partly offset by lower non-interest income and increases in non-interest expense and the provision for credit losses. Net interest income increased \$43.7 million, or 17.0%, due to a \$49.4 million increase in net allocated funding credits and decreases in interest expense on deposits and customer repurchase agreements of \$19.7 million and \$14.6 million, respectively. These increases to income were partly offset by a \$40.0 million decrease in loan interest income. Non-interest income decreased \$7.9 million, or 5.2%, from the previous year mainly due to lower net corporate card fees (driven by lower transaction volume), swap fees and gains on sales of leased assets. These decreases were partly offset by higher capital market and deposit account fees (mainly corporate cash management fees). Non-interest expense increased \$5.6 million, or 2.4%, mainly due to growth in salaries expense and allocated support costs for information technology. These increases were partly offset by higher deferred origination costs, lower travel and entertainment expense and allocated teller services costs. The

provision for credit losses increased \$2.1 million over the same period last year, mainly due to higher net charge-offs on business loans, partly offset by net recoveries on lease and commercial card loans.

### *Wealth*

Wealth segment pre-tax profitability for the nine months ended September 30, 2020 increased \$10.9 million, or 14.1%, over the same period in the previous year. Net interest income increased \$6.0 million, or 16.9%, mainly due to a \$9.9 million increase in net allocated funding credits and lower deposit interest expense of \$1.3 million, partly offset by a \$5.2 million decrease in loan interest income. Non-interest income increased \$6.1 million, or 4.6%, over the prior year largely due to higher trust fee income (mainly private client trust fees) and mortgage banking revenue. Non-interest expense increased \$1.4 million, or 1.6%, due to higher salaries expense and allocated servicing and support costs (mainly mortgage loan processing and information technology), partly offset by lower travel and entertainment expense. The provision for credit losses decreased \$175 thousand from the same period last year mainly due to net recoveries on revolving home equity loans.

The Other/Elimination category in the preceding table includes the activity of various support and overhead operating units of the Company, in addition to the investment securities portfolio and other items not allocated to the segments. In accordance with the Company's transfer pricing procedures, the difference between the total provision and total net charge-offs/recoveries is not allocated to a business segment and is included in this category. The pre-tax profitability of this category was lower than in the same period last year by \$179.8 million. This decrease was partly due to lower net interest income of \$53.2 million and a decrease in non-interest income of \$17.4 million, partly offset by lower non-interest expense of \$9.6 million. Unallocated securities losses were \$1.3 million in the first nine months of 2020 compared to gains of \$3.9 million in 2019. Also, the unallocated provision for credit losses increased \$113.6 million, primarily driven by an increase in the allowance for credit losses on loans and the liability for unfunded lending commitments, which is not allocated to segments for management reporting purposes. Net charge-offs are allocated to segments when incurred for management reporting purposes. At September 30, 2020, the Company's provision for credit losses on unfunded lending commitments was \$18.0 million. Additionally, the provision for credit losses on loans was \$96.7 million in excess of net charge-offs in the first nine months of 2020, while the provision was \$750 thousand in excess of net charge-offs during the first nine months of 2019.

### **Impact of Recently Issued Accounting Standards**

***Financial Instruments*** ASU 2016-13, "Measurement of Credit Losses on Financial Instruments", known as the current expected credit loss (CECL) model, was issued in June 2016, and has been followed by additional clarifying guidance on specified implementation issues. This new standard is effective for fiscal years beginning after December 15, 2019 and was adopted by the Company on January 1, 2020 using the modified retrospective method.

This new measurement approach requires the calculation of expected lifetime credit losses and is applied to financial assets measured at amortized cost, including loans and held-to-maturity securities as well as certain unfunded lending commitments such as loan commitments. The standard also changes the impairment model of available for sale debt securities.

The allowance for loan losses under the previously required incurred loss model that is reported on the Company's consolidated balance sheet is different under the requirements of the CECL model. At adoption, a cumulative-effect adjustment for the change in the allowance for credit losses increased retained earnings by \$3.8 million. The cumulative-effect adjustment to retained earnings, net of taxes, was comprised of the impact to the allowance for credit losses on outstanding loans and the impact to the liability for unfunded lending commitments. There is no implementation impact on held-to-maturity debt securities as the Company does not hold any held-to-maturity debt securities.

The new accounting standard does not require the use of a specific loss estimation method for purposes of determining the allowance for credit losses. The Company selected a methodology that uses historical net charge-off rates, adjusted by the impacts of a reasonable and supportable forecast and the impacts of other qualitative factors to determine the expected credit losses. Key assumptions include the application of historical loss rates, prepayment speeds, forecast results of a reasonable and supportable period, the period to revert to historical loss rates, and qualitative factors. The forecast is determined using projections of certain macroeconomic variables, such as, unemployment rate, prime rate, BBB corporate yield, and house price index. The model design and methodology requires management judgment.

The allowance for credit losses on the commercial portfolio decreased due to the relatively short contractual lives of the commercial loan portfolios coupled with an economic forecast predicting stable macroeconomic factors similar to the current environment at adoption. The allowance for credit losses on the personal banking portfolio increased due to the relatively longer contractual lives of certain portfolios, primarily those collateralized with personal real estate. Because the commercial loan portfolio represented 63% of total loans at December 31, 2019, the change in its allowance for credit losses had a more

significant impact on the total allowance for credit losses, and resulted in a net reduction in the allowance for credit losses. The Company's allowance for loan losses to total loans ratio declined from 1.09% at December 31, 2019, to .95% at adoption. Offsetting the overall reduction in the allowance for credit losses for outstanding loans was an increase in the liability for unfunded lending commitments. The liability increased as the loss estimation was required to be expanded over the contractual commitment period. The adoption also resulted in an immaterial adjustment to retained earnings at January 1, 2020. Further discussion of the accounting impact of the Company's adoption is included in Note 1 to the consolidated financial statements.

Additionally, the Company elected to phase the estimated impact of CECL into regulatory capital in accordance with the interim final rule of the Federal Reserve Bank and other U.S. banking agencies. Further discussion of the impact of this election is discussed in *Capital Management* within *Liquidity and Capital Resources*.

**Intangible Assets** The FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment", in January 2017. Under current guidance, a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill by following procedures that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the new amendments, the goodwill impairment test compares the fair value of a reporting unit with its carrying amount and an impairment charge is measured as the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments were effective for impairment tests beginning January 1, 2020 and did not have a significant effect on the Company's consolidated financial statements.

**Financial Instruments** The FASB issued ASU 2018-13, "Changes to the Disclosure Requirements of Fair Value Measurement", in August 2018. The amendments in the ASU eliminate or modify certain disclosure requirements for fair value measurements in Topic 820, *Fair Value Measurement*. In addition, the amendments in the ASU also require the addition of new disclosure requirements on fair value measurement, including the disclosure of changes in unrealized gains and losses for the period included in AOCI for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The guidance was effective January 1, 2020 and did not have a significant effect on the Company's consolidated financial statements.

**Retirement Benefits** The FASB issued ASU 2018-14, "Compensation - Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)", in August 2018. The amendments in the ASU eliminate disclosures that are no longer considered cost beneficial and clarify specific requirements of disclosures. In addition, the amendments in the ASU also add new disclosures, including the explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments were effective January 1, 2020 and did not have a significant effect on the Company's consolidated financial statements.

**Intangible Assets** The FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract", in August 2018. Under current guidance, the accounting for implementation costs of a hosting arrangement that is a service contract is not specifically addressed. Under the new amendments, the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract are aligned with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software or hosting arrangements that include internal-use software license. The guidance was effective January 1, 2020 and did not have a significant effect on the Company's consolidated financial statements.

**Income Taxes** The FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes", in December 2019. The amendments in the ASU eliminate certain exceptions under current guidance for investments, intraperiod allocations, and the methodology for calculating interim income tax. In addition, the amendments also add new guidance to simplify accounting for income taxes. The amendments are effective January 1, 2021, but early adoption is permitted. The Company is still assessing the impact on the Company's consolidated financial statements.

**Investment Securities** The FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs", in October 2020. The amendments in the ASU clarify that for each reporting period an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33. The guidance is effective January 1, 2021 and is not expected to have a significant effect on the Company's consolidated financial statements.

**Reference Rate Reform** The FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting", in March 2020. The new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if they reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the new guidance do not apply to contract modifications made and hedging relationships entered

into or evaluated after December 31, 2022, except for certain hedging relationships existing as of December 31, 2022. The Company has established a LIBOR Transition Program, which is led by the LIBOR Transition Steering Committee (Committee) whose purpose is to guide the overall transition process for the Company. The Committee is an internal, cross-functional team with representatives from all relevant business lines, support functions and legal counsel. An initial LIBOR impact and risk assessment has been performed, and the Committee has developed and prioritized action items. Changes to the Company's systems have been identified and the process of installing and testing code has started. All financial contracts that reference LIBOR have been identified and are being monitored on an ongoing basis. Remediation of these contracts is expected to be consistent with industry timing. LIBOR fallback language has been included in key loan provisions of new and renewed loans in preparation for transition from LIBOR to the new benchmark rate when such transition occurs.

**AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS**  
**Three Months Ended September 30, 2020 and 2019**

(Dollars in thousands)	Third Quarter 2020			Third Quarter 2019		
	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid
<b>ASSETS:</b>						
Loans:						
Business <sup>(A)</sup>	\$ 6,709,200	\$ 49,680	2.95 %	\$ 5,263,312	\$ 51,071	3.85 %
Real estate — construction and land	974,346	9,167	3.74	920,206	12,669	5.46
Real estate — business	2,989,652	26,547	3.53	2,883,379	32,153	4.42
Real estate — personal	2,722,300	24,334	3.56	2,175,156	21,444	3.91
Consumer	1,992,314	21,004	4.19	1,924,434	23,664	4.88
Revolving home equity	329,361	2,722	3.29	354,040	4,617	5.17
Consumer credit card	646,185	18,513	11.40	763,377	23,894	12.42
Overdrafts	2,689	—	—	9,240	—	—
<b>Total loans</b>	<b>16,366,047</b>	<b>151,967</b>	<b>3.69</b>	<b>14,293,144</b>	<b>169,512</b>	<b>4.71</b>
Loans held for sale	24,728	264	4.25	19,882	308	6.15
Investment securities:						
U.S. government and federal agency obligations	770,361	7,189	3.71	825,544	4,910	2.36
Government-sponsored enterprise obligations	102,749	560	2.17	181,929	1,232	2.69
State and municipal obligations <sup>(A)</sup>	1,767,526	11,240	2.53	1,172,259	9,290	3.14
Mortgage-backed securities	6,259,926	30,607	1.95	4,712,508	30,947	2.61
Asset-backed securities	1,520,988	7,250	1.90	1,297,685	9,158	2.80
Other debt securities	514,166	3,036	2.35	334,218	2,217	2.63
Trading debt securities <sup>(A)</sup>	27,267	114	1.66	29,622	217	2.91
Equity securities <sup>(A)</sup>	4,193	497	47.15	4,705	423	35.67
Other securities <sup>(A)</sup>	120,253	2,038	6.74	134,896	2,106	6.19
<b>Total investment securities</b>	<b>11,087,429</b>	<b>62,531</b>	<b>2.24</b>	<b>8,693,366</b>	<b>60,500</b>	<b>2.76</b>
Federal funds sold and short-term securities						
purchased under agreements to resell	337	—	—	1,080	7	2.57
Long-term securities purchased						
under agreements to resell	849,994	11,247	5.26	713,030	3,621	2.01
Interest earning deposits with banks	1,024,435	261	.10	226,582	1,241	2.17
<b>Total interest earning assets</b>	<b>29,352,970</b>	<b>226,270</b>	<b>3.07</b>	<b>23,947,084</b>	<b>235,189</b>	<b>3.90</b>
Allowance for credit losses on loans	(240,286)			(160,387)		
Unrealized gain on debt securities	368,154			152,706		
Cash and due from banks	326,030			367,005		
Premises and equipment, net	404,144			380,198		
Other assets	659,509			544,988		
<b>Total assets</b>	<b>\$ 30,870,521</b>			<b>\$ 25,231,594</b>		
<b>LIABILITIES AND EQUITY:</b>						
Interest bearing deposits:						
Savings	\$ 1,193,079	269	.09	\$ 924,581	263	.11
Interest checking and money market	11,731,494	2,937	.10	10,409,111	9,962	.38
Certificates of deposit of less than \$100,000	573,207	1,028	.71	620,138	1,740	1.11
Certificates of deposit of \$100,000 and over	1,447,968	2,512	.69	1,503,805	7,540	1.99
<b>Total interest bearing deposits</b>	<b>14,945,748</b>	<b>6,746</b>	<b>.18</b>	<b>13,457,635</b>	<b>19,505</b>	<b>.58</b>
Borrowings:						
Federal funds purchased and securities sold						
under agreements to repurchase	1,855,971	406	.09	1,884,939	8,273	1.74
Other borrowings	1,225	—	—	77,248	453	2.33
<b>Total borrowings</b>	<b>1,857,196</b>	<b>406</b>	<b>.09</b>	<b>1,962,187</b>	<b>8,726</b>	<b>1.76</b>
<b>Total interest bearing liabilities</b>	<b>16,802,944</b>	<b>7,152</b>	<b>.17 %</b>	<b>15,419,822</b>	<b>28,231</b>	<b>.73 %</b>
Non-interest bearing deposits	9,801,562			6,290,036		
Other liabilities	899,890			390,560		
Equity	3,366,125			3,131,176		
<b>Total liabilities and equity</b>	<b>\$ 30,870,521</b>			<b>\$ 25,231,594</b>		
<b>Net interest margin (T/E)</b>		<b>\$ 219,118</b>			<b>\$ 206,958</b>	
<b>Net yield on interest earning assets</b>			<b>2.97 %</b>			<b>3.43 %</b>

(A) Stated on a tax equivalent basis using a federal income tax rate of 21%.

**AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS**  
**Nine Months Ended September 30, 2020 and 2019**

<i>(Dollars in thousands)</i>	Nine Months 2020			Nine Months 2019		
	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid
<b>ASSETS:</b>						
Loans:						
Business <sup>(A)</sup>	\$ 6,322,644	\$ 146,437	3.09 %	\$ 5,164,329	\$ 153,721	3.98 %
Real estate — construction and land	931,517	28,952	4.15	912,063	38,237	5.61
Real estate — business	2,935,319	83,382	3.79	2,872,090	97,609	4.54
Real estate — personal	2,565,740	70,829	3.69	2,143,394	63,439	3.96
Consumer	1,962,466	65,845	4.48	1,920,521	68,858	4.79
Revolving home equity	340,900	9,722	3.81	362,163	14,036	5.18
Consumer credit card	679,101	60,102	11.82	770,143	70,899	12.31
Overdrafts	3,213	—	—	6,130	—	—
<b>Total loans</b>	<b>15,740,900</b>	<b>465,269</b>	<b>3.95</b>	<b>14,150,833</b>	<b>506,799</b>	<b>4.79</b>
Loans held for sale	14,692	588	5.35	19,660	1,003	6.82
Investment securities:						
U.S. government and federal agency obligations	783,006	12,244	2.09	859,354	16,467	2.56
Government-sponsored enterprise obligations	117,135	2,958	3.37	193,574	3,545	2.45
State and municipal obligations <sup>(A)</sup>	1,426,432	30,187	2.83	1,225,465	29,075	3.17
Mortgage-backed securities	5,426,861	87,017	2.14	4,563,836	91,673	2.69
Asset-backed securities	1,349,316	22,496	2.23	1,411,085	29,156	2.76
Other debt securities	414,553	7,907	2.55	333,758	6,659	2.67
Trading debt securities <sup>(A)</sup>	31,087	560	2.41	28,416	656	3.09
Equity securities <sup>(A)</sup>	4,201	1,492	47.44	4,664	1,269	36.38
Other securities <sup>(A)</sup>	134,481	5,450	5.41	131,813	6,119	6.21
<b>Total investment securities</b>	<b>9,687,072</b>	<b>170,311</b>	<b>2.35</b>	<b>8,751,965</b>	<b>184,619</b>	<b>2.82</b>
Federal funds sold and short-term securities						
purchased under agreements to resell	252	2	1.06	2,479	51	2.75
Long-term securities purchased						
under agreements to resell	849,998	29,445	4.63	704,391	11,066	2.10
Interest earning deposits with banks	1,126,600	1,996	.24	291,417	5,113	2.35
<b>Total interest earning assets</b>	<b>27,419,514</b>	<b>667,611</b>	<b>3.25</b>	<b>23,920,745</b>	<b>708,651</b>	<b>3.96</b>
Allowance for credit losses on loans	(184,001)			(160,359)		
Unrealized gain (loss) on debt securities	280,616			49,335		
Cash and due from banks	351,435			367,747		
Premises and equipment, net	397,093			377,953		
Other assets	657,969			501,650		
<b>Total assets</b>	<b>\$ 28,922,626</b>			<b>\$ 25,057,071</b>		
<b>LIABILITIES AND EQUITY:</b>						
Interest bearing deposits:						
Savings	\$ 1,086,120	780	.10	\$ 917,081	757	.11
Interest checking and money market	11,318,376	14,712	.17	10,603,476	29,324	.37
Certificates of deposit of less than \$100,000	600,295	4,196	.93	605,369	4,530	1.00
Certificates of deposit of \$100,000 and over	1,364,798	11,357	1.11	1,384,106	20,473	1.98
<b>Total interest bearing deposits</b>	<b>14,369,589</b>	<b>31,045</b>	<b>.29</b>	<b>13,510,032</b>	<b>55,084</b>	<b>.55</b>
Borrowings:						
Federal funds purchased and securities sold						
under agreements to repurchase	1,945,669	5,761	.40	1,817,082	23,839	1.75
Other borrowings	168,748	1,032	.82	26,883	463	2.30
<b>Total borrowings</b>	<b>2,114,417</b>	<b>6,793</b>	<b>.43</b>	<b>1,843,965</b>	<b>24,302</b>	<b>1.76</b>
<b>Total interest bearing liabilities</b>	<b>16,484,006</b>	<b>37,838</b>	<b>.31 %</b>	<b>15,353,997</b>	<b>79,386</b>	<b>.69 %</b>
Non-interest bearing deposits	8,425,068			6,316,671		
Other liabilities	710,824			327,727		
Equity	3,302,728			3,058,676		
<b>Total liabilities and equity</b>	<b>\$ 28,922,626</b>			<b>\$ 25,057,071</b>		
<b>Net interest margin (T/E)</b>		<b>\$ 629,773</b>			<b>\$ 629,265</b>	
<b>Net yield on interest earning assets</b>			<b>3.07 %</b>			<b>3.52 %</b>

(A) Stated on a tax equivalent basis using a federal income tax rate of 21%.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest rate risk management focuses on maintaining consistent growth in net interest income within Board-approved policy limits. The Company primarily uses earnings simulation models to analyze net interest income sensitivity to movement in interest rates. The Company performs monthly simulations that model interest rate movements and risk in accordance with changes to its balance sheet composition. For further discussion of the Company's market risk, see the Interest Rate Sensitivity section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2019 Annual Report on Form 10-K.

The tables below show the effects of gradual shifts in interest rates over a twelve month period on the Company's net interest income versus the Company's net interest income in a flat rate scenario. Simulation A presents three rising rate scenarios and in each scenario, rates are assumed to change evenly over 12 months. In these scenarios, the balance sheet remains flat with the exception of deposit balances, which may fluctuate based on changes in rates. For instance, the Company may experience deposit disintermediation if the spread between market rates and bank deposit rates widens as rates rise.

The sensitivity of deposit balances to changes in rates is particularly difficult to estimate in exceptionally low rate environments. Since the future effects of changes in rates on deposit balances cannot be known with certainty, the Company conservatively models alternate scenarios with greater deposit attrition as rates rise. Simulation B illustrates results from these higher attrition scenarios to provide added perspective on potential effects of higher rates.

The Company utilizes these simulations both for monitoring interest rate risk and for liquidity planning purposes. While the future effects of rising rates on deposit balances cannot be known, the Company maintains a practice of running multiple rate scenarios to better understand interest rate risk and its effect on the Company's performance.

Simulation A	September 30, 2020			June 30, 2020		
	\$ Change in Net Interest Income	% Change in Net Interest Income	Assumed Deposit (Attrition)/Growth	\$ Change in Net Interest Income	% Change in Net Interest Income	Assumed Deposit (Attrition)/Growth
<i>(Dollars in millions)</i>						
300 basis points rising	\$ 53.8	7.03 %	\$ (513.5)	\$ 51.9	6.49 %	\$ (503.1)
200 basis points rising	\$ 47.3	6.18 %	\$ (360.4)	\$ 44.8	5.60 %	\$ (349.7)
100 basis points rising	\$ 29.3	3.83 %	\$ (188.4)	\$ 28.8	3.60 %	\$ (182.4)

Simulation B	September 30, 2020			June 30, 2020		
	\$ Change in Net Interest Income	% Change in Net Interest Income	Assumed Deposit (Attrition)/Growth	\$ Change in Net Interest Income	% Change in Net Interest Income	Assumed Deposit (Attrition)/Growth
<i>(Dollars in millions)</i>						
300 basis points rising	\$ 39.4	5.15 %	\$ (1,214.8)	\$ 38.7	4.83 %	\$ (1,078.2)
200 basis points rising	\$ 34.6	4.53 %	\$ (1,069.6)	\$ 33.0	4.12 %	\$ (931.8)
100 basis points rising	\$ 18.6	2.44 %	\$ (911.8)	\$ 18.6	2.32 %	\$ (777.3)

Under Simulation A, rising rates push interest income up more quickly than funding costs. This is predominately due to interest earning deposits with the Federal Reserve and variable rate loans repricing up with market rates, while deposit rates only partially reprice higher. Deposits at the Federal Reserve declined during the quarter, which typically results in a less sensitive balance sheet, but this was offset by the monetization of off-balance sheet floors, which no longer lose income in rising rate scenarios. The Company did not model a 100 basis point falling scenario due to the already low interest rate environment.

In Simulation B, the assumed higher levels of deposit attrition were modeled to capture the results of a shrinking balance sheet.

Projecting deposit activity in a period of historically low interest rates is difficult, and the Company cannot predict how deposits will actually react to shifting rates. The comparisons above provide insight into potential effects of changes in rates and deposit levels on net interest income. The Company believes that its approach to interest rate risk has appropriately considered its susceptibility to both rising and falling rates and has adopted strategies which minimize the impact of interest rate risk.

#### **Item 4. CONTROLS AND PROCEDURES**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2020. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There were no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II: OTHER INFORMATION

### **Item 1. LEGAL PROCEEDINGS**

The information required by this item is set forth in Part I, Item 1 under Note 17, Legal and Regulatory Proceedings.

### **Item 1A. RISK FACTORS**

The section titled "Risk Factors" in Part I, Item 1A of the Company's 2019 Annual Report on Form 10-K includes a discussion of the many risks and uncertainties the Company faces, any one or more of which could have a material adverse effect on its business, results of operations, financial condition (including capital and liquidity), or prospects or the value of or return on an investment. The information presented below provides an update to, and should be read in conjunction with, the risk factors and other information contained in the Company's 2019 Annual Report on Form 10-K. Except as presented below, there have been no material changes to the risk factors described in the Company's 2019 Annual Report on Form 10-K.

#### ***Public health threats or outbreaks of communicable diseases has adversely affected, and is expected to continue to adversely effect on the Company's operations and financial results***

The Company may face risks related to public health threats or outbreaks of communicable diseases. A widespread healthcare crisis, such as an outbreak of a communicable disease could adversely affect the global economy and the Company's financial performance. For example, the ongoing global COVID-19 pandemic has destabilized the financial markets in which the Company operates, and likely will continue to cause significant disruption in the global economies and financial markets, including the Company's local markets. The Company is dependent upon the willingness and ability of its customers to conduct banking and other financial transactions. In reaction to and as preventative measure to attempt to slow the spread of the pandemic, government authorities have in many states and municipalities implemented mandatory closures, shelter-in-place orders, and social distancing protocols, including orders within many of the geographic areas that the Company operates. Although the Company is considered an essential business, access to its branches and office locations have been restricted, for the safety of its employees and customers. Limiting customers' access to the Company's physical business has prevented some customers from transacting with the Company and lower demand for lending and other services offered by the Company, adversely affecting its cash flows, financial condition, results of operations, profitability and asset quality and could continue to do so for an indefinite period of time. This could have a material adverse effect on the Company's results of operations, financial condition, and liquidity. In particular, the continued spread of COVID-19 and efforts to contain the virus could:

- continue to impact customer demand of the Company's lending and related services, leading to lower revenue;
- cause the Company to experience an increase in costs as a result of the Company implementing operational changes to accommodate its newly-remote workforce;
- cause delayed payments from customers and uncollectible accounts, defaults, foreclosures, and declining collateral values, resulting in losses to the Company;
- result in losses on the Company's investment portfolio, due to volatility in the markets and lower trading volume driven by economic uncertainty;
- cause market interest rates to continue to decline, which could adversely affect the Company's net interest income and profitability;
- cause the Company's credit losses to grow substantially;
- impact availability of qualified personnel; and
- cause other unpredictable events.

The situation surrounding COVID-19 remains uncertain and the potential for a material impact on the Company's results of operations, financial condition, and liquidity increases the longer the virus impacts activity levels in the United States and globally. The ultimate extent of the impact on our business, financial condition, liquidity, results of operations and cash flows will depend on future developments, which are highly uncertain and cannot be predicted. The Company continues to adapt to the changing dynamics of the COVID-19 impacts to the economy, needs of our employees and customers, and authoritative measures mandated by federal, state, and local governments. However, there is no assurance that our business continuity and disaster recovery program can adequately mitigate the risks of such business disruptions and interruptions. New information regarding the severity of the COVID-19 pandemic and ongoing reactions to the pandemic by customers and government authorities will continue to impact access to the Company's business, as well as the economies and markets in which the Company operates. The COVID-19 pandemic may cause prolonged global or national recessionary economic conditions or

longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on the Company's business, results of operations and financial condition. Beyond the current COVID-19 pandemic, the potential impacts of epidemics, pandemics, or other outbreaks of an illness, disease, or virus could therefore materially and adversely affect the Company's business, revenue, operations, financial condition, liquidity and cash flows.

## **Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information about the Company's purchases of its \$5 par value common stock, its only class of common stock registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as part of Publicly Announced Program</b>	<b>Maximum Number that May Yet Be Purchased Under the Program</b>
July 1 - 31, 2020	609	\$ 57.29	609	3,552,792
August 1 - 31, 2020	1,757	\$ 60.02	1,757	3,551,035
September 1 - 30, 2020	496	\$ 55.83	496	3,550,539
<b>Total</b>	<b>2,862</b>	<b>\$ 58.71</b>	<b>2,862</b>	<b>3,550,539</b>

The Company's stock purchases shown above were made under authorizations by the Board of Directors. Under the most recent authorization in November 2019 of 5,000,000 shares, 3,550,539 shares remained available for purchase at September 30, 2020.

## **Item 6. EXHIBITS**

[3.1 — Termination of Certificate of Designation of 6.00% Series B Non-Cumulative Perpetual Preferred Stock of Commerce Bancshares, Inc. was filed in current report on Form 8-K \(Commission file number 0-2989\) dated September 1, 2020, and the same is hereby incorporated by reference.](#)

[10.1 — Development Services Agreement \\*](#)

[10.2 — Development Services Agreement Amendment 1 \\*](#)

[10.3 — Development Services Agreement Amendment 2](#)

[10.4 — Development Services Agreement Amendment 3](#)

[10.5 — Development Services Agreement Amendment 4](#)

[10.6 — Development Services Agreement Amendment 5](#)

[10.7 — Development Services Agreement Amendment 6](#)

[10.8 — Development Services Agreement Amendment 7](#)

[10.9 — Development Services Agreement Amendment 8](#)

[10.10 — Development Services Agreement Amendment 9](#)

[10.11 — Development Services Agreement Amendment 10](#)

[10.12 — Development Services Agreement Amendment 11 \\*](#)

[31.1 — Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[31.2 — Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[32 — Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101 — Interactive data files in Inline XBRL pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.

104 — Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* In accordance with Item 601(a)(5) of Regulation S-K, certain schedules and exhibits to this exhibit have been omitted from this filing. The Company will furnish a copy of any omitted schedule or exhibit to the Securities and Exchange Commission or its staff upon request. In accordance with Item 601(b)(10)(iv) of Regulation S-K, certain portions of this exhibit have been redacted because they are both (i) not material and (ii) would likely cause competitive harm to the Company if publicly disclosed. The Company will provide an unredacted copy of the exhibit on a supplemental basis to the Securities and Exchange Commission or its staff upon request.

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**[\*]: THE IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THE AGREEMENT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED**

### **DEVELOPMENT SERVICES AGREEMENT**

THIS DEVELOPMENT SERVICES AGREEMENT (this “**Agreement**”) is dated as of October \_\_, 2019 (“**Effective Date**”), by and among COMMERCE BANK, a Missouri state bank and trust company (referred to herein as “**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to herein as “**Developer**”).

### **R E C I T A L S:**

WHEREAS, Owner owns certain real property located in St. Louis, Missouri and depicted on **Exhibit A** attached hereto (the “**Commerce Land**”); and

WHEREAS, Owner desires to construct an office and retail building and parking facility on the Commerce Land (the construction of the parking facility and core and shell of such office and retail building is collectively referred to herein as, the “**Commerce Project**”); and

WHEREAS, 8027 Forsyth owns or is or will be under contract to acquire certain real property adjacent to the Commerce Land (the “**8027 Land**”) depicted on **Exhibit A** on which it is going to develop and construct an office and retail building and parking facility (collectively, the “**8027 Project**”); and

WHEREAS, the preliminary schematics and outline specifications for the 8027 Project are attached hereto as **Exhibit B** (the “**8027 Plans**”); and

WHEREAS, the Commerce Project and the 8027 Project are intended to be complementary projects and they will share an attached parking garage facility (the “**Parking Garage**”) that will be constructed and operated on both the Commerce Land and the 8027 Land pursuant to a Parking Garage Agreement in form and substance acceptable to Owner and Developer and consistent with the terms set forth on as **Exhibit C** attached hereto (the “**Parking Garage Agreement**”); and

WHEREAS, Developer is knowledgeable and experienced in the development, design oversight, budgeting, construction, scheduling, and financing of projects comparable to the Commerce Project (as further described below) and by engaging Developer on the terms and conditions set forth herein, Owner will benefit from certain cost efficiencies and economies of scale in connection with the development and construction of the Commerce Project and the Parking Garage by engaging Developer to develop and construct the Commerce Project and Parking Garage simultaneously with and in coordination with the development and construction of the 8027 Project; and

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WHEREAS, Owner desires to engage Developer to perform certain development services in connection with the development of the Commerce Project, and Developer is willing to accept such engagement, all upon the terms and conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the compensation and services set forth herein, the mutual covenants and undertakings of Owner and Developer described in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Owner and Developer hereby agree as follows:

## A G R E E M E N T S:

### **Article I.**

#### **The Projects**

1.1 The Commerce Project consists of the development and construction of an office and retail building and attached Parking Garage, and certain related site work and infrastructure improvements on the Commerce Land. The Commerce Project shall be completed in accordance with this Agreement and otherwise in accordance with: (a) the Plans and Specifications (as hereinafter defined), (b) the architectural, engineering and construction contracts and reports obtained and entered into in accordance with this Agreement, (c) the Project Schedule (as hereinafter defined); and (d) the Project Budget (as hereinafter defined).

1.2 The 8027 Project consists of the development and construction of an office and retail building and attached Parking Garage, and certain related site work and infrastructure on the 8027 Land, all in accordance with the 8027 Plans and the 8027 Project Schedule attached hereto as **Exhibit E-2**. Developer represents and warrants that the 8027 Plans describe all proposed improvements to be constructed on the 8027 Land that are visible from the exterior, including without limitation (i) improvement exteriors, location, height, bulk, scale, dimensions, massing, proportion, setbacks and lot-coverage, (ii) landscaping, site lighting, signs, utilities and drainage, sidewalks, driveways, loading areas, parking areas, curbs, curb cuts, and retaining walls and fences, and (iii) the conformity and harmony of exterior design and exterior use with the exterior design and exterior use of the Commerce Project (collectively, "**Exterior Improvements**"). Any changes to the Exterior Improvements shown on the 8027 Plans that add, remove or materially alter the Exterior Improvements shall be subject to Owner's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed. Developer covenants that Substantial Completion of the Parking Garage and the plaza area located on the roof of the Parking Garage (including landscaping, hardscaping, lighting and furniture on such plaza), will occur on or before the date of Substantial Completion of the Commerce Project. In the event that Developer fails to acquire all real property constituting the 8027 Land on or before February 1, 2020, then either party may terminate this Agreement upon thirty (30) days' prior written notice to the other party (provided that if Owner delivers a termination notice to Developer, Developer shall have, during such thirty (30) day period, the right to invalidate the termination by acquiring all real property constituting the 8027 Land), and, in the event of such termination, this Agreement shall be terminated and of no further force and effect as of the date specified in such notice, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer's

written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all Predevelopment Costs actually incurred between the Effective Date and the date of such termination not to exceed \$315,000, in accordance with the Predevelopment Costs Budget.

1.3 Each party shall use diligent, good faith efforts to finalize and execute the Parking Garage Agreement concurrently with finalizing the Project Budget and GMP under Section 3.1.2 hereof. If, within forty-five (45) days after the date of this Agreement, the parties have not finalized the Parking Garage Agreement, either party may terminate this Agreement by delivering written notice of such termination to the other party, in which case this Agreement shall be terminated and of no further force and effect, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer's written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all Predevelopment Costs (defined below) actually incurred between the Effective Date and the date of such termination, in an amount not to exceed \$315,000, in accordance with the Predevelopment Costs Budget (defined below). Developer shall cause (i) construction of the Parking Garage to be completed in accordance with the 8027 Plans and in accordance with the Plans and Specifications and (ii) the Parking Garage to be open and fully operational, on or before the date of receipt of a final certificate of occupancy (or local equivalent) for the core and shell ("**Substantial Completion**") of the Commerce Project.

## **Article II.**

### **Engagement of Developer; Term**

2.1 Owner hereby engages Developer as the exclusive developer with respect to the Development Services (defined below) for the Project (excluding the Landlord Work and Tenant Work) upon the terms and conditions herein set forth, and Owner agrees not to engage a co-developer with respect to the Development Services; provided, however, that this shall not be construed to limit Owner's right to engage an owner's representative for the Project.

2.2 Developer hereby accepts the engagement as the exclusive developer of the Project (excluding the Tenant Work) upon the terms and conditions herein set forth, and Developer agrees to further the interests of Owner with respect to the Commerce Project by furnishing Developer's skill, experience and judgment in the performance of the services described herein (collectively, the "**Services**"). Developer, as Developer at risk as set forth more fully herein and to the extent expressly authorized by Owner hereunder, shall implement or cause to be implemented decisions of Owner in connection with the planning, design, development, construction and scheduling of the Commerce Project as set forth herein.

2.3 Except as otherwise provided in this Agreement, the term (hereinafter called the "**Term**") of this Agreement shall commence on the date hereof and shall end upon the later of: (i) Substantial Completion of the Commerce Project; (ii) the completion of all punchlist items related to the Commerce Project; (iii) all obligations of Owner under any agreements with the City of Clayton, Missouri and any public utilities regarding the Commerce Project are fully satisfied and all letters of

credit or other security for such obligations are released; (iv) the date Developer has delivered to Owner all Project Closeout Documents including but not limited to as-builts, shop drawings, O & M manuals, warranties and final lien waivers and all of the required construction close-out deliverables required under Sections 3.2.14 and 3.2.15 hereof; or (v) payment in full of the fees owed to Developer pursuant to Section 4.1 hereof.

### **Article III.**

#### **Development Services**

##### **3.1 Project Budget; Plans and Specifications; Project Schedule and Project Reports.**

3.1.1 Developer and Owner have (a) caused to be prepared preliminary schematics and outline specifications for Commerce Project (the “**Preliminary Plans and Specifications**”), copies of which are attached hereto as **Exhibit B-1**, (b) prepared a preliminary budget for the development and construction of the Commerce Project based on the current anticipated scope of the Commerce Project as set forth in the Preliminary Plans and Specifications (the “**Preliminary Project Budget**”), a copy of which is attached hereto as **Exhibit D-1**, and (c) prepared a milestone schedule for the development and construction of the Commerce Project (the “**Project Schedule**”), a copy of which is attached hereto as **Exhibit E-1**. As set forth in the Preliminary Project Budget, the estimated guaranteed maximum price to complete the Commerce Project in accordance with the Preliminary Plans and Specifications is \$78,149,515.00 (the “**Preliminary GMP**”).

3.1.2 Within forty-five (45) days after the date of this Agreement, after consultation with prospective general contractors for the Commerce Project and further revision to and refinement of the Preliminary Plans and Specifications, Developer shall prepare and deliver to Owner an updated, proposed final budget for the development and construction of the Commerce Project, which updated budget shall include a proposed final guaranteed maximum price for the Commerce Project. Owner shall, within ten (10) Business Days following receipt of such proposed final budget, either: (i) provide Developer with written approval of such proposed final budget; or (ii) deliver written notice of Owner’s disapproval of such proposed final budget. If Owner disapproves of the proposed final budget in such ten (10) Business Day period, Owner and Developer shall reasonably cooperate in good faith to resolve the issues necessitating Owner’s disapproval of such proposed final budget, provided that at any time following Owner’s notice of disapproval, either party may terminate this Agreement by delivering written notice of such termination to the other party, in which case this Agreement shall be terminated and of no further force and effect, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer’s written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all predevelopment costs actually incurred (the “**Predevelopment Costs**”) between the Effective Date and the date of such termination, in an amount not to exceed \$315,000, in accordance with the predevelopment costs budget attached hereto as **Exhibit D-3** (the “**Predevelopment Costs Budget**”). The parties acknowledge that the costs shown on the Predevelopment Costs Budget are a part of, and not in addition to, the costs included in the Preliminary Project Budget and the Project

Budget. If Owner approves of the proposed, final budget as set forth above, such final budget shall be attached hereto as **Exhibit D-2** (hereinafter referred to as the “**Project Budget;**” and the guaranteed maximum price set forth in such Project Budget shall hereinafter be referred to as the “**GMP**”). Notwithstanding the foregoing, but subject to Owner’s rights to terminate this Agreement pursuant to Section 3.2.1 below, Owner and Developer acknowledge and agree that Developer may increase the Project Budget and the GMP, upon providing written notice thereof to Owner along with reasonable supporting documentation, by the actual cost of any on or off site improvements and exactions required by the City of Clayton in connection with obtaining the Project Entitlements (as defined below). In addition, Owner and Developer acknowledge and agree that neither the Project Budget nor the GMP will include amounts related to any costs or expenses associated with the termination of any existing leases affecting the Commerce Land or the relocation of any existing tenants of the Commerce Land and any such costs shall be the sole responsibility of Owner.

3.1.3 Developer shall engage, in accordance with the terms and conditions of this Section, the necessary third parties to obtain such surveys, environmental, geo-technical and other third-party reports for the Commerce Project as Developer reasonably deems necessary (collectively, the “**Project Reports**”). Owner shall be responsible for the actual cost of all Project Reports up to the applicable amount set forth in the Project Budget and Developer shall be responsible for the cost of Project Reports in excess of the applicable amount set forth on the Project Budget. Owner’s Approval shall be required prior to engaging any such third party for a Project Report only to the extent the expenses for such Project Reports are in excess of the Project Budget, provided that such approval shall not be unreasonably withheld, conditioned or delayed. Services agreements in forms reasonably acceptable to Owner shall be entered into between Developer and each of the Commerce Project architect and the Commerce Project engineer (the “**Architect Agreement**” and “**Engineer Agreement**”, respectively) to prepare the Plans and Specifications, with Owner included therein as a third party beneficiary with rights but not obligations to enforce and assume the terms of the Architect Agreement and the Engineer Agreement. Following execution hereof, Developer shall coordinate the preparation of detailed plans and specifications for the Commerce Project (collectively with the Preliminary Plans and Specifications, referred to herein, the “**Plans and Specifications**”) in accordance with the Preliminary Plans and Specifications and Project Budget and shall provide Owner with copies of 25%, 50%, 75%, 90% and 100% versions of such Plans and Specifications, as each successive revised version of the Plans and Specifications is available, for Owner’s Approval not to be unreasonably withheld, conditioned or delayed, and upon completion of same in a form acceptable to both Developer and Owner, shall provide Owner with copies of such Plans and Specifications. If Owner withholds its consent to the Plans and Specifications, or any versions thereof provided to Owner hereinabove, in accordance with this Agreement, then either party may, at its option, terminate this Agreement by written notice to the other party, in which case this Agreement shall be terminated and of no further force and effect, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer’s written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all Predevelopment Costs actually incurred between the Effective Date and the date of such termination in accordance with the Predevelopment Costs Budget. Notwithstanding anything herein to the contrary, no change or modification may be made to any part of the Plans and Specifications at any time without obtaining the prior written approval of Owner to any such change or modification.

Subject to events of Force Majeure (but only to the extent that costs arising from events of Force Majeure are not the responsibility of the General Contractor) and documented costs directly attributable to Owner Delay, if Project Costs exceed the amount of the GMP or the Project Budget, each of which as will be attached to this Agreement as **Exhibit D-2**, Developer shall be responsible for all such excess costs. As used herein, “**Owner Delay**” means (i) any delay in the performance of Developer’s work caused by Owner Change Orders, (ii) any delay beyond the time periods provided to Owner in making elections, approvals or choices required to be made hereunder, and (iii) any delay in completion of Developer’s work exclusively caused by Owner, including, without limitation, delays attributable to Owner’s failure to terminate any leases affecting the Commerce Land or to cause any tenants under such leases to vacate the Commerce Land in order to allow Developer to commence construction of the Commerce Project in accordance with the Project Schedule or Owner’s failure to timely execute such other easements, documents or agreements as are reasonably acceptable to Owner and reasonably required to be executed and delivered by Owner in connection with the development of the Commerce Project to the extent that Owner’s failure to execute any such document precludes Developer from commencing or proceeding with construction of the Commerce Project or the 8027 Project in accordance with the Project Schedule and the 8027 Project Schedule, as the case may be. Within ten (10) Business Days of the occurrence of any event which Developer believes is an event of Owner Delay, Developer shall provide written notice thereof to Owner in order for such delay in connection with such event to be considered an Owner Delay pursuant to the terms of this Agreement.

3.1.4 Notwithstanding anything herein to the contrary, Owner may, for any reason in its sole discretion, terminate this Agreement by written notice to Developer at any time within forty-five (45) days after the Effective Date, in which case this Agreement shall be terminated and of no further force and effect, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer’s written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all Predevelopment Costs actually incurred between the Effective Date and the date of such termination, in an amount not to exceed \$315,000, in accordance with the Predevelopment Costs Budget.

3.2 Generally. Developer shall perform the services described in this Section 3.2 (herein called the “**Development Services**”) and such other services and functions on behalf of Owner in connection with the design and construction of the Commerce Project to the best of its ability as would customarily be undertaken or performed by a developer of a similar project in accordance with the Plans and Specifications, the Contract Documents, the Project Budget, the Project Reports and the Project Schedule, and subject to the limitations hereinafter described. Without limiting the generality of the foregoing, Developer shall:

3.2.1 Use diligent efforts to secure on Owner’s behalf, and at Owner’s cost up to the applicable amount set forth in the Project Budget, any site plan approvals, building, environmental, zoning and land use permits, and any other permits and approvals from applicable governmental authorities and public utilities necessary for the Commerce Project that are Approved by Owner, including the expiration of any applicable appeals periods and full resolution and adjudication (if applicable) of any appeals (hereinafter collectively called the “**Entitlements**”). Owner shall pay all fees

and charges for securing and maintaining the Entitlements, as set forth in the Project Budget. In connection with the Entitlements, if and to the extent directed by Owner, Developer shall (a) diligently pursue the Entitlements, (b) represent Owner in material meetings with governmental authorities, and (c) coordinate with the project architect (the “**Architect**”) and engineer (the “**Engineer**”) (both of which Architect and Engineer shall be subject to Owner’s Approval), each of their respective sub-consultants, and with all Owner’s Representatives in the review of various configurations for the Commerce Project and in preparation of the Plans and Specifications. If, after using good faith diligent efforts, Developer is unable to obtain the Entitlements or such Entitlements involve costs in excess of the amounts allocated for such Entitlements in the Project Budget, or are subject to conditions or restrictions that are unacceptable to Owner, then Owner shall have the right to terminate this Agreement upon written notice to Developer at any time on or prior to April 1, 2020, in which case this Agreement shall be terminated and of no further force and effect, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer’s written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all Predevelopment Costs actually incurred between the Effective Date and the date of such termination in accordance with the Predevelopment Costs Budget. If Owner does not elect to terminate this Agreement on or prior to April 1, 2020, then the termination right set forth in this Section 3.2.1 shall thereafter be void and of no further force and effect.

3.2.2 Procure and negotiate on behalf of Owner agreements, including amendments thereto, for architectural, engineering, construction and any other contracts or agreements, including all amendments thereto, for the furnishing of any services, supplies, materials, machinery, or equipment required for the Commerce Project (collectively, the “**Contract Documents**”), including, without limitation the general contract for construction of the Commerce Project which will be on AIA Document A133–2009 (the “**General Contract**”) including mutually acceptable industry standard retainage provisions consistent with the general contract for the 8027 Project, and provided that the Contract Documents shall be executed by and in Developer’s name with Owner included therein as a third-party beneficiary. Owner shall be permitted to participate in the interview process for the selection of the general contractor for the Commerce Project, but Developer, in its discretion, shall select the general contractor for the Commerce Project. Selection of the general contractor for the Commerce Project shall occur simultaneously with the selection of the general contractor for the 8027 Project, and the general contractor selected for the 8027 Project shall be deemed approved as the general contractor (the “**General Contractor**”) under the General Contract. Prior to entering into any subcontract in excess of \$50,000, Developer shall obtain three (3) bids from subcontractors that have been Approved by Owner for the Commerce Project and Developer shall furnish to Owner a detailed, itemized summary and comparison of the bid amounts, including copies of reasonable supporting information. Developer shall provide copies of such bids to Owner and shall consult with Owner on the selection of subcontractors for the Commerce Project, provided that Developer, in its discretion, provided that the subcontracts are consistent with the terms of this Agreement, the Plans and Specifications, the Project Budget and the Project Schedule, shall select the subcontractors for the Commerce Project from such list of subcontractors Approved by Owner and Developer is not obligated to select the subcontractor with the lowest bid.

3.2.3 Periodically update the Project Schedule as Approved by Owner or as otherwise expressly provided under this Agreement.

3.2.4 Provide appropriate administrative, management, supervision and related services to coordinate the activities and responsibilities of the Engineer, Architect, the General Contractor and other contractors, professionals and consultants for the design, development and construction of the Commerce Project, including but not limited to:

- (a) administration of the Contract Documents;
- (b) participation, as requested by Owner, at all of Owner's meetings with the Engineer, Architect, the General Contractor and all governmental authorities having jurisdiction over the Commerce Project provided Owner will be entitled to be present at all such meetings;
- (c) advice and recommendations to Owner as to the selection of subcontractors and suppliers identified by the General Contractor;
- (d) assembly, review and submission to Owner, with a recommendation regarding approval of the documents described in Sections 3.5 and 3.6 hereof with respect to all requests for payment under any Contract Document, provided that all such payments shall be subject to Owner's Approval;
- (e) submission to Owner of suggestions or requests for changes made by the Architect, Engineer or the General Contractor that could improve the design, efficiency or cost of the Commerce Project, including all value engineering proposals, and other change orders which Developer considers meritorious, together with Developer's recommendation with respect thereto;
- (f) advice and recommendations to Owner as to compliance with all terms and conditions applicable to Owner or the Commerce Project or the construction thereof contained in any Entitlement, Project Reports, any recorded covenant, condition or restriction affecting the Commerce Project, any conditions contained in any insurance policy affecting or covering the Commerce Project or in any surety bond obtained in connection with the Commerce Project and all applicable laws, statutes, ordinances, rules regulations, orders and permits of all applicable governmental agencies having jurisdiction over the Commerce Project ("**Applicable Laws**") (with the costs of compliance being paid by Owner as part of the Project Budget, subject to Article VII); and
- (g) keeping Owner reasonably informed on a regular basis of the progress of the design and construction of the Commerce Project, including the preparation of such reports as may reasonably be requested by Owner and that are of a nature generally requested or expected of developers on similar projects.

3.2.5 Prepare and distribute to Owner monthly, reports on:

(a) the cost of the Commerce Project. The “**Project Costs**” shall be the actual total hard and soft costs incurred in connection with the acquisition and environmental remediation of the Property and design, construction and completion of the Commerce Project including, but not limited to, the costs of the design and construction of the Commerce Project, on-site improvements and off-site improvements, architectural and engineering fees, developer fees, reasonable legal fees and expenses, and fees and expenses for governmentally required permits, licenses, and inspections, all of which Project Costs shall be included in the Project Budget. Unless otherwise directed by Owner, such reports shall include (i) a summary of Project Costs for the current month; (ii) Project Costs incurred to the date of the report; (iii) a comparison of the Project Budget with actual expenditures and a list of future commitments and anticipated expenditures beyond the succeeding calendar month; (iv) when needed, suggestions for reducing Project Costs; and (v) an update on the Project Schedule; and

(b) the status of the development and construction of the Commerce Project including pictures of construction work completed since any prior reports and an update of the construction work completed to date compared to the Project Schedule.

3.2.6 Make all reasonable efforts to obtain satisfactory performance from the Architect, Engineer and the General Contractor, including all work and services performed, and notify Owner in the event Developer obtains knowledge that any requirements of Contract Documents are not being met.

3.2.7 Make all reasonable efforts to maintain all necessary cooperation among the Architect, Engineer, the General Contractor, subcontractors and suppliers.

3.2.8 Provide to Owner a complete set of the latest versions of the Project Reports and the Plans and Specifications, including without limitation, all change orders, supplementary drawings or material clarifications, and all Contract Documents and other contracts and orders with contractors, subcontractors and suppliers.

3.2.9 Refer requests for clarification of the Plans and Specifications to the Architect or Engineer, and follow through by making sure that proper clarifications are issued on a timely basis. All material clarifications shall be noted in the Plans and Specifications and shall be dated and initialed by the party issuing the same.

3.2.10 Attend and lead all Commerce Project meetings and other meetings as appropriate.

3.2.11 Participate in all regularly scheduled inspections of the Commerce Project made by representatives of the Architect or Engineer, Owner, lenders or governmental agencies, and be available for consultation at all times while design or construction services are being performed on the Commerce Project.

3.2.12 Process any punchlist items and defect and warranty claims for the first year after Substantial Completion of the Commerce Project (the “**Warranty Period**”) and following the

expiration of such Warranty Period, Developer shall assign to Owner any remaining Third Party Guarantees (as defined below) still in effect.

3.2.13 Review all applications for payment and supporting documentation prepared by the General Contractor and others performing work or furnishing materials, and process all documentation required in connection with draws under the Commerce Project financing in accordance with procedures established by the construction lender, if applicable, and in compliance with the requirements described in Section 3.6 hereof.

3.2.14 Complete and deliver exclusive possession of the Commerce Project to Owner lien-free, in a good and workmanlike manner in accordance with the Plans and Specifications and all Applicable Laws prior to the date set forth in the Project Schedule and under the costs set forth in the Project Budget. The following obligations of Developer are conditions precedent to Substantial Completion and delivery of the Commerce Project: (a) the Commerce Project is available for construction of tenant improvements with all of Developer's work complete, subject to any so-called punchlist items that do not preclude construction of the tenant improvements (which punchlist shall have been assembled in cooperation and in connection with a joint inspection of the Premises with Owner at least fifteen (15) days prior to delivery); (b) Developer has delivered to Owner all approvals and certificates of completion and occupancy required from applicable Governmental Authorities in connection with Developer's work; (c) Developer has delivered to Owner a certificate from the Architect that Developer's work is complete; (d) Developer has delivered to Commerce all keys, codes and combinations relating to Developer's work. At all times during the construction of the Commerce Project, Owner and its designated representatives may oversee Developer's work, and Developer shall cooperate with and facilitate such oversight as requested by Owner. Any entry on the Commerce Land for such purposes shall not be construed as delivery or acceptance of the Commerce Project by Owner. Owner agrees not to interfere with the completion of Developer's work in exercising its right of entry. If for any reason other than a Force Majeure delay or Owner Delay, Developer fails to timely commence or Substantially Complete the Commerce Project in accordance with the Project Schedule and the terms and conditions of this Paragraph, Developer agrees to indemnify and hold harmless Owner from and against any and all costs, liability, damage or expenses arising out of or attributable to such failure, including without limitation, any liability to third-party tenants of the Commerce Project due the failure of Developer for any reason, other than Force Majeure delay or Owner Delay, to Substantially Complete the Commerce Project in accordance with the Project Schedule; provided that, Developer shall only be liable for any such liability to third-party tenants of the Commerce Project if Owner provides copies of the leases to such third-party tenants to Developer prior to the execution thereof by Owner and Developer provides prior written consent of the applicable damages provisions therein.

3.2.15 Developer shall deliver to Owner as soon as practicable after completion: (a) an as-built ALTA/ACSM survey of the Commerce Project certified to Owner (the "As-Built Survey") showing (i) the actual location of all improvements on the Commerce Land, including without limitation all parking and service areas, and (ii) the actual location of all underground utilities on the Premises (with the cost of the As-Built Survey being included in the Project Budget); (b) copies of all final lien waivers concerning Developer's work, including final lien waivers from the General Contractor and all subcontractors; and (c) an assignment of all Third Party Guarantees (as hereinafter defined) in form and substance reasonably satisfactory to Owner, provided that Developer may retain

rights under such Third Party Guarantees for a period of one (1) year following Substantial Completion in order to satisfy its obligation to process any defect or warranty claims as set forth in Section 3.2.12 above. “**Third Party Guarantees**” shall mean all warranties and guarantees from the Architect, General Contractor and/or the other contractors such Third Party Guarantees, which warranties and guarantees shall be reasonably Approved by Owner.

3.2.16 Developer guarantees and warrants that all of Developer’s work shall be completed in a good and workmanlike manner, in compliance with all Applicable Laws, in accordance with the Plans and Specifications and free from defects. For a period of one (1) year after the date of Substantial Completion, if any part of Developer’s work shall not comply with the foregoing guarantee and warranty (except for damage or defect caused by abuse, improper or insufficient maintenance or operation or normal wear and tear under normal usage), Developer, shall cause the General Contractor to perform all work and services related to the Commerce Project as may be required to fully and timely satisfy Contractor’s obligations under the construction warranties furnished by Contractor under the General Contract.

3.2.17 Provide, or cause the General Contractor to provide, a payment and performance bond covering the cost of the Commerce Project; provided that the expense for such bond is included in the Project Budget.

3.2.18 Procure from the General Contractor or provide all payment and performance bonds required under the Contract Documents.

3.2.19 Perform all common improvements associated with the public and ancillary spaces of the Commerce Project to the extent set forth in the Plans and Specifications.

3.2.20 If requested by Owner, and subject to terms and conditions that are mutually agreeable to Owner and Developer, Developer shall perform tenant improvements that the landlord is responsible for constructing under the applicable tenant lease (“**Landlord Work**”), to the extent applicable, in connection with construction of such Landlord Work. If requested by Owner, and subject to terms and conditions that are mutually agreeable to Owner and Developer, Developer shall be responsible for oversight of tenant improvements that the tenant under the applicable tenant lease is responsible for constructing (“**Tenant Work**”), including monitoring the progress of the Tenant Work, coordinating between such tenant’s contractors and the General Contractor during periods in which construction of the Tenant Work coincides with ongoing construction of the Commerce Project, and, to the extent directed by Owner, acting as Owner’s agent in communications with such tenant regarding the Tenant Work. If prior to or during the first twelve (12) months following Substantial Completion, Owner solicits bids from third-parties for the Landlord Work and Tenant Work, then Owner shall afford Developer the opportunity to submit a proposal for the construction of the Landlord Work and the Tenant Work within a reasonable time period designated by Owner. Owner shall have no obligation to engage Developer for such work.

### 3.3 Limitations on Development Services.

(a) Except for such matters as may be expressly delegated in writing to Developer by Owner or as otherwise expressly set forth herein, neither Developer nor any of its

Affiliates shall make or approve any change in the construction of the Commerce Project, in the Plans and Specifications, or the Project Budget.

(b) Subject to the terms of Section 3.3(a), and as expressly Approved by Owner, Developer shall have the authority to make and implement daytoday decisions that are necessary in the performance of its obligations hereunder and to render directions to all third parties in connection therewith.

(c) For purposes of this Agreement, the phrases “Approval of Owner,” “Approved by Owner” or “Owner’s Approval” shall mean the written approval of Owner’s authorized representative in accordance with Section 10.2(a). Owner may notify Developer in writing of additional officers permitted to give approval on behalf of Owner.

3.4 Budget. Developer shall monitor the General Contractor’s construction of the Commerce Project and ensure that all costs incurred in connection therewith are equal to or less than the amounts set forth in the Project Budget. The Project Budget shall constitute a major control under which Developer shall manage the Commerce Project. No expense may be incurred or commitments made by Developer which exceed the amount allocated to each item in the Project Budget, nor may the entire Project Budget be exceeded without the Approval of Owner, except to the extent Developer is responsible for such expenses or costs. If discrepancies in the Project Budget occur or are reasonably anticipated by Developer, Developer shall notify Owner promptly of the expected change and prepare and submit to Owner an analysis of the anticipated impact of the change, together with Developer’s recommendation for mitigation or resolution of such discrepancies. Subject to the limitations set forth in this Agreement, all Project Costs in excess of the GMP shall be Developer’s responsibility except for any Owner Change Order as provided in Section 3.5 below. Developer shall include a “**Project Contingency**” calculated in accordance with the formula shown in Exhibit D-1. Developer shall use the Project Contingency only for Force Majeure events, Owner Delay events or Owner Change Orders in the work. Design coordination issues shall be at Developer’s sole risk. Developer’s right to use all or any portion of the Project Contingency shall be subject to satisfaction of the following pre-conditions: (a) Developer shall provide written notice to Owner explaining in reasonable detail the permitted reason for use of such Contingency amount, along with reasonable supporting materials (a “**Project Contingency Notice**”); (b) Owner shall have seven (7) business days after receipt of a Project Contingency Notice to notify Developer in writing of any good faith objection to all or any portion of the proposed use of Project Contingency (a failure of Owner to respond within such seven (7) business day period shall be deemed approval of use of Project Contingency as described in the Project Contingency Notice); (c) if Owner timely objects to a proposed use of Project Contingency, then the parties shall diligently and in good faith seek to establish a mutually-acceptable resolution of their differences; and (d) Developer may proceed to use Project Contingency funds in accordance with such mutually-acceptable resolution.

3.5 Change-Order Approval Procedure. In the event a change order for the Commerce Project is required that would result in an increase in Project Costs above the GMP, Developer shall submit such proposed change order for Owner’s Approval and if Owner fails to accept, reject or otherwise take any action with respect thereto within seven (7) Business Days (as hereinafter defined) after Owner’s receipt of such change order, such change order shall be deemed approved by Owner. If

Owner disapproves of any such proposed change order in such seven (7) Business Day period, Owner and Developer shall reasonably cooperate in good faith to resolve the underlying issue necessitating the proposed change order. In the event a proposed change order would increase the Project Budget or the GMP or materially adversely affect the design, appearance, value, or quality of the Commerce Project, or materially extend any completion schedule, then Owner's approval to such change order may be withheld in Owner's sole discretion. In the event a proposed change order would not increase the Project Budget or the GMP or materially adversely affect the design, appearance, value, or quality of the Commerce Project, or materially extend any completion schedule, then Owner's approval to such change order shall not be unreasonably withheld, conditioned or delayed. In any case, net costs associated with any such change order shall be deemed incorporated into the Project Budget and GMP if and to the extent such change order is an Owner Change Order (defined below) and causes the Project Costs to exceed the Project Budget. Following approval of the Plans and Specifications pursuant to Section 3.1 above, the Plans and Specifications may be modified from time to time as required by Owner in its discretion (each, an "**Owner Change Order**"); provided, however, that Developer's prior written consent shall be required for any Owner Change Order that would materially alter: (i) the structural components, of the Commerce Project; (ii) the character or intended use of the Commerce Project in a manner that causes the Commerce Project to no longer comply with the Entitlements obtained from the City; (iii) the Project Schedule; or (iv) structural components, use or projected completion date of the Parking Garage; which consent shall not be unreasonably withheld, conditioned or delayed. By way of example and not limitation, additional costs and change orders to address site and construction costs that are shown on, or could be reasonably inferred from, the Plans and Specifications, will not be deemed an Owner Change Order and, subject to the limitations set forth in this Agreement, will be the sole responsibility of Developer without pass-through to Owner as Project Costs or otherwise.

**3.6 Draw Process.** As a condition to and in conjunction with the performance of the Development Services, Owner shall make sufficient funds available to pay its obligations under this Agreement pursuant to the draw process outlined in this Section below for the completion of the Commerce Project and the payment of the Development Fee and Owner shall fund such amounts, without offset, in accordance with such draw process following receipt of the documents required below. Developer may not submit more than one (1) draw request per month. As a condition precedent to each disbursement of funds by Owner hereunder (a "**Funding**"), Developer shall furnish or cause to be furnished to Owner, each of the following documents in form and substance reasonably satisfactory to Owner at least ten (10) days prior to Developer's desired Funding date:

3.6.1 a Draw Request Summary Form in a form reasonably acceptable to Owner, certified to be true and correct by Developer, together with a completed standard AIA Form G702 and Form G703 signed by the General Contractor for such phase of construction, together with sworn statements and conditional waivers of liens signed by all landscape architects, engineers, planners, designers, subcontractors, technology suppliers and consultants, and other suppliers and vendors (together with the Architect and the General Contractor, collectively, the "**Third Parties**") covering all work, together with such invoices, contracts or other supporting data as Owner or the title company may reasonably require to evidence that all costs for which Funding is sought have been incurred;

3.6.2 unconditional waivers of claims and liens of all Third Parties with respect to all prior Fundings, to the extent not previously delivered to Owner;

3.6.3 copies of any final and executed Change Orders not previously furnished to Owner;

3.6.4 copies of all Contract Documents executed since the last Funding and any amendments or modifications to any Contract Documents;

3.6.5 satisfactory evidence that all governmentally-required permits and zoning approvals with respect to the applicable stage of construction of the Commerce Project, if not previously delivered to Owner, have been obtained (e.g. building permit, grading permit); and

3.6.6 such other instruments, documents and information as Owner or the title company may reasonably request.

3.7 Liens. Developer shall not permit any lien or other encumbrance to be filed or to remain of record as a claim against the Commerce Land or Commerce Project or against any monies due or to become due for any work performed or materials furnished by, to or on behalf of Developer. Developer shall defend, indemnify and save harmless Owner from any lien or claim of lien filed or maintained by any laborer, materialman, subcontractor, or other person or entity directly or indirectly acting for, through, or under Developer, against the Premises or any interest therein or against any monies due or to become due. Without limiting the foregoing, Developer shall cause any such lien or claim of lien to be satisfied, removed, or discharged by bond, payment, or otherwise within thirty (30) days. This Section shall survive termination of this Agreement.

3.8 Developer Requests for Owner's Approval. In the event Developer, from time to time, requests Owner's Approval regarding an issue that directly affects the critical path of the 8027 Project, Developer shall submit such request in writing to Owner's Representatives, explaining the request in reasonable detail along with reasonable supporting materials and including the following heading: "CRITICAL PATH ITEM – RESPONSE REQUIRED WITHIN 7 BUSINESS DAYS" (a "**Critical Path Approval Request**"). If Owner fails to accept, reject or otherwise take any action with respect to a Critical Path Approval Request within seven (7) Business Days after Owner's receipt thereof, Owner shall pay Developer \$5,000 per day for each day thereafter until Owner accepts, rejects or otherwise takes action with respect to such Critical Path Approval Request. Such amount shall be paid to Developer as liquidated damages (and not as a penalty), it being mutually acknowledged and agreed that the amount of Developer's damages for such delay would be difficult or impossible to ascertain in advance and that this per diem amount constitutes a reasonable approximation thereof. If Owner disapproves of any Critical Path Approval Request, Owner and Developer shall reasonably and diligently cooperate in good faith to resolve the underlying issue.

#### **Article IV.**

#### **Compensation**

**4.1 Development Fee and Construction Management Fee.** As compensation for Developer's agreement to perform the Services contemplated under this Agreement from and after the date hereof, Owner shall pay Developer a development fee in an amount equal to [\*] percent ([\*]%) of total Project Costs actually incurred that constitute hard construction costs (excluding any costs related to Landlord Work, Tenant Work and Project Contingency amounts) and soft costs (including the Construction Management Fee but excluding any Project Contingency amounts) directly associated with the Commerce Project, all in amounts not to exceed the applicable amounts set forth in the Project Budget, as the same may be amended in accordance with the terms hereof (the "**Development Fee**") in the manner set forth on **Exhibit F** attached hereto and incorporated herein and a construction management fee in the amount equal to [\*] percent ([\*]%) of total hard construction costs actually incurred for the Commerce Project (excluding any costs related to Landlord Work, Tenant Work and Project Contingency amounts) in amounts not to exceed the applicable amounts set forth in the Project Budget, as the same may be amended in accordance with the terms hereof (the "**Construction Management Fee**") in the manner set forth on **Exhibit F** attached hereto and incorporated herein.

**4.2 Tenant Improvements Fee.** As compensation for Developer's agreement to perform the Services (if any) contemplated under this Agreement with respect to Landlord Work and Tenant Work, Owner shall pay to Developer a fee in an amount equal to [\*] percent ([\*]%) of total hard construction costs actually incurred for Landlord Work and Tenant Work (the "**TI Fee**"), provided that the construction of such Landlord Work and Tenant Work is actively overseen and managed by Developer at Owner's request. The TI Fee shall be paid in the manner set forth on **Exhibit F** attached hereto and incorporated herein.

**4.3 Leasing Commission.** In consideration for Developer's sourcing and procurement of a lease for space in the Project by Husch Blackwell, LLP ("**Anchor Tenant**"), Owner shall pay Developer a leasing commission (the "**Leasing Commission**") in the amount of [\*] percent ([\*]%) of the total aggregate rent payable by Anchor Tenant during the term of the lease to be entered into by and between Owner (or its Affiliate) and Anchor Tenant (or its Affiliate). For purposes of this Paragraph, "total aggregate rent" shall refer to gross rental or its equivalent. Accordingly, in the event that rent payable by Anchor Tenant is triple-net, then the total aggregate rent payable by Anchor Tenant for purposes of this Paragraph shall be deemed to be the amount of triple net rent payable under such lease plus \$[\*] per rentable square foot per annum. The Leasing Commission shall be due and payable as follows: (a) one-half upon: (i) the execution and delivery by Owner and Anchor Tenant of a binding and valid lease agreement for the Commerce Project and (ii) commencement of vertical construction on the Commerce Project following the expiration or waiver of the termination rights of Owner pursuant to Sections 3.1.2, 3.1.3, or 3.2.1 hereof; and (b) one-half upon the earlier of lease commencement or the date Anchor Tenant takes occupancy of the premises.

**4.4 Savings.** To the extent there are any cost savings created through the course of the Commerce Project (whether considered "hard" or "soft" costs) and these savings are not owed to the General Contractor, upon Substantial Completion and reconciliation of all Project Costs, the amount of any such cost savings shall accrue one hundred percent (100%) to Developer, except that one hundred percent (100%) of any remaining Project Contingency shall be paid to Owner. All cost savings owed to Developer and Owner shall be paid within ten (10) Business Days after the later of Substantial Completion of the Commerce Project and completion of all punchlist items for the Commerce Project.

## Article V.

### **Compliance With Applicable Laws**

If Developer receives any notice of a violation of any Applicable Laws, Developer shall immediately notify Owner and furnish copies of such notice.

## Article VI.

### **Books and Records**

Owner and its designees may upon request inspect and audit any of Developer's books and records relating to the Commerce Project. Owner and its designees shall have the right up to two (2) times, in each case upon thirty days' prior written request, on dates and at times mutually and reasonably acceptable to each of Owner and Developer, between the Effective Date and the first (1<sup>st</sup>) anniversary of completion of the 8027 Project, to inspect any of Developer's records relating to construction of the 8027 Project. Developer shall keep or cause to be kept, during the development and construction period and for a period of at least three (3) years following completion of the Commerce Project, appropriate and complete records reasonably required by Owner in connection with the Commerce Project documenting all costs and expenses budgeted and incurred in connection with Developer's work, including, but not limited to, copies of all of the Project Budget, the Plans and Specifications and amendments, changes, modifications or revisions thereto, drawings, change orders, invoices, financial records, shop drawings, product samples and data, the Contract Documents and all amendments thereof and all other documents concerning the Commerce Project. Developer shall also, for a period of at least three (3) years following completion of the Commerce Project, keep or cause to be kept suitable books of control and account showing all receipts, expenditures and all other records necessary or convenient with regard to the Commerce Project. If at any time after such three (3) year period, Developer intends to dispose of or destroy any such books and records, it shall notify Owner in writing and allow Owner a period of thirty (30) days to obtain copies of same.

## Article VII.

### **Insurance and Indemnity**

**7.1 Developer's Indemnification.** Developer agrees to indemnify, defend and hold harmless Owner and its Affiliates, and each of their respective directors, officers, employees and shareholders (individually, an "**Owner Indemnified Party**") to the fullest extent permitted by law from all liabilities, losses, interest, damages, costs or expenses (including, without limitation, reasonable attorneys' fees, whether suit is instituted or not, and if instituted, whether incurred at any trial or appellate level or postjudgment), assessed against, levied upon, or collected from, Owner Indemnified Party arising from: (i) the fraud, negligence or willful or wanton misconduct of Developer; or (ii) a material breach of this Agreement by Developer. Notwithstanding the foregoing, Developer will not be required to indemnify any Owner Indemnified Party with respect to any liability, loss, damage, cost or expense to the extent that the Owner Indemnified Party is actually reimbursed by the proceeds of insurance

maintained pursuant to this Agreement. Developer's indemnification obligations set forth herein shall survive the termination of this Agreement.

7.2 Owner's Indemnification. Owner agrees to indemnify, defend and hold harmless Developer and its Affiliates, and each of their respective directors, officers, employees, agents and shareholders (individually, an "**Developer Indemnified Party**") to the fullest extent permitted by law from all liabilities, losses, interest, damages, costs or expenses (including, without limitation, reasonable attorneys' fees, whether suit is instituted or not, and if instituted, whether incurred at any trial or appellate level or post judgment), threatened or assessed against, levied upon, or collected from, Developer Indemnified Party arising from the fraud, negligence or willful or wanton misconduct of Owner or a material breach of this Agreement by Owner. Notwithstanding the foregoing, Owner will not be required to indemnify any Developer Indemnified Party with respect to any liability, loss, damage, cost or expense to the extent that the Developer Indemnified Party is actually reimbursed by the proceeds of insurance maintained pursuant to this Agreement. Owner's indemnification obligations set forth herein shall survive the termination of this Agreement.

7.3 Owner's Insurance. With respect to the Commerce Project, an affiliate of Owner or Owner shall maintain, at Owner's expense, public liability insurance with a broad form comprehensive general liability endorsement and any other insurance coverage as Developer and Owner deem reasonably necessary and any such other insurance required of Owner by the City of Clayton during the construction of the Commerce Project. The public liability insurance may be procured under an umbrella policy with limits of liability reasonably acceptable to Owner and Developer.

7.4 Developer's Insurance. Developer, at its sole cost and expense, shall maintain public liability insurance with a broad form comprehensive general liability endorsement (or alternatively, commercial general liability insurance), professional liability insurance, and worker's compensation insurance as required by applicable law, all in amounts reasonably acceptable to Owner. All such insurance coverage shall also name Owner, its lender and such other parties reasonably designated by Owner as an additional insured thereunder. In addition, Developer will procure or will require General Contractor to procure and maintain appropriate builder's risk insurance in a form and substance acceptable to Owner. All such insurance coverage shall also name Owner, the Owner's Lender and such other parties reasonably designated by Owner as an additional insured thereunder.

7.5 Evidence of Insurance. Simultaneous with the execution of this Agreement, Developer shall provide Owner and Owner shall provide Developer with certificates of insurance or other satisfactory documentation which evidences that the insurance required under this Agreement is in full force and effect at all times. Policies required to be obtained by a party hereunder shall name the other party as an additional insured party and must be endorsed to provide that thirty (30) days' advance written notice of cancellation or material change will be given to the other party. All policies to be obtained pursuant to this Article VII shall contain waivers of subrogation rights, to the extent readily available for a minimal additional premium. Owner and Developer hereby waive any and all claims and causes of action against each other to the extent covered by insurance. All insurance required to be carried by Developer, Owner, any contractor or subcontractor shall be written with companies having a rating in the Best's key Rating Guide of A: VII or better, which companies shall be licensed to do business in the State of Missouri.

7.6 Contract Documents. Developer shall cause to be inserted in any Contract Document provisions to the effect that the other contracting party shall indemnify, defend and save harmless Developer and Owner from and against all claims, losses and liability resulting from any damage or injury to, or death of, persons or property caused or occasioned by or in connection with or arising out of any action or omissions of said contracting party or its employees or agents, and from and against all costs, attorneys' fees and expenses in connection therewith.

7.7 Developer's Duties in Case of Loss. Developer shall:

(a) immediately notify Owner of any fire, explosion, collapse subterranean issue or other damage to the Commerce Project. Owner shall arrange for an insurance adjuster to view the Commerce Project before repairs are started, but in no event shall Developer settle any losses, complete loss reports, adjust losses or endorse loss drafts without Owner's Approval; and

(b) promptly notify Owner of any personal injury or property damage occurring in connection with the Commerce Project.

7.8 Limitation on Damages. Notwithstanding anything to the foregoing set forth above or elsewhere in this Agreement, the parties agree that neither Owner nor Developer shall be liable to the other for any special, consequential, exemplary or punitive damages arising out of a breach of this Agreement or otherwise.

## **Article VIII.**

### **Notices**

8.1 Any notice, request, demand, instruction or other document to be given or served hereunder or under any document or instrument executed pursuant hereto shall be in writing and shall be delivered (w) personally, (x) by United States registered or certified mail, return receipt requested, postage prepaid or (y) by overnight express courier, postage prepaid and addressed to the parties at their respective addresses set forth below. Any such notice, request, demand, instruction or other document shall be considered given or delivered, as the case may be, on the date of personal delivery, in the case of (w) above, on the date of deposit in the United States mail, in the case of (x) above, and on the date of delivery to the overnight courier service, in the case of (y) above. A party may change its address for receipt of notices by service of a notice of such change in accordance herewith.

To Owner: Commerce Bank  
8000 Forsyth Boulevard, Suite 2<sup>nd</sup> Floor  
Clayton, Missouri 63105  
Attention: Charles Kim  
Email: Charles.Kim@CommerceBank.com

Copy to: Tower Properties Company  
1000 Walnut, Suite 900  
Kansas City, Missouri 64106  
Attention: Stanley J. Weber  
Email: sweber@towerproperties.com

Copy to: Commerce Bank  
8000 Forsyth Boulevard, Suite 1100  
Clayton, Missouri 63105  
Attention: Thomas J. Noack  
Email: Thomas.Noack@CommerceBank.com

Copy to: Lewis Rice LLC  
600 Washington Avenue  
Suite 2500  
St. Louis, Missouri 63101  
Attention: David Lemkemeier  
Email: DLemkemeier@lewisrice.com

To Developer: 8027 Forsyth Acquisitions  
8027 Forsyth Blvd.  
St. Louis, Missouri 63105  
Attention James G. Koman  
Email: [jkoman@uscd.com](mailto:jkoman@uscd.com)

Copy to: U.S. Capital Development, LLC  
8025 Forsyth Blvd.  
St. Louis, Missouri 63105  
Attention: Scott Sachtleben  
Email: ssachtleben@uscd.com

Copy to: STL Legal Group, LLC  
8027 Forsyth Blvd.  
St. Louis, Missouri 63105  
Attention: Joe Hietpas  
Email: jhietpas@stllegalgroup.com

**Article IX.**

**Assignment**

9.1 This Agreement may not be assigned by Developer or Owner; provided that Developer may, with Owner's prior written consent, assign this Agreement to (i) an entity controlled by or affiliated with Developer; or (ii) to a joint venture in which Developer has a controlling interest. Owner shall have the right to assign this Agreement for collateral purposes to the lender(s) providing the

financing for the Commerce Project. Any purported assignment in contravention of the first sentence shall be void and of no effect.

## Article X.

### Relationship of Parties

10.1 Nature of Relationship. Developer is an independent contractor, with authority to act only in accordance with the terms of this Agreement and nothing explicit or implied in this Agreement shall be construed as creating a partnership or joint venture or an employment relationship between Developer (or any person employed by Developer) and Owner or any other relationship between the parties hereto except that of owner and independent contractor. Developer acknowledges and agrees that it shall act as an independent contractor hereunder with respect to Owner in connection with Developer's obligations under this Agreement.

### 10.2 Representatives.

(a) Owner hereby designates Stanley J. Weber and Dennis Hoelzer as Owner's representatives ("**Owner's Representatives**") for purposes of granting any consents or approvals with respect to matters arising under this Agreement. Owner's Representatives shall be authorized to execute and deliver on behalf of Owner any and all documents, notices, approvals, consents or other writings and changes thereto with respect to such matters, and Developer shall have the right to rely on any documents executed by an Owner's Representative. By written notice delivered to Developer not earlier than two (2) days prior to the effective date thereof, Owner shall be entitled to substitute or add other parties as the Owner's Representatives hereunder.

(b) Developer hereby designates James G. Koman as Developer's representative ("**Developer's Representative**") for purposes of granting any consents or approvals by Developer with respect to matters arising under this Agreement. Developer's Representative shall be authorized to execute and deliver on behalf of Developer any and all documents, notices, approvals, consents or other writings and changes thereto with respect to such matters, and Owner shall have the right to rely on any documents executed by Developer's Representative. Developer's Representative shall have the power and authority to act on behalf of, and to bind Developer under this Agreement. By written notice delivered to Owner not earlier than ten (10) days prior to the effective date thereof, Developer shall be entitled to substitute another party as the Developer's representative hereunder.

## Article XI.

### Default and Termination

11.1 Default by Developer. Developer shall be in default hereunder in the event: (i) Developer shall, fail to pursue or perform any material covenant, agreement, term or provision of this

Agreement to be pursued or performed by Developer and such default shall continue for a period of thirty (30) days after notice thereof by Owner to Developer; provided, however, that if such failure is not susceptible of cure within such thirty (30) day period, then Developer shall have an additional time not to exceed an additional sixty (60) days as is necessary to effect such cure, provided Developer shall commence its efforts to cure within said thirty (30) day period and thereafter pursue such cure diligently to completion; (ii) a receiver is appointed to take possession of the assets of Developer or an assignment by Developer for the benefit of creditors, or any action taken or suffered by Developer under any insolvency, bankruptcy, reorganization, moratorium, or other debtorrelief act or statute; (iii) the dissolution of Developer; (iv) Developer shall fail to pursue or perform any obligation hereunder as a result of fraud, embezzlement or other willful misconduct (“Cause”). Upon the occurrence of a default by Developer hereunder, Owner shall be entitled to terminate this Agreement and to pursue any right or remedy it may have at law or in equity as a result of such default.

11.2 Default by Owner. In the event Owner fails to pay Developer the Development Fee or Construction Management Fee, to the extent earned, in accordance with the terms of this Agreement within thirty (30) days after the date any installment thereof is due, Developer, following five (5) Business Days’ written notice to Owner (and Owner’s failure within such five (5) Business Day period to pay to Developer such amount due) shall have the right to terminate this Agreement and to pursue any right or remedy it may have at law or in equity as a result of such default.

## **Article XII.**

### **Miscellaneous**

12.1 Governing Law. This Agreement shall be construed and enforceable in accordance with the laws of the State of Missouri.

12.2 Entire Agreement. This Agreement contains the entire agreement between the parties and shall not be amended, modified or canceled except in writing signed by the party to be charged.

12.3 Successors and Assigns. All terms, conditions and agreements herein set forth shall inure to the benefit of, and be binding upon the parties and, subject to Article IX hereof, their respective permitted successors and assigns.

12.4 Waiver. The failure of either party to insist upon strict performance of any term or provision of this Agreement or to exercise any option, right or remedy herein contained, shall not be construed as a waiver or as a relinquishment for the future of such term, provision, option, right or remedy, but the same shall continue and remain in full force and effect. No waiver by either party of any term or provision hereof shall be deemed to have been made unless expressed in writing and signed by such party.

12.5 Partial Invalidity. If any portion of this Agreement shall be decreed invalid by the judgment of a court, this Agreement shall be construed as if such portion had not been inserted herein except when such construction would constitute a substantial deviation from the general intent and purpose of this Agreement.

12.6 Non-Discrimination Policy. Developer and Owner agree that it will not deny the benefits of this Agreement to any person, nor discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, age or any other applicable protected classification.

12.7 Counterparts. This Agreement may be signed in counterparts, which collectively shall constitute a single agreement.

12.8 Confidentiality. The parties each agree that they will keep confidential any information designated as such by the other or not otherwise publicly available which is derived from access, investigation or information furnished by either party in connection with this Agreement, including the negotiations conducted in connection herewith and the terms herewith, and, if the transactions contemplated hereby are not consummated, will promptly return to the other all such information and will not thereafter use such information; provided that such confidentiality obligations shall not preclude a party from delivering such information to its potential tenants, investors or attorneys, lenders and consultants hired in connection with this transaction or as otherwise required by law, or in Owner's reasonable judgement in connection with Entitlements or leasing.

12.9 Definitions. For purposes of this Agreement, the following terms shall have the meanings ascribed thereto;

(a) **"Affiliate"** shall mean, with respect to any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with, or any general partner, manager or managing member in, such specified person. An Affiliate of a person includes, without limitation, (i) any member, shareholder, officer or director of such person, (ii) any record or beneficial owner of more than 10% of any class of ownership interests of such person and (iii) any Affiliate of the foregoing. For the purposes of this definition, "control" when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities or other beneficial interest, by contract or otherwise, and the terms "controlling" and "controlled" having the means correlative to the foregoing; and

(b) **"Business Day"** shall mean any day other than a Saturday, Sunday or any other day on which national banks in St. Louis, Missouri are not open for business.

(c) **"Force Majeure"** shall mean delays actually caused by any of the following: acts of God, fire, abnormal weather, explosion, riot, war, labor disputes, inability to obtain necessary materials, or Owner Change Orders. If a delay of performance occurs, the period for performance shall be extended for a time equal to the time lost because of the Force Majeure, but only if the party entitled to such extension gives prompt notice to the other party of the occurrence causing the delay and if the party so excused acts in good faith and uses due diligence to perform. The inability to obtain financing or lack of money shall not constitute Force Majeure, and this provision shall not excuse non-payment of monies owed hereunder.

\*\*\*\*\* (Signature Page follows)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim  
EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**EXHIBIT A**

LAND DEPICTION

*[Intentionally Omitted]*

**EXHIBIT B**

PRELIMINARY PLANS AND SPECIFICATIONS FOR 8027 PROJECT

*[Intentionally Omitted]*

**EXHIBIT B-1**

PRELIMINARY PLANS AND SPECIFICATIONS FOR COMMERCE PROJECT

*[Intentionally Omitted]*

**EXHIBIT C**

**PARKING GARAGE AGREEMENT**

*[Intentionally Omitted]*

**EXHIBIT D-1**

PRELIMINARY PROJECT BUDGET

*[Intentionally Omitted]*

**EXHIBIT D-2**

FINAL PROJECT BUDGET

*[Intentionally Omitted]*

**EXHIBIT D-3**

PREDEVELOPMENT COSTS BUDGET

*[Intentionally Omitted]*

**EXHIBIT E-1**

COMMERCE PROJECT SCHEDULE

*[Intentionally Omitted]*

**EXHIBIT E-2**

8027 PROJECT SCHEDULE

*[Intentionally Omitted]*

**EXHIBIT F**

DEVELOPMENT, CONSTRUCTION MANAGEMENT and TI FEES

*[Intentionally Omitted]*

**FIRST AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS FIRST Amendment to DEVELOPMENT SERVICES AGREEMENT (the “Amendment”) is made and entered into effective as of December 23, 2019 (the “Effective Date”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019 (the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Developer acknowledges that as of the Effective Date it has acquired all real property constituting the 8027 Land; and

Whereas, Developer and Owner desire to amend the Development Agreement as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
2. The first and second sentences in Section 1.3 of the Development Agreement are hereby deleted and replaced with the following:

“The parties hereby agree to use best efforts to negotiate and finalize the Parking Garage Agreement and such other respective cost-sharing agreements, if any, as will be necessary for the operation and maintenance of the shared common areas and facilities between the Commerce Project and 8027 Project, which include the fitness facility and garden terrace, and which may include dining facilities (collectively, the “**Common Facilities Agreements**”), by March 31, 2020. If the parties have not finalized the Common Facilities Agreements by March 31, 2020, either party may terminate this Agreement by delivering written notice of such termination to the other party, in which case this Agreement shall be of no further force and effect, and the parties shall have no further obligations to one another except that, provided that Developer is not in default beyond applicable cure period of this Agreement, Owner shall, within ten (10) Business Days of Developer’s written demand therefor (including a reasonably detailed itemized statement and copies of invoices and other reasonable supporting documentation), reimburse Developer for all Predevelopment Costs actually

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incurred between the Effective Date and the date of such termination in accordance with the Predevelopment Costs Budget.”

3. Section 3.2.1 of the Development Agreement is hereby amended by extending the date by which the Entitlements must be obtained from April 1, 2020 to May 1, 2020.

4. Section 4.4 of the Development Agreement is hereby amended by adding the following sentence to the end thereof:

“Notwithstanding anything to the contrary herein, if any change order results in a change in scope with respect to an item included in the Project Budget (including, by way of example, the Commerce Project, the Parking Garage, the garden terrace, sitework, streetscape, lighting and landscaping), and such reduced scope of work results in a documented reduction in the Project Budget, the cost savings associated with such reduction in scope shall accrue one hundred percent (100%) to Owner.”

5. The termination rights set forth in Sections 1.2, 3.1.2, 3.1.3, and 3.1.4 of the Development Agreement are hereby waived by the parties and shall be of no further force and effect.

6. The final versions of the Project Budget, Plans and Specifications and Project Schedule are all hereby approved. The following exhibits attached to the Development Agreement are hereby amended, modified and replaced in their entirety by the Exhibits attached hereto: Exhibit A (Land Depiction); Exhibit B (Plans and Specifications for 8027 Project); Exhibit B-1 (Plans and Specifications for Commerce Project); Exhibit D-2 (Final Project Budget); Exhibit E-1 (Commerce Project Schedule); and Exhibit E-2 (8027 Project Schedule).

7. Except as amended hereby, all other terms and conditions of said Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.

8. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.

9. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the day and year above written.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Name: Charles G. Kim  
Title: EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

Exhibit A  
(Land Depiction)

*[Intentionally Omitted]*

Exhibit B  
(Plans and Specifications for 8027 Project)

*[Intentionally Omitted]*

Exhibit B-1  
(Plans and Specifications for Commerce Project)

*[Intentionally Omitted]*

Exhibit D-2  
(Final Project Budget)

*[Intentionally Omitted]*

Exhibit E-1  
(Commerce Project Schedule)

*[Intentionally Omitted]*

Exhibit E-2  
(8027 Project Schedule)

*[Intentionally Omitted]*

**SECOND AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS SECOND Amendment to DEVELOPMENT SERVICES AGREEMENT (“Amendment”) is made and entered into effective as of March 12, 2020 (the “Effective Date”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by March 31, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
2. All references to “March 31, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “April 30, 2020.”
3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the day and year above written.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**THIRD AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS THIRD Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of April 30, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, and as further amended by a Second Amendment to Development Services Agreement dated as of March 12, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by April 30, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
2. All references to “April 30, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “May 29, 2020.”
3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**FOURTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS FOURTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of May 28, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, and a Third Amendment to Development Services Agreement dated as of April 30, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by May 29, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
2. All references to “May 29, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “June 12, 2020.”
3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**FIFTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS FIFTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of June 11, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, a Third Amendment to Development Services Agreement dated as of April 30, 2020, and a Fourth Amendment to Development Services Agreement dated as of May 28, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by June 12, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
2. All references to “June 12, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “July 2, 2020.”
3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**SIXTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS SIXTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of July 1, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, a Third Amendment to Development Services Agreement dated as of April 30, 2020, a Fourth Amendment to Development Services Agreement dated as of May 28, 2020, and a Fifth Amendment to Development Services Agreement dated as of June 11, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by July 2, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
  2. All references to “July 2, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “July 17, 2020.”
  3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
  4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
  5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.
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*[Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**SEVENTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS SEVENTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of July 17, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, a Third Amendment to Development Services Agreement dated as of April 30, 2020, a Fourth Amendment to Development Services Agreement dated as of May 28, 2020, a Fifth Amendment to Development Services Agreement dated as of June 11, 2020, and a Sixth Amendment to Development Services Agreement dated as of July 1, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by July 17, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
  2. All references to “July 17, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “July 31, 2020.”
  3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
  4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
  5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.
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*[Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**EIGHTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS EIGHTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of July 31, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, a Third Amendment to Development Services Agreement dated as of April 30, 2020, a Fourth Amendment to Development Services Agreement dated as of May 28, 2020, a Fifth Amendment to Development Services Agreement dated as of June 11, 2020, a Sixth Amendment to Development Services Agreement dated as of July 1, 2020, and a Seventh Amendment to Development Services Agreement dated as of July 17, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by July 31, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
  2. All references to “July 31, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “August 14, 2020.”
  3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
  4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
  5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.
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*[Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**NINTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS NINTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of August 14, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, a Third Amendment to Development Services Agreement dated as of April 30, 2020, a Fourth Amendment to Development Services Agreement dated as of May 28, 2020, a Fifth Amendment to Development Services Agreement dated as of June 11, 2020, a Sixth Amendment to Development Services Agreement dated as of July 1, 2020, a Seventh Amendment to Development Services Agreement dated as of July 17, 2020, and an Eighth Amendment to Development Services Agreement dated as of July 31, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by August 14, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
  2. All references to “August 14, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “August 28, 2020.”
  3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
  4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
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5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**TENTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS TENTH Amendment to DEVELOPMENT SERVICES AGREEMENT (“**Amendment**”) is made and entered into effective as of August 28, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”) and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (collectively, with 8027 Forsyth, hereinafter referred to as “**Developer**”).

WHEREAS, Owner and Developer are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended by a First Amendment to Development Services Agreement dated as of December 23, 2019, a Second Amendment to Development Services Agreement dated as of March 12, 2020, a Third Amendment to Development Services Agreement dated as of April 30, 2020, a Fourth Amendment to Development Services Agreement dated as of May 28, 2020, a Fifth Amendment to Development Services Agreement dated as of June 11, 2020, a Sixth Amendment to Development Services Agreement dated as of July 1, 2020, a Seventh Amendment to Development Services Agreement dated as of July 17, 2020, an Eighth Amendment to Development Services Agreement dated as of July 31, 2020, and a Ninth Amendment to Development Services Agreement dated as of August 14, 2020 (as amended, the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Commerce Project (as defined in the Development Agreement);

WHEREAS, Section 1.3 of the Development Agreement provides that the parties will use best efforts to negotiate and finalize certain Common Facilities Agreements by August 28, 2020; and

WHEREAS, Developer and Owner desire to amend the Development Agreement to provide additional time to negotiate and finalize the Common Facilities Agreements, as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
  2. All references to “August 28, 2020” in Section 1.3 of the Development Agreement are hereby deleted and replaced with “September 4, 2020.”
  3. Except as amended hereby, all other terms and conditions of the Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.
  4. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party’s respective signature shall be binding as if the same were an original signature.
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5. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the Effective Date.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim  
Charles G. Kim, EVP and CFO

**DEVELOPER:**

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman  
James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben  
Scott Sachtleben, Manager

**ELEVENTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT**

THIS ELEVENTH AMENDMENT TO DEVELOPMENT SERVICES AGREEMENT (the “**Amendment**”) is made and entered into effective as of September 4, 2020 (the “**Effective Date**”), by and between COMMERCE BANK, a Missouri state bank and trust company (“**Owner**”), 8027 FORSYTH ACQUISITIONS, L.L.C., a Missouri limited liability company (“**8027 Forsyth**”), BRENTWOOD-FORSYTH PARTNERS I, LLC, a Missouri limited liability company (“**Brentwood**”), and U.S. CAPITAL DEVELOPMENT, LLC, a Missouri limited liability company (“**USCD**,” collectively, with 8027 Forsyth and Brentwood, hereinafter referred to as “**Developer**”).

WHEREAS, Owner, 8027 Forsyth, and USCD are parties to that certain Development Services Agreement dated as of October 18, 2019, as amended (the “**Development Agreement**”), whereby Owner engaged Developer to perform certain development services in connection with the development of the Project (as defined in the Development Agreement);

WHEREAS, Brentwood owns certain real property contained in the Project, will benefit from the Project and the Development Agreement, and agrees to join the Development Agreement as a Developer party; and

WHEREAS, Developer and Owner desire to amend the Development Agreement as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Terms. All capitalized terms not defined herein shall have the meaning given to them in the Development Agreement.
  2. Brentwood. Brentwood hereby joins 8027 Forsyth and USCD as Developer under the Development Agreement, and all references to Developer under the Development Agreement shall collectively refer to Brentwood, 8027 Forsyth and USCD. Such Developer parties agree to be jointly and severally responsible for all obligations of Developer under the Development Agreement.
  3. Entitlements. The Entitlements, as defined in Section 3.2.1 of the Development Agreement, have been obtained in accordance with the requirements of such Section, and Owner’s right to terminate the Development Agreement pursuant to such Section is hereby waived by Owner and shall be of no further force and effect.
  4. Plans. The Plans and Specifications described on Exhibit B-1 to the Development Agreement are hereby supplemented by (a) the Commerce Tower and Garage Trending Log (the “**Trend Log**”) as revised and mutually executed from time to time by the Parties during construction of the Commerce Project, currently revision dated July 21, 2020, and (b) the
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additional plans and specifications regarding the Garage, Garden Terrace and Fitness Center described on Exhibit A attached hereto and incorporated herein. The parties agree to use good faith, diligent efforts to mutually agree upon more detailed plans and specifications regarding the Terrace Garden by November 30, 2020, which approved plans and specifications will further supplement the Plans and Specifications.

5. Project Deadlines. The Project Schedule attached as Exhibit E-1 to the First Amendment is deleted and replaced with Schedule 1 hereto. The Project Schedule includes, without limitation, an extension of the Commerce Project Substantial Completion date to July 15, 2022.

The last sentence of Section 1.3 of the Development Agreement is hereby deleted and replaced with the following:

On or before July 15, 2022 (the date that Developer is required to Substantially Complete the Commerce Project), Developer shall cause the following to occur (collectively, “**Common Facilities Completion**”): (i) construction of the Parking Garage to be completed in accordance with the 8027 Plans and in accordance with the Plans and Specifications, (ii) construction of the Terrace Garden, including without limitation the Fitness Center, to be completed in accordance with the 8027 Plans and in accordance with the Plans and Specifications, and (iii) the Parking Garage, Terrace Garden and Fitness Center (which may be referred to collectively as the “**Common Facilities**”) to be open to and fully operational. The date on which Substantial Completion of the Commerce Project and Common Facilities Completion have both occurred may be referred to as the “Opening Date”.

6. Anchor Tenant. Owner represents and warrants to Developer that (a) it intends to enter into a lease of a portion of the Commerce Building with the Anchor Tenant (as redacted as provided in the following clause (b), the “**Anchor Tenant Lease**”), and (b) a true, complete, current and accurate copy of certain excerpts from the Anchor Tenant Lease related to the liability of Owner for late delivery of the premises to the Anchor Tenant is attached hereto as Schedule 2 (the “**Anchor Lease Excerpt**”) in accordance with Section 3.2.14 of the Development Agreement. In accordance with said Section 3.2.14, Developer hereby acknowledges that it has reviewed and consents to the Anchor Lease Excerpt, and agrees to indemnify and hold harmless Owner in accordance with the terms and conditions of Section 3.2.14 of the Development Agreement for any liability of Owner to the Anchor Tenant to the extent arising out of the provisions of the Anchor Lease Excerpt, excluding, however, subsections 25.27.4 and 25.27.5 thereof, due to failure of Developer for any reason, other than Force Majeure delay or Owner Delay, to Substantially Complete the Commerce Project in accordance with the Project Schedule. Developer also hereby acknowledges that it has reviewed and consents to the applicable remedies provisions set forth in Section 25.27 of the Anchor Tenant Lease as shown on the Anchor Lease Excerpt and agrees to indemnify and hold harmless Owner for any liability of Owner to the Anchor Tenant due to a failure by Developer to provide any of the Required Amenities, excluding, however, subsections 25.27.4 and 25.27.5 thereof.

At least fifteen (15) days prior to entering into any amendment to the Anchor Tenant Lease directly or indirectly relating to the provisions of the Anchor Tenant Lease relating to the foregoing indemnity, including, without limitation, the scope or definition of Landlord's Work, Delivery Date, Delay Days, Base Condition or Required Amenities, as defined therein, or the liability of Owner for delivery of the premises under the Anchor Tenant Lease (each of which may be referred to as an "**Indemnity-Related Provision**"), Owner shall provide Developer written notice of such proposed amendment to any Indemnity-Related Provision for Developer's approval, such approval not to be unreasonably withheld, conditioned or delayed. Should Developer fail to respond in writing to Owner within 5 days after receipt of such notice, Developer shall be deemed to have granted its approval to the amended Indemnity Related Provision(s) described in said notice. Developer shall not be bound by, and shall have no liability to Owner under, this Section 6 or the Development Services Agreement to the extent arising out of any amendment to the Anchor Tenant Lease not consented to in writing (or deemed approved pursuant to this paragraph) by Developer. Within five (5) days of receipt by Owner of any claim by the Anchor Tenant of any default by Owner under an Indemnity-Related Provision of the Anchor Tenant Lease, Owner shall deliver a copy of the same to Developer.

Notwithstanding anything herein or in the Anchor Tenant Lease to the Contrary, Developer shall have no liability to Owner under this Section 6 with respect to Section 3.2.14 of the Development Services Agreement (i) in excess of the actual damages suffered by Landlord in the form of lost actual rent payable to Owner under the Anchor Tenant Lease arising out of Developer's failure for any reason, other than Force Majeure delay or Owner Delay, to Substantially Complete the Commerce Project in accordance with the Project Schedule; (ii) to the extent that such liability accrues after the first day of useful occupancy by the tenant under the Anchor Tenant Lease; (iii) to the extent that such liability does not arise out of the provisions of the Anchor Tenant Lease expressly included in the Anchor Lease Excerpt without regard to any other agreements of Owner and the Anchor Tenant, and by way of example, Developer shall have no liability arising out of any possible amendments or revisions to the Lease even if referenced in the Anchor Lease Excerpt; or (iv) for consequential, incidental or punitive damages owing by Owner to the Anchor Tenant for any reason.

7. Force Majeure. Section 12.9(c) defining "**Force Majeure**" is deleted and replaced with the following:

(c) "**Force Majeure**" shall mean delays actually caused by any of the following: pandemic, to the extent accruing after June 30, 2020; acts of God; fire; unusually severe weather; explosion, riot, war, labor disputes, inability to obtain necessary materials, or Owner Change Orders. If a delay of performance occurs, the period for performance shall be extended for a time equal to the time lost because of the Force Majeure, but only if the party entitled to such extension gives prompt notice to the other party of the occurrence causing the delay and if the party so excused acts in good faith and uses due diligence to perform. The inability to obtain financing or lack of money shall not constitute Force

Majeure, and this provision shall not excuse non-payment of monies owed hereunder.

8. Parking Spaces. References in the General Project Description of Exhibit B-1 of the Development Agreement to the allocation of parking spaces between the Commerce Tower and the USCD Tower are hereby deleted.

9. Common Facilities Agreements. The parties have satisfied the contingency for finalizing the Common Facilities Agreements, as provided in Section 1.3 of the Development Agreement, which Common Facilities Agreements, listed below and in substantially the form and substance attached hereto as Exhibits B, C, D and E, respectively, shall be executed by the parties effective as of the Effective Date.

- a. Parking Garage, Terrace Garden and Fitness Center Management Agreement (Exhibit B);
- b. Parking Garage Reciprocal Easement and Joint Use and Operating Agreement (Exhibit C);
- c. Terrace Garden Reciprocal Easement and Joint Use and Operating Agreement (Exhibit D); and
- d. Fitness Center License, Joint Use and Operating Agreement (Exhibit E).

On or before November 30, 2020, working together with diligence and in good faith, Owner and Developer shall establish easements that are reasonably necessary or appropriate for the development and operation of the Commerce Project and the 8027 Project, including without limitation easements for the benefit of the Commerce Project regarding sanitary sewer, storm sewer and water service for fire (the “**Utility Easements**”). The Utility Easements shall be documented in reasonably acceptable appurtenant easement agreements that are recorded in the local land records.

10. Construction Matters.

- a. The fifth sentence in Section 3.1.3 is hereby deleted and replaced with the following:

Following execution hereof, Developer shall coordinate the preparation of detailed plans and specifications for the Commerce Project (collectively with the Preliminary Plans and Specifications, referred to herein, the “**Plans and Specifications**”) in accordance with the Preliminary Plans and Specifications and Project Budget and shall provide Owner with copies of Bid Packages 01 through 08 of such Plans and Specifications, as each successive revised version of the Plans and Specifications is available, for Owner’s Approval, not to be unreasonably withheld, conditioned or delayed, and upon completion of same in a form acceptable to both Developer and Owner, shall provide Owner with copies of such Plans and Specifications.

- b. The second through fifth sentence in Section 3.2.2 is hereby deleted and replaced with the following:

Owner acknowledges that McCarthy Building Companies is the General Contractor. Developer, in its discretion, provided that the subcontracts are consistent with the terms of this Agreement, the Plans and Specifications, the Project Budget and the Project Schedule, shall select the subcontractors for the Commerce Project from such list of subcontractors Approved by Owner and Developer is not obligated to select the subcontractor with the lowest bid. Upon written request by Owner, Developer shall provide Owner with copies of bids with a detailed, itemized summary and comparison of the bid amounts, including copies of reasonable supporting information. In conjunction with Commerce Bank's Supplier Diversity Initiative, and to ensure that interested, qualified subcontractors within a given market will have an opportunity to compete for Commerce Bank's capital project work, Commerce Bank will require a reasonable and good faith effort to ensure that certified Diverse Suppliers (DS) have a fair and meaningful opportunity to participate in the bidding processes. Diverse Suppliers include, but are not limited to, WBE (Women Business Enterprise), MBE (Minority Business Enterprise), SBE (Small Business Enterprise), VOB (Veteran Owned Business), SDVOB (Service-Disabled Veteran Owned Business). Upon written request by Owner, Developer shall provide a current bidders list identifying the above mentioned Diverse Suppliers for all bid packages. Owner shall have the right to review bid results upon written request.

- c. Section 3.6.1 is deleted and replaced with the following:

A Draw Request Summary in a form reasonably acceptable to Owner, certified to be true and correct by Developer, together with lien waiver for Development and Construction Management Fees, together with a completed standard AIA Form G702 and Form G703 signed by the General Contractor for such phase of construction, together with sworn statements and conditional waivers of liens from the Architect, Civil Engineer, and the General Contractor, collectively, the "**Third Parties**", covering all work, together with such invoices, or other supporting data as Owner or the title company may reasonably require to evidence that all costs for which Funding is sought have been incurred. Owner shall have the right to audit lien waivers files and related records upon written request.

- d. Section 3.6.2 is deleted and replaced with the following:

Unconditional waivers of claims and liens of all Third Parties with respect to all prior Fundings, to the extent not previously delivered to Owner;

- e. Section 3.6.3 is deleted and replaced with the following:

Copies of any final and executed Change Orders between Owner and Developer not previously furnished to Owner;

- f. Section 3.6.4 is deleted and replaced with the following:

Copies of all Contract Documents between Owner and Developer executed since the last Funding and any amendments or modifications to any Contract Documents.

11. Fitness Center Construction. New Section 3.9 is hereby inserted in the Development Agreement:

“3.9 Fitness Center Construction Cost. Prior to commencement of construction of the Fitness Center, Owner and Developer shall approve the plans and specifications for the construction of the Fitness Center and installation of the Fitness Center improvements, fixtures, equipment and furnishings, which approval shall not be unreasonably withheld. By progress payments by change order during construction, Owner shall pay to Developer Owner’s Allocable Share of the cost to construct the Fitness Center and install the Fitness Center improvements, furniture, fixtures and equipment, up to a maximum of Seven Hundred Fifty Thousand Dollars (\$750,000.)”

12. Food Service. The following sentence is hereby added to the end of Section 1.3 of the Development Agreement:

“On or before Substantial Completion of the Commerce Project, Developer shall cause the owner of the 8027 Tower, Brentwood, to construct, on the lobby level of the 8027 Tower, a café or deli (which may be a kiosk or multiple kiosks) with grab-and-go type food offerings such as soups and sandwiches for on and off-site consumption. Such facility may be operated after the initial opening by such tenants or operators as Brentwood may reasonably select upon 30 days advance notice to Owner and opportunity to approve in good faith.”

13. Tenant Improvement Fee. Section 4.2 of the Development Agreement is hereby amended by adding the following sentence: “Notwithstanding anything herein to the contrary, no TI Fee shall be due and payable to Developer hereunder if and to the extent that Developer is receiving a fee for the same work pursuant to a separate agreement.”

14. Easement Cost Payment by Owner. Within two (2) weeks after the Effective Date, Owner will pay to Developer the sum of Three Million Six Hundred Thousand Dollars (\$3,600,000.), as and for Owner’s net proportionate share of the cost of easements and license granted to it under the Common Facilities Agreements, including without limitation the Utility Easements, described in Section 9 above.

15. Construction in the Event of Conflict. In the event of any conflict between the terms of this Amendment and the terms of the remainder of the Development Services Agreement, the terms of this Amendment shall control.

16. Estoppel. Owner and Developer each hereby acknowledges and agrees that, as of the Effective Date of this Amendment, the Development Agreement is in full force and effect and, to the best of its actual knowledge, no defaults, or events of Force Majeure Delay or Owner Delay, have occurred (or with the giving of notice and expiration of applicable cure periods would be deemed to have occurred) under the Development Agreement.

17. Full Force and Effect. Except as amended hereby, all other terms and conditions of said Development Agreement, as amended, shall remain unchanged, and shall be in full force and effect. Should any of the terms of the Development Agreement conflict with this Amendment, then the terms of this Amendment shall control. The recitals hereto are incorporated herein by reference.

18. Counterparts. Owner and Developer each hereby acknowledge that this Amendment may be executed in counterparts and exchanged by facsimile transmission, and that the facsimile copies of each party's respective signature shall be binding as if the same were an original signature.

19. Binding Effect. This Amendment shall inure to the benefit of and be binding on the parties hereto, their respective heirs, representatives, successors, and assigns.

*[Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the day and year above written.

**OWNER:**

COMMERCE BANK

By: /s/ Charles G. Kim

Name: Charles Kim

Title: EVP & CFO

**DEVELOPER:**

BRENTWOOD-FORSYTH PARTNERS I, LLC

By: /s/ James G. Koman

James G. Koman, Manager

8027 FORSYTH ACQUISITIONS, LLC

By: /s/ James G. Koman

James G. Koman, Manager

U.S. CAPITAL DEVELOPMENT, LLC

By: /s/ Scott Sachtleben

Scott Sachtleben, Manager

SCHEDULE 1

Project Schedule

*[Intentionally Omitted]*

SCHEDULE 2

The Anchor Tenant Lease Excerpt

*[Intentionally Omitted]*

EXHIBIT A

Outline of the Premises

*[Intentionally Omitted]*

EXHIBIT B

Description of the Land

*[Intentionally Omitted]*

EXHIBIT C

Depiction of the Project

*[Intentionally Omitted]*

EXHIBIT D

Work

*[Intentionally Omitted]*

EXHIBIT D-2

Landlord's Work Specifications

*[Intentionally Omitted]*

EXHIBIT D-3

Construction Rules and Regulations

*[Intentionally Omitted]*

EXHIBIT A  
TO AMENDMENT

Parking Plan Depicting the Parking Facility, Including Reserved and Unreserved Parking Areas, and Ingress and Egress Ramps

*[Intentionally Omitted]*

EXHIBIT B  
TO AMENDMENT

Parking Garage, Terrace Garden, and Fitness Center Management Agreement

*[Intentionally Omitted]*

EXHIBIT A  
to  
Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Legal Description of the Brentwood Land

*[Intentionally Omitted]*

EXHIBIT B  
to  
Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Legal Description of the Commerce Land

*[Intentionally Omitted]*

EXHIBIT C

to

Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Parking Plan Depicting the Parking Facility, Including Reserved and Unreserved Parking Areas, and Ingress and Egress Ramps

*[Intentionally Omitted]*

EXHIBIT D  
to  
Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Drawing Depicting the Terrace Garden

*[Intentionally Omitted]*

EXHIBIT E  
to  
Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Drawing Depicting the Fitness Center

*[Intentionally Omitted]*

EXHIBIT F  
to  
Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Parking Rates

*[Intentionally Omitted]*

EXHIBIT G  
to  
Parking Garage, Terrace Garden, and Fitness Center Management Agreement

Memorandum of Agreement

*[Intentionally Omitted]*

EXHIBIT C  
TO AMENDMENT

Parking Garage Reciprocal Easement and Joint Use and Operating Agreement

*[Intentionally Omitted]*

EXHIBIT A  
to  
Parking Garage Reciprocal Easement and Joint Use and Operating Agreement

Legal Description of the Brentwood Land

*[Intentionally Omitted]*

EXHIBIT B  
to  
Parking Garage Reciprocal Easement and Joint Use and Operating Agreement

Legal Description of the Commerce Land

*[Intentionally Omitted]*

EXHIBIT C

to

Parking Garage Reciprocal Easement and Joint Use and Operating Agreement

Parking Plan Depicting the Parking Facility, Including Reserved and Unreserved Parking Areas, and Ingress and Egress Ramps

*[Intentionally Omitted]*

EXHIBIT D  
TO AMENDMENT

Terrace Garden Reciprocal Easement and Joint Use and Operating Agreement

*[Intentionally Omitted]*

EXHIBIT A  
to  
Terrace Garden Reciprocal Easement and Joint Use and Operating Agreement

Legal Description of the Brentwood Land

*[Intentionally Omitted]*

EXHIBIT B  
to  
Terrace Garden Reciprocal Easement and Joint Use and Operating Agreement

Legal Description of the Commerce Land

*[Intentionally Omitted]*

EXHIBIT C  
to  
Terrace Garden Reciprocal Easement and Joint Use and Operating Agreement

Plan Depicting the Terrace Garden

*[Intentionally Omitted]*

EXHIBIT D  
to  
Terrace Garden Reciprocal Easement and Joint Use and Operating Agreement

Plan Depicting the Fitness Center

*[Intentionally Omitted]*

EXHIBIT E  
TO AMENDMENT

Fitness Center License, Joint Use and Operating Agreement

*[Intentionally Omitted]*

EXHIBIT A  
to  
Fitness Center License, Joint Use and Operating Agreement

Description of the Brentwood Land

*[Intentionally Omitted]*

EXHIBIT B  
to  
Fitness Center License, Joint Use and Operating Agreement

Description of the Commerce Land

*[Intentionally Omitted]*

EXHIBIT C  
to  
Fitness Center License, Joint Use and Operating Agreement

Plan Depicting the Fitness Center

*[Intentionally Omitted]*

CERTIFICATION

I, John W. Kemper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commerce Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN W. KEMPER

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John W. Kemper  
President and  
Chief Executive Officer

November 5, 2020

## CERTIFICATION

I, Charles G. Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Commerce Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHARLES G. KIM

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Charles G. Kim  
*Executive Vice President and  
Chief Financial Officer*

November 5, 2020

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Commerce Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, John W. Kemper and Charles G. Kim, Chief Executive Officer and Chief Financial Officer, respectively, of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN W. KEMPER

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John W. Kemper  
*Chief Executive Officer*

/s/ CHARLES G. KIM

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Charles G. Kim  
*Chief Financial Officer*

November 5, 2020

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.