

PUBLIC DISCLOSURE

March 11, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Commerce Bank
Certificate Number: 23772

5800 San Dario
Laredo, Texas 78041

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Dallas Regional Office

1601 Bryan Street, Suite 1410
Dallas, Texas 75201

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Commerce Bank's satisfactory Lending Test record insufficiently lifted by the outstanding Community Development Test record supports the overall Community Reinvestment Act (CRA) rating.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio (LTD) is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of loans and other lending-related activities are in the institution's assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

The Community Development Test is rated Outstanding.

The institution's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through community development (CD) loans, qualified investments (QIs), and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area. Excellent responsiveness to the community development needs and an excellent record regarding CD loans, without simply ignoring the other types of community development activities, primarily support this conclusion. The bank also demonstrated an adequate record regarding its QIs and an excellent record regarding its CD services.

DESCRIPTION OF INSTITUTION

Commerce Bank is headquartered in Laredo, Texas and operates four offices in Webb County. The institution received a Satisfactory rating at its previous Federal Deposit Insurance Corporation (FDIC) Performance Evaluation, dated September 11, 2017, based on the Federal Financial Institutions Examination Council's (FFIEC) Intermediate Small Institution CRA Examination Procedures.

International Bancshares Corporation, Laredo, Texas, wholly owns IBC Subsidiary Corporation, Laredo, Texas. In turn, IBC Subsidiary Corporation wholly owns Commerce Bank as well as International Bank of Commerce, Laredo, Texas; International Bank of Commerce, Zapata, Texas; International Bank of Commerce, Brownsville, Texas; and International Bank of Commerce, Oklahoma City, Oklahoma. During the evaluation period, Commerce Bank operated from four full-service offices throughout its assessment area in Laredo, Texas. The bank has not opened or closed any offices, or participated in any merger or acquisition activity since the previous evaluation.

With a primary business focus on commercial loans, Commerce Bank's loan products include commercial, residential, construction and land development, and consumer loans. The bank also offers a variety of deposit services including consumer and commercial checking and savings accounts, debit and gift cards, and merchant processing for commercial customers. The Community Development Services describes the availability of alternative banking services.

As of the December 31, 2020, Report of Income and Condition, the bank reported total assets of \$582.7 million, total loans of \$201.2 million, total deposits of \$475.5 million, and securities totaling \$228.9 million. Since the previous evaluation, on average per year, total assets increased 1.2 percent, net loans grew 4.9 percent, and total deposits increased 1.5 percent.

As seen in the following table, the mix of outstanding loans as of December 31, 2020, reflects an inconsistent distribution to that shown for originated loans under the Scope of Evaluation. Residential lending represents the largest loan type at 45.9 percent. The typically larger dollar amount and longer maturities for these loans generally account for their prominence in outstanding loans as of the date noted.

Loan Portfolio Distribution as of 12/31/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	23,047	11.5
Secured by Farmland	314	0.2
Secured by 1-4 Family Residential Properties	86,396	42.9
Secured by Multifamily (5 or more) Residential Properties	6,156	3.0
Secured by Nonfarm Nonresidential Properties	38,906	19.3
Total Real Estate Loans	154,819	76.9
Commercial and Industrial Loans	41,446	20.6
Agricultural Production and Other Loans to Farmers	0	0.0
Consumer Loans	4,704	2.3
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	231	0.2
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	201,200	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

Commerce Bank designated one assessment area, the Laredo Metropolitan Statistical Area (MSA) Assessment Area (Laredo MSA AA), consisting of Webb County in its entirety. This area encompasses 61 census tracts. The assessment area conforms to CRA regulatory requirements. Examiners used full-scope procedures for this area. The following table denotes the location of the bank's offices.

Office Locations				
County/City/Office	Office Type	Census Tract Number	Census Tract Income Level	Office Opened or Closed Since Last Evaluation
Webb County:				
Laredo – Blaine St	Branch	0001.05	Middle	No
Laredo – San Dario	Main	0017.18	Upper	No
Laredo – Saunders Ave	Branch	0016.01	Middle	No
Laredo – Welby Court	Branch	0017.09	Upper	No
<i>Source: Bank Data; 2015 American Community Survey (ACS) Data</i>				

Economic and Demographic Data

The assessment area's 61 census tracts consist of 2 low-, 31 moderate-, 16 middle-, and 11 upper-income tracts, with 1 undesignated income tract, based on the 2015 ACS data derived from census data.

The largest industries in the assessment area, by percentage of businesses, consist of services at 29.7 percent, transportation and communication at 19.0 percent, and non-classifiable establishments at 17.1 percent. Major employers in the area include Wal-Mart Stores Inc., H-E-B grocery, McDonald's, Laredo Medical Center, and Texas A&M International University, along with local school and government offices.

The Texas Workforce Commission reported a 2019 annual unemployment rate of 3.6 percent for Webb County compared to 3.3 percent for the State of Texas and 3.4 percent for the United States. In April 2020, the economic outlook and unemployment levels changed significantly due to the national state of emergency related to the COVID-19 pandemic. As of December 2020, the unemployment rates were 8.1 percent for Webb County, 7.1 percent for the State of Texas, and 6.5 percent for the United States.

International trade with Mexico serves as a primary driver of Laredo's economy. The city of Laredo operates as the largest inland port in the United States and serves as the principal port of entry into Mexico. This top-ranked, cross-border distribution hub attracts an influx of foreign Mexican National deposits, which may provide a source of loan funding typically well in excess of any loan demand from these individuals. The nature of existing tax laws and the needs of the depositors themselves may make these deposits a less reliable source of loan funding. Laredo's economy also benefits from commercial and industrial warehousing, education, and health care. FEMA issued a disaster declaration for Webb County due to severe winter storms on February 19, 2021, and a disaster declaration for the entire state due to the COVID-19 pandemic on March 25, 2020. The following table provides select demographic and economic data for the assessment area.

Demographic Information of the Laredo MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	61	3.3	50.8	26.2	18.0	1.6
Population by Geography	263,251	2.2	40.4	31.4	26.0	0.0
Housing Units by Geography	76,731	2.3	42.6	28.2	27.0	0.0
Owner-Occupied Units by Geography	43,933	1.1	33.8	31.7	33.3	0.0
Occupied Rental Units by Geography	25,735	4.0	51.8	24.6	19.6	0.0
Vacant Units by Geography	7,063	2.7	64.0	19.0	14.3	0.0
Businesses by Geography	16,630	0.9	32.1	17.4	49.2	0.4
Farms by Geography	207	0.5	32.9	20.3	45.9	0.4
Family Distribution by Income Level	56,626	25.6	15.4	16.8	42.3	0.0
Household Distribution by Income Level	69,668	27.4	13.7	16.2	42.7	0.0
Median Family Income MSA - 29700 Laredo, TX MSA		\$41,922	Median Housing Value Median Gross Rent Families Below Poverty Level			\$114,206 \$781 27.5%

*Source: 2015 ACS Data; 2020 D&B Data
Due to rounding, totals may not equal 100.0
(* The NA category consists of geographies that have not been assigned an income classification.*

Competition

The assessment area contains a somewhat competitive market of competition from other chartered banks based on its population, with 58 offices from 10 institutions serving approximately 4,538 people. Commerce Bank ranks 5th in deposit market share by capturing 5.9 percent of the area's deposits based on the June 30, 2020, FDIC Deposit Market Share Report. Additionally, credit unions, mortgage companies, and finance companies also operate in the area, heightening the competition level. Overall, the competition level allows for lending opportunities.

Community Contact

Examiners reviewed an existing contact with a community member knowledgeable of the area's economic, demographic, and business environments to help assess the current economic conditions, community credit needs, and potential opportunities for bank involvement. The community contact noted that the area's economic conditions have slightly declined in the retail services area. Furthermore, with the pandemic, inventory levels at retail establishments have been slow to re-stock. According to the contact, other industries such as health care, transportation, trucking, import, and export along with trade between the United States and Mexico, appear to be stable.

The contact indicated that the Paycheck Protection Program (PPP) offered by local banks did assist a number of small businesses, as well as banks working with organizations and builders to maintain affordable housing for the area. Overall, the contact noted that financial institutions have been responsive to the credit and community development needs of the area.

Credit and Community Development Needs and Opportunities

The assessment area created varied loan demand for various loan types, including commercial, residential real estate, construction, and consumer loans. The area's economy also supports credit growth and opportunities for various loan types. Considering information from the community contact, bank management, and demographic and economic data, examiners determined that the area's primary credit needs include small business and affordable housing.

With respect to the area's community development needs, examiners considered that over one-fourth of the area's families reported incomes below the poverty level and two-fifths, or 41.0 percent, of the area's families report either low or moderate incomes. These characteristics typically suggest a higher need for activities that aid in providing community services targeted to low- and moderate-income individuals. Other community development needs exist regarding activities that revitalize or stabilize qualifying geographies, as suggested by the 54.1 percent of the area's census tracts receiving low- or moderate-income designations, and regarding affordable housing for low- and moderate-income individuals.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from September 11, 2017, to March 11, 2021, the date of the previous evaluation to this evaluation's date. To assess performance, examiners applied the FFIEC Intermediate Small Institution CRA Examination Procedures, which include the Lending Test and Community Development Test. The appendix lists the applicable tests' criteria. In addition, this evaluation does not consider any affiliate lending activity.

Activities Reviewed

Lending Test procedures require examiners to determine the bank's major product lines for review. As an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans. The following table shows lending activity for 2020, which reflects a generally consistent pattern with the bank's lending emphasis since the last evaluation.

Loans Originated or Purchased				
Loan Category	\$(000s)	%	#	%
Construction and Land Development	36,863	35.6	23	3.0
Secured by Farmland	112	0.1	2	0.3
Secured by 1-4 Family Residential Properties	1,257	1.2	6	0.8
Multi-Family (5 or more) Residential Properties	4,648	4.5	4	0.5
Commercial Real Estate Loans	14,605	14.1	23	3.0
Commercial and Industrial Loans	40,786	39.4	361	47.7
Agricultural Loans	0	0.0	0	0.0
Consumer Loans	5,283	5.1	338	44.7
Other Loans	0	0.0	0	0.0
Total Loans	103,554	100.0	757	100.0
<i>Source: Bank Data (2020)</i>				

Considering the number and dollar volume of loans originated, as well as management's stated business strategy, examiners determined that the bank's major product line consists of commercial loans at 53.5 percent by dollar volume during 2020. Since none of the other typically considered loan categories represent a major product line and thus would not materially affect any conclusions or ratings, including consumer loans at 5.1 percent by dollar volume, residential loans at 5.7 percent, and farm lending at 0.1 percent, this evaluation does not discuss them.

Consequently, this evaluation presents the universe of 114 small business loans totaling approximately \$14.6 million originated in 2018, the universe of 137 small business loans totaling approximately \$14.4 million originated in 2019, and the universe of 356 small business loans totaling approximately \$37.9 million originated in 2020 when reviewing the bank's assessment area concentration performance. The evaluation presents only the 2020 data regarding the bank's

geographic and borrower profile distribution performances since no trends exist between the different years' data that materially affect applicable conclusions or ratings.

The bank chose to collect, but not report, its small business loan data, which examiners validated and deemed accurate for CRA analysis purposes. Since the bank did not report the data, tabled data does not include aggregate loan data for comparison purposes. D&B data for 2020 provides a standard of comparison for the small business loans evaluated. Since this evaluation only discusses small business loans, this loan category received all of the weighting when arriving at overall conclusions.

For the Community Development Test, bank management provided data on CD loans, QIs, and CD services since the prior CRA evaluation dated September 11, 2017.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Commerce Bank demonstrated a satisfactory record regarding the Lending Test. Reasonable borrower profile performance and reasonable geographic distribution performance primarily support this conclusion. Additionally, the bank demonstrated a reasonable LTD ratio and originated a substantial majority of loans in the bank's assessment area.

Loan-to-Deposit Ratio

The LTD ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio averaged 42.5 percent over the past 14 calendar quarters from September 30, 2017, to December 31, 2020, higher than the 29.3 percent average ratio reported at the previous evaluation. The ratio ranged from a low of 37.4 percent as of September 30, 2017, to a high of 49.1 percent as of December 31, 2020, and demonstrated an upward trend. Although still reflective of reasonable performance, examiners noted that Commerce Bank's average, net LTD ratio was somewhat affected by the bank's larger volume of foreign deposits and public funds.

In the following table, examiners identified and listed three somewhat comparable banks based on their asset size, geographic location, and lending focus. The table shows that Commerce Bank displayed the lowest ratio; however, its ratio lands only 3.2 percentage points below the next lowest listed ratio, and falls 23.5 percentage points below the highest listed ratio.

LTD Ratio Comparison		
Bank	Total Assets as of 12/31/2020 (\$000s)	Average Net LTD Ratio (%)
Commerce Bank, Laredo, TX	582,677	42.5
Trust Texas Bank, SSB, Cuero, TX	354,539	58.0
Texas Community Bank, Laredo, TX	1,634,023	66.0
Zapata National Bank, Zapata, TX	90,170	45.7

Source: Reports of Condition and Income (09/30/2017 – 12/31/2020)

Assessment Area Concentration

A substantial majority of loans and other lending-related activities are in the institution's assessment area. A substantial majority of small business loans originated inside the assessment area supports this conclusion. As reflected in the below table, the bank originated a substantial majority of its small business loans, by number and dollar volume, inside its assessment area.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Business										
2018	102	89.5	12	10.5	114	12,319	84.1	2,325	15.9	14,644
2019	122	89.1	15	10.9	137	11,857	82.5	2,523	17.5	14,380
2020	332	93.3	24	6.7	356	35,644	94.1	2,217	5.9	37,861
Total	556	91.6	51	8.4	607	59,820	89.4	7,065	10.6	66,885

Source: Bank Data (2018, 2019, and 2020)

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. Reasonable performance regarding small business loans in the bank's sole assessment area supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable performance. Reasonable performances in low- and moderate-income census tracts support this conclusion. Examiners focused on the bank's percentage of loans, by number, granted in low- and moderate-income geographies relative to the percent of businesses.

The following table shows that the bank's lack of lending in the low-income census tracts still lands within a reasonable range of the D&B data, given the ratios' overall levels. The bank's level falls just 0.9 percentage points lower than the D&B figure, thereby reflecting a reasonable level. The table further shows that the bank's level of lending in moderate-income geographies falls slightly below, by 3.2 percentage points, the D&B level, reflecting reasonable performance.

Geographic Distribution of Small Business Loans					
Laredo MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	0.9	0	0.0	0	0.0
Moderate	32.1	96	28.9	8,565	24.0
Middle	17.4	58	17.5	7,125	20.0
Upper	49.2	178	53.6	19,954	56.0
Not Available	0.4	0	0.0	0	0.0
Totals	100.0	332	100.0	35,644	100.0
<i>Source: 2020 D&B Data; Bank Data (2020)</i>					

Borrower Profile

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Reasonable performance regarding small business loans in the bank's sole assessment area supports this conclusion.

Small Business Loans

The distribution of small business loans based on the borrowers' profiles reflects reasonable performance. A reasonable record of lending to businesses with gross annual revenues of \$1 million or less primarily supports this conclusion. Examiners focused on the bank's overall level of lending to businesses with gross annual revenues of \$1 million or less relative to D&B data when arriving at conclusions. The companies' gross annual revenues define the borrowers' profiles for this review.

The following table shows that in the Laredo MSA AA, the bank originated approximately seven out of every ten loans to businesses with gross annual revenues of \$1 million or less, reflecting a reasonable level when compared to D&B data. Examiners noted that D&B data reflected 83.6 percent of businesses reporting gross annual revenues of \$1 million or less. In addition, the bank participated in the Small Business Administration's (SBA) PPP. The bank originated 209 PPP loans totaling \$17.1 million, considered small business loans with loan amounts of \$1 million or less during the review period. The bank originated 61 of these PPP loans totaling \$4.0 million in low- and moderate-income geographies. Such activity further demonstrates the bank's willingness to meet the credit needs of businesses of varying sizes, including small businesses.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Laredo MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	83.6	230	69.3	14,059	39.4
> \$1,000,000	5.6	102	30.7	21,585	60.6
Revenue Not Available	10.8	0	0.0	0	0.0
Total	100.0	332	100.0	35,644	100.0
<i>Source: 2020 D&B Data; Bank Data (2020)</i>					

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation. Therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Commerce Bank demonstrated an outstanding record regarding the Community Development Test. The institution's community development performance demonstrates excellent responsiveness to community development needs in its assessment area through CD loans, QIs, and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area. Excellent responsiveness to the community development needs and an excellent record regarding CD loans, without simply ignoring the other types of community development activities, primarily support this conclusion. The bank also demonstrated an adequate record regarding its QIs and an excellent record regarding its CD services. Certain activities reflect a leadership role and a heightened level of effort by the bank along with its affiliated institutions in initiating or developing those activities.

Community Development Loans

The bank exhibited an excellent record regarding its CD loans. An excellent level regarding the dollar volume of CD loans primarily supports this conclusion. Examiners evaluated the number and dollar volume relative to the considerations noted for the Community Development Test when arriving at this conclusion.

Commerce Bank originated 18 CD loans totaling approximately \$52.4 million during the evaluation period. This level of activity represents 9.5 percent of average total assets and 27.7 percent of average net loans since the prior CRA evaluation. These levels increased from the 2.9 percent of average total assets and 9.3 percent of average net loans reported at the previous evaluation. The current levels reflect excellent performance relative to the considerations noted for the Community Development Test.

The CD loans proved responsive to the area's needs given they primarily address revitalization and stabilization needs. As seen in the following table, 94.4 percent address activities that revitalize or stabilize qualifying geographies, demonstrating the bank's responsiveness to an identified community development need. In addition, the bank worked with the SBA to make loans through programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The bank also provided loan modifications to customers experiencing financial hardships, demonstrating responsiveness to community needs. The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2017	0	0	0	0	0	0	2	4,231	2	4,231
2018	0	0	0	0	0	0	2	5,046	2	5,046
2019	0	0	1	1,703	0	0	3	9,589	4	11,292
2020	0	0	0	0	1	1,236	7	22,059	8	23,295
YTD 2021	0	0	0	0	0	0	2	8,499	2	8,499
Total	0	0	1	1,703	1	1,236	16	49,424	18	52,363

Source: Bank Data

The following table shows the bank's CD loans benefitting each area.

Community Development Lending by Assessment Area										
Assessment Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Laredo MSA AA	0	0	1	1,703	1	1,236	13	37,703	15	40,642
Statewide/Regional	0	0	0	0	0	0	3	11,721	3	11,721
Total	0	0	1	1,703	1	1,236	16	49,424	18	52,363

Source: Bank Data

The following points highlight community development lending in the Laredo MSA AA.

- **Revitalize or Stabilize** – The bank granted 3 loans totaling \$6.0 million to finance the purchase and renovation of an existing warehouse and two multi-family dwellings, all located in moderate-income census tracts within Laredo, Texas. The dwellings contain 8 and 22 housing units. These loans help to attract new or retain existing businesses or residents.
- **Community Services** – The bank granted a loan totaling \$1.7 million to a 501(c) 3 non-profit organization for renovation of an existing building located in a moderate-income census tract. This organization provides resources to low- and moderate-income individuals within the bank's assessment area.

Qualified Investments

The bank displayed an adequate record regarding its QIs. An adequate level regarding the dollar volume of QIs primarily supports this conclusion. Examiners considered the number and dollar volume of QIs relative to the considerations noted for the Community Development Test when arriving at this conclusion.

The bank made use of 112 QIs totaling approximately \$3.5 million which included 108 donations totaling \$460,577. The total dollar volume equates to 0.6 percent of average total assets and 1.2 percent of average securities since the prior evaluation. These levels slightly increased from the 48 QIs totaling approximately \$3.3 million, equating to 0.6 percent of average total assets and 0.9 percent of average securities, recorded at the prior evaluation. The current levels reflect adequate performance relative to the considerations noted for the Community Development Test.

The following table indicates that by dollar volume, 86.7 percent of the QIs supported activities promoting affordable housing. These efforts demonstrate the bank’s adequate responsiveness to an identified community development need. The following table illustrates the bank’s QIs by year and purpose, which benefitted the Laredo MSA AA.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0	0	0	0
2018	0	0	0	0	0	0	0	0	0	0
2019	4	3,000	0	0	0	0	0	0	4	3,000
2020	0	0	0	0	0	0	0	0	0	0
YTD 2021	0	0	0	0	0	0	0	0	0	0
Subtotal	4	3,000	0	0	0	0	0	0	4	3,000
Qualified Donations	0	0	108	460	0	0	0	0	108	460
Total	4	3,000	108	460	0	0	0	0	112	3,460

Source: Bank Data

The following provides examples of the QIs in the Laredo MSA AA.

- **Affordable Housing** – The bank invested \$3 million into three CRA investment funds during the evaluation period. One fund invested in a pool of mortgage loans made to finance apartments that qualify for a low-income housing tax credit within Webb County. The remaining two funds invested in a Fannie Mae pool of mortgage loans made to low- or moderate-income individuals in Webb County. Thus, the investments support affordable housing to low- and moderate-income individuals.
- **Community Services** – Each year, the bank provides several \$1,000 scholarships to low- and moderate-income students within Webb County. During the review period, the bank distributed 31 scholarships totaling \$31,000. The bank also donated \$290,577 to an organization that builds relationships to empower students to stay in school and succeed in life by helping with immediate needs such as food, clothing, and counseling. Such activities benefit projects or organizations that provide community services targeted to low- and moderate-income individuals.

Community Development Services

The bank established an excellent record regarding its CD services. Excellent performance regarding the types of services elevated adequate performance regarding the availability of services to support this conclusion. Examiners evaluated the types and availability of services relative to the considerations noted for the Community Development Test when arriving at this conclusion.

Types of Services

The bank exhibited excellent performance regarding the types of services that primarily benefit low- and moderate-income individuals. An excellent extent, or number, of CD services primarily supports this conclusion.

The table below shows that the bank provided 233 CD services since the prior evaluation. This number equates to an average of 14.6 CD services, per office, per year, since the prior evaluation. This level decreased from the 503 CD services averaging 36.7 CD services, per office, per year, recorded at the prior evaluation, largely due to the COVID-19 pandemic. The services all involve bank personnel's use of their technical expertise to benefit organizations or projects with a primary purpose of community development, as defined by the CRA regulation. The current level reflects excellent performance.

The table also shows that 96.6 percent of the services benefited community service organizations that serve low- and moderate-income individuals, which demonstrates the bank's responsiveness to an identified community development need. Additionally, certain activities reflect a leadership role and a heightened level of effort by Commerce Bank along with its affiliated institutions in initiating or developing those activities. As noted below, these characteristics apply to the development of the We Do More Rx Card that provides discounts on prescription drugs and involved coordinating with the nationally recognized Pharmacy Benefit Manager that has over 54,000 participating pharmacies.

The noted considered qualitative aspects also apply to the bank's sponsorship of the Minitropolis[®] program. The bank currently sponsors the program to 2 of the area's elementary schools reaching 1,814 students. The program creates a fully functioning, real-life community run by the students while educating them on, among other things, financial skills necessary to be successful and responsible citizens. The considered qualitative aspects further apply to the organization's creation of the Money Buzz program. This program, designed for children ages 5 to 9, provides a child-friendly lesson on personal finance.

The following table illustrates the bank's CD services by year and purpose, which benefitted the Laredo MSA AA.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2017	1	58	1	0	60
2018	1	64	1	0	66
2019	1	98	1	0	100
2020	1	5	1	0	7
YTD 2021	0	0	0	0	0
Total	4	225	4	0	233

Source: Bank Data

The following provides examples of CD services in the Laredo MSA AA.

- **Community Services** – In a leadership role, Commerce Bank and its affiliated institutions developed the We Do More Rx Card. The card, targeted to low- and moderate-income bank customers, provides discounts on all Food and Drug Administration-approved prescription drugs that amount to savings on average of 15.0 percent of the cash price for brand name drugs and 40.0 percent off generic drugs. The activity provides community services by addressing health matters targeted to low- and moderate-income individuals.
- **Community Services** – A number of bank representatives conducted 96 financial literacy programs targeted to low- and moderate-income individuals at local schools within the bank’s assessment area. The instruction used the Money Smart, Get Smart About Credit, and the bank’s own version of Money Smart called Money Buzz, to teach the basics of handling money and finances, including how to create positive relationships with financial institutions.
- **Economic Development** – A bank representative served as a board member for an economic development organization which promotes economic development through the financing of businesses that meet the regulation’s size requirements and supports permanent job creation, retention, or improvement, either for currently low- or moderate-income persons or in low- or moderate-income, or other qualifying, geographies.

Availability of Services

The bank demonstrated adequate performance regarding the availability of its services to low- or moderate-income individuals and geographies. A poor branch distribution lifted by adequate alternative delivery systems supports this conclusion.

The following table shows that the bank’s lack of full-service offices and automated teller machines (ATMs) in low-income census tracts still lands within an adequate range of the population percentage, given the ratios’ overall levels. The bank’s levels fall only 2.2 percentage points lower, thereby reflecting adequate performance. The table further shows that in moderate-income census tracts, the percentages of the bank’s full-service offices and ATMs land within a very poor range of the population percentage, given the ratios’ overall levels. The bank’s levels fall 40.4 percentage points below the population percentage, typically reflective of very poor performance. However,

the bank operates its four offices and six ATMs in middle- and upper-income geographies, which contain a majority of the area’s population. Further, at the previous evaluation the bank operated one office in a moderate-income census tract. Since the previous evaluation, such geography was re-designated to middle-income. Finally, the institution maintains only four offices, providing limited comparative value when considering the placement of these offices. Such performance context considerations somewhat mitigate the performance illustrated by the following table, and result in a poor branch distribution.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	2	3.3	5,814	2.2	0	0.0	0	0.0
Moderate	31	50.8	106,247	40.4	0	0.0	0	0.0
Middle	16	26.2	82,675	31.4	2	50.0	3	50.0
Upper	11	18.0	68,515	26.0	2	50.0	3	50.0
NA	1	1.6	0	0.0	0	0	0	0
Total	61	100.0	263,251	100.0	4	100.0	6	100.0

*Source: 2015 ACS Data; Bank Data
Due to rounding, totals may not equal 100.0*

Besides its full-service office locations, the bank provides adequate alternative delivery systems that help avail its services to low- and moderate-income individuals or geographies. Although Commerce Bank, as reflected in the above table, does not operate any ATMs in low- or moderate-income geographies, due to Commerce Bank’s affiliation with its holding company, its customers also receive free access to all branch locations and ATMs that make up the International Bancshares Corporation network. As of March 11, 2021, this network includes 185 branch locations and 279 ATMs.

In addition to its ATMs, the bank provides other alternative delivery systems consisting of online banking and bill pay, IBC mobile, a mobile banking product that provides many of these same services from any mobile device, and IBC Voice, which provides free 24-hour customer access to accounts via a local telephone number. Additionally, the bank offers IBC Link, which is a delivery system that addresses various needs of commercial customers, including small businesses, such as transferring funds between accounts, reconciling account balances, and performing wire transfers.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank’s compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.