

PUBLIC DISCLOSURE

AUGUST 4, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

COMMERCE BANK AND TRUST COMPANY

17484

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WORCESTER, MA 01615

Division of Banks

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<p>NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations 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 Deposit Insurance Corporation or the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Federal Deposit Insurance Corporation (“FDIC”) and the Massachusetts Division of Banks (“Division”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Commerce Bank & Trust Company** (“**Commerce Bank**” or the “**Bank**”) prepared by the Division and the FDIC, the institution's supervisory agencies, as of **August 4, 2014**. The agencies evaluate performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC's Rules and Regulations.

INSTITUTION'S CRA RATING

This institution is rated “Satisfactory” by the Division and the FDIC.

LENDING TEST

The Bank’s Lending Test performance is rated “Satisfactory.”

- Overall, the Bank’s small business and home mortgage lending activity reflects adequate responsiveness to the credit needs of the assessment areas considering the size of the institution, its loan portfolio composition, and the level of competition. The Bank originated a total of 489 small business loans and 1,429 home mortgage loans within the assessment areas.
- Overall, an adequate percentage of the Bank’s small business and home mortgage loans were made in the Bank’s assessment areas. Small Business and home mortgage loans represented 50.1 percent by number and 43.9 percent by dollar amount inside the assessment areas. Small business loans inside the assessment areas represented less than a majority in 2012 and year-to-date (YTD) 2014, while the performance in 2013 represented 50.9 percent by number. A majority of the Bank’s home mortgage loans were made inside the assessment areas in 2012 and YTD 2014.
- Overall, the distribution of loans to business customers of different sizes and individuals of different income levels (including low- and moderate-income) reflects adequate penetration. The distribution of the Bank's small business loans reflects a good penetration among businesses of different sizes. The distribution of home mortgage loans reflects an adequate penetration among customers of different income levels.
- Overall, the geographic distribution of the Bank’s small business and home mortgage loans reflects good dispersion throughout the entire assessment area, including low- and moderate-income geographies, when compared to assessment area demographics and aggregate lending performance. The Bank’s small business performance is considered excellent as the Bank exceeded the aggregate performance in 2012 within low- and moderate-income census tracts and exceeded the percentage of businesses in these tracts in both 2012 and 2013.
- The Bank exhibited an adequate record of serving the credit needs of small businesses and low- and moderate-income individuals within its assessment area.
- The Bank made an adequate level of community development loans within its assessment areas or the broader regional area, given its asset size and financial resources. These loans primarily benefitted organizations and businesses that provide affordable housing and community services throughout the area.
- The Bank makes limited use of innovative and flexible lending programs to meet the credit needs of small businesses and low- and moderate-income homebuyers.

INVESTMENT TEST

The Bank's Investment Test performance is rated "Satisfactory."

- Overall, the Bank made an adequate level of qualified equity investments, grants, and donations. The activity was evident in the Worcester assessment area, but was lacking in the Boston assessment area.
- Overall, the Bank demonstrated an adequate responsiveness to the community development needs of its entire assessment area; however, this responsiveness was lacking in the Boston assessment area. The Bank occasionally used innovative or complex initiatives.

SERVICE TEST

The Bank's Service Test performance is rated "High Satisfactory."

- Delivery systems for services are readily accessible to essentially all portions of the assessment areas. The Bank's three new branches improved the accessibility, particularly in low- and moderate-income geographies. Of the three new Boston branches, two are in low- and one is in a moderate-income census tract.
- Services and business hours do not vary in a way that inconveniences certain portions of the assessment areas, particularly within low- and moderate-income geographies or to low- and moderate-income individuals.
- The Bank provided an adequate level of community development services.

LENDING, INVESTMENT, AND SERVICE TEST TABLE

PERFORMANCE TESTS Commerce Bank & Trust Company			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			X
Satisfactory**	X	X	
Needs to Improve			
Substantial Non-Compliance			

*Note: The Lending Test is weighed more heavily than the Service and Investment tests when arriving at an overall rating.

**Note: FDIC rules and regulations stipulate use of a high satisfactory and low satisfactory rating for the three tests. For purposes of this jointly issued public evaluation, the term "Satisfactory" will be used in lieu of the "Low Satisfactory" rating for the lending, investment, and service test ratings.

PERFORMANCE CONTEXT

Description of Institution

Commerce Bank is a Massachusetts-chartered, commercial bank headquartered in Worcester, Massachusetts (MA). The institution is a wholly-owned subsidiary of Commerce Bancshares Corporation, a one-bank holding company. The Bank is headquartered at 368 Main Street, Worcester, MA, in a low-income census tract. In addition to its main office and operations center in Worcester, the institution operates 15 full-service branches throughout central and eastern Massachusetts. Commerce Bank is a full-service community bank offering a wide variety of products and services.

As of June 30, 2014, the Bank's assets totaled approximately \$1.9 billion which represents an increase of 24.1 percent since the previous evaluation conducted on May 4, 2011. On August 27, 2012, Commerce Bank purchased Boston-based Mercantile Bank & Trust Company (Mercantile) and acquired approximately \$197 million in assets. Additionally, Commerce Bank ceased the operations of its affiliate, East/West Mortgage Company in August 2013. Commerce Bank is primarily a commercial lender, with real estate secured commercial loans representing the largest portion of the Bank's portfolio at 35.9 percent, and commercial and industrial loans accounting for the next highest portion at 35.8 percent. Refer to Table 1 for further information regarding the Bank's loan portfolio.

Table 1 – Loan Portfolio Distribution as of June 30, 2014		
Loan Type	Dollar Amount \$('000s)	Percent of Total Loans
Construction and Land Development, and Other Land	53,694	4.8%
Secured by Farmland	0	0.0%
Open-End Lines of Credit Secured by 1-4 Family Residential	20,966	1.9%
Closed-End Loans Secured by First Liens: 1-4 Family Residential	45,052	4.0%
Closed-End Loans Secured by Junior Liens: 1-4 Family Residential	3,710	0.3%
Secured by Multi-Family (5 or more) Residential Properties	77,892	6.9%
Secured by Nonfarm Nonresidential Properties	403,732	35.9%
Total Secured by Real Estate	605,046	53.8%
Commercial and Industrial	403,704	35.8%
Loans to Individuals for Household, Family, or Other Personal Expenditures	83,636	7.4%
Loans to non-depository financial institutions/other loans	34,025	3.0%
Total Loans	1,126,411	100.0%

Source: June 30, 2014 Call Report

The Bank offers a wide array of financial products and services to consumers and businesses. Commercial products include real estate-secured and commercial and industrial loans, deposit accounts, and business services such as cash management, investment, and insurance services. Commerce Bank's small business loans include business purpose aircraft loans and taxi medallion loans. Commerce Bank operates a Commercial Aviation Lending Division and, with the acquisition of Mercantile, the Bank is also the largest taxi medallion lender in Boston. The Bank considers its primary competitors to be locally headquartered institutions, such as Bay State Savings Bank and Webster Five Cents Savings Bank, as well as larger regional institutions.

The FDIC and Division last evaluated the Bank's CRA performance on May 4, 2011, and assigned an overall rating of "Satisfactory." There are no apparent financial or legal

impediments that would limit the Bank's ability to help meet the credit needs of its assessment areas.

Description of Assessment Area

The CRA requires a financial institution to define an assessment area, or areas within which it will concentrate its lending efforts. Commerce Bank delineated two non-contiguous assessment areas consisting of 57 total municipalities. The Boston assessment area consists of 411 census tracts covering parts of Norfolk, Middlesex, Plymouth, and Suffolk counties, all located in the Boston Metropolitan Statistical Area (MSA). The Worcester assessment area consists of 33 cities and towns comprised of 137 census tracts. Of these census tracts, 131 are located in Worcester County and the Worcester MSA and six census tracts are located in Middlesex County, which is part of the Boston MSA. For the purposes of this evaluation the overall conclusions will refer to one combined assessment area.

The combined assessment area, as currently defined, meets the technical requirements of the CRA since it (1) consists of one or more political subdivisions, (2) includes geographies where the bank has its main office, branches, and deposit-taking automated teller machines (ATMs), as well as the surrounding geographies in which the institution originated a substantial portion of its loans, (3) consists of whole census tracts, (4) does not extend beyond state boundaries, (5) does not reflect illegal discrimination, and (6) does not arbitrarily exclude low- and moderate-income areas.

The Interstate Banking and Branching Efficiency Act (IBBEA) requires separate analyses and conclusions of CRA performance in MSAs where a financial institution maintains branch offices. This CRA evaluation will assess performance based on the Bank's efforts in its combined assessment area (Worcester and Boston assessment areas). However, to satisfy the requirements of the IBBEA, separate discussions of performance in each assessment is presented, as well as a limited discussion for each MSA in which the Bank maintains branches.

Worcester Assessment Area (Worcester AA)

The following 33 cities and towns make up the Bank's Worcester AA: Auburn, Berlin, Boylston, Clinton, Douglas, Dudley, Fitchburg, Grafton, Holden, Hopedale, Hudson*, Lancaster, Leicester, Leominster, Lunenburg, Marlborough*, Milford, Millbury, Northborough, Oakham, Oxford, Paxton, Princeton, Rutland, Shrewsbury, Southborough, Sterling, Upton, Webster, West Boylston, Westborough, Westminster, and Worcester.

*Represent towns in the Worcester AA; however, located in Middlesex County, which is part of the Boston MSA.

Boston Assessment Area (Boston AA)

The Boston assessment area is made up of the following 24 cities and towns: Arlington, Belmont, Boston, Brookline, Cambridge, Chelsea, Everett, Hingham, Hull, Lexington, Malden, Medford, Milton, Needham, Newton, Quincy, Revere, Somerville, Waltham, Watertown, Wellesley, Winchester, Winthrop, and Woburn.

Geographies

The Bank's combined assessment area contains 548 census tracts across two MSAs and two non-contiguous assessment areas.

Commerce Bank's assessment area consists of portions of the following five Massachusetts counties: Norfolk, Suffolk, Middlesex, Plymouth, and Worcester. Norfolk, Plymouth, and Suffolk counties are part of the Boston-Quincy, Massachusetts, Metropolitan Division (MD) #14484; Middlesex County is part of the Cambridge-Newton-Framingham, Massachusetts MD #15764. Both the Boston MD and the Cambridge MD are located in the Boston-Cambridge-Newton, Massachusetts-New Hampshire MSA #14460; and Worcester County is located in the Worcester MSA #49340.

The *Geographic Distribution* section of the Lending Test assesses the distribution of loans by census tract income level, especially in those designated low- and moderate-income. Each census tract is assigned an income level based on the median family income (MFI) of the tract as compared to the MFI established for the MSA or MD in which the tract is located. The four income levels are:

Low-Income: Less than 50 percent of MFI

Moderate-Income: At least 50 percent, but less than 80 percent of MFI

Middle-Income: At least 80 percent, but less than 120 percent of MFI

Upper-Income: 120 percent or greater of MFI

Based on 2010 U.S. Census data, there are 79 low-income tracts, 139 moderate-income tracts, 172 middle-income tracts, 144 upper-income tracts, and 14 designated as N/A. There are no distressed or underserved census tracts.

Table 2 highlights demographic data for the combined assessment area as of 2013.

Table 2 – Assessment Area Demographic Information – Combined AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	N/A % of #
Geographies (Census Tracts)	548	14.4	25.3	31.4	26.0	2.6
Population by Geography	2,308,328	12.9	25.4	34.1	27.4	0.2
Owner-Occupied Housing by Geography	467,820	5.0	19.1	39.3	35.9	0.0
Businesses by Geography (2013)	228,409	9.4	19.3	30.8	40.5	0.0
Family Distribution by Income Level	515,613	26.4	16.6	19.5	37.4	0.0
Unemployment Rates - June 2014			Median Housing Value			\$427,831
Commonwealth of Massachusetts	5.5%					
Worcester County	6.3%	Weighted Average of Combined AA MFI, 2010 U.S. Census			\$90,318	
Middlesex County	4.6%					
Plymouth County	5.6%					
Norfolk County	4.9%					
Suffolk County	6.0%	Families Below Poverty Level			9.0%	

Source: 2010 U.S. Census, 2013 D&B Data, and 2013 FFIEC Estimated Median Family Incomes

Median Family Income Levels

The analysis under the Borrower Profile section of the Lending Test includes the distribution of home mortgage loans to borrowers of different incomes, using the same four income levels defined in the previous section. The analysis utilizes income data from the 2010 U.S. Census which is annually adjusted for inflation and other economic events. The analysis of the Bank's home mortgage lending also includes comparisons to the distribution of assessment area families by income level. Table 2 reveals the largest concentration of families is in the upper-income category. Moderate-income families are the smallest group. Among all families, 9.0 percent are below the poverty level established by the U.S. Census Bureau.

Housing

Table 2 lists the distribution of owner-occupied housing units by census tract income level. With 75.9 percent of owner-occupied units in middle- and upper-income census tracts, there may be limitations on a bank's ability to originate home mortgage loans in the low- and moderate-income census tracts. Based on the 2010 U.S. Census, the median home value in the combined assessment area is \$427,831. Again, at this level, low- and moderate-income families and individuals may have difficulty qualifying for a home mortgage loan.

Competition

The Bank faces significant competition within the combined assessment area. During 2012, 136 lenders reported 84,914 small business loans in the combined assessment area and Commerce Bank ranked 33rd with a market share of 0.23 percent. In 2012, there were 572 lenders that originated 133,754 residential mortgage loans within the combined assessment area. Commerce Bank ranked 67th with 385 loans and a market share of 0.29 percent. These numbers do not include non-reporting institutions. Additionally, the market share analysis was not available for 2013.

Business Data

Table 2 provides the distribution of businesses by tract income level in the combined assessment area. Businesses are more concentrated in middle- and upper-income tracts. The Borrower Profile section of the Lending Test is based in part on the Bank's lending to the area's small businesses, which are defined as businesses with gross annual revenues ("GARs") of \$1.0 million or less. The percentage of assessment area businesses that met this definition was 73.4 percent in 2012.

Community Contact

As part of the evaluation process, third parties active in the assessment area are contacted to assist in assessing the credit and community development needs of the community. The information obtained helps to determine whether local financial institutions are responsive to the credit and community development needs of the communities, and what credit and community development opportunities, if any, are available. Several contacts were referenced during the evaluation including organizations within the City of Worcester and the Leominster and Fitchburg areas.

One contact stated that financial institutions have opportunities to provide homebuyer education, to offer innovative and flexible financing options for consumers and investors looking to purchase rundown homes, and to assist economic development efforts that will bring businesses into the cities.

Another contact mentioned the needs for innovative of flexible loan products targeted to homeowners, and particularly those who may have less than excellent credit. This contact also referenced opportunities for banks to become involved in various tax credit financing programs for community development initiatives. Finally, similar to the contact above, this contact highlighted the need for first-time homebuyer education programs.

A community contact in the City of Worcester stated that needs include credit for home improvement and repairs. This is a need in and around the City as the housing stock ages and, in some instances, when homeowners are struggling with their mortgage payments. The contact envisions the best method to disburse credit would be through the creation of a community loan fund to mitigate risk to the banks. The contact would also like to see financial institutions

partner with MassHousing to offer programs such as Get the Lead Out to help qualified homeowners.

Finally, to help with development and to attract business, another contact mentioned that local financial institutions should become involved in creating a community development loan pool. This loan pool would provide opportunities for low- and moderate-income borrowers to purchase homes. With regard to small businesses this contact would like more banks to begin offering low-interest, or deferred interest, loans to new small businesses.

SCOPE OF EVALUATION

This evaluation assesses Commerce Bank's CRA performance utilizing the interagency Large Bank examination procedures, as established by the Federal Financial Institutions Examination Council (FFIEC). These procedures require three performance tests: the Lending Test, Investment Test, and Service Test.

The Lending Test considered the Bank's small business and home mortgage lending. Commerce Bank did not originate small farm loans during the evaluation period; therefore, this product line was not reviewed. The Bank's most recent Report of Condition and Income ("Call Report"), dated June 30, 2014, indicated that commercial lending, consisting of commercial real estate and commercial and industrial loans, represented 71.7 percent of the loan portfolio. Based on the distribution of loans, the Bank's performance in small business lending carried greater weight in the Lending Test. Additionally, consumer loans were not reviewed since the Bank did not collect and report this data.

Data reviewed includes all small business loans reported on the CRA loan registers for 2012, 2013 and the first two quarters of 2014 ("YTD 2014"). As a Large Bank, the CRA requires that Commerce Bank collect and report small business lending data. The registers contain information on originated commercial real estate and commercial and industrial loans with original balances of \$1 million or less. The Bank reported 349 small business loans totaling \$87.1 million in 2012, 468 loans totaling \$111 million in 2013, and 260 loans totaling \$48.8 million for YTD 2014. The Bank's 2012 performance was compared to 2012 aggregate data, which includes all small business loans reported in the counties that comprise the assessment areas. This excludes activity of many institutions not required by the CRA to report this data.

Additionally, all originated or purchased home mortgage loans reported on the Bank's Home Mortgage Disclosure Act ("HMDA") loan application registers ("LARs") for 2012, 2013, and YTD 2014 were reviewed. The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The Bank reported 493 loans totaling \$80.5 million in 2012, 1,962 loans totaling \$341.3 million in 2013, and 297 loans totaling \$6.6 million in YTD 2014. The Bank's 2012 home mortgage lending performance was compared against 2012 aggregate lending data. Aggregate data includes the lending activity of all institutions subject to HMDA reporting within the Bank's combined assessment area. The significant increase of home mortgage loans in 2013 was the result of Commerce Bank reporting East/West Mortgage loans on its own HMDA/LAR. As mentioned previously, the Bank disbanded operations of East/West Mortgage in August 2013. Beginning in July 2014 Commerce Bank began offering home mortgage loans through a referral arrangement as these are not offered directly by the Bank. The HMDA LAR includes home equity loans and HEAT loans offered through Mass Save. These

loans assist with heating and cooling improvements, removal of asbestos, knob and tube wiring, and insulation.

The evaluation considered all community development loans and flexible lending programs during the evaluation period.

Lending information was also compared to demographic data. Demographic information was primarily obtained from the 2010 U.S. Census. Business demographic information was obtained from Dun & Bradstreet (D&B). Financial data was generally obtained from the June 30, 2014 Call Report.

The Investment Test and Service Test considered the number and dollar amount of qualified investments and community development services between May 5, 2011 and August 4, 2014.

IBBEA requires separate analyses and conclusions of CRA performance in MSAs where a financial institution maintains branch offices. The bank operates in the Worcester, MA MSA #49340 and Boston-Cambridge-Newton, MA-NH MSA #14460, respectively, maintaining branch offices in each MSA. Limited analysis and conclusions for each MSA was conducted. Additionally, the bank has two non-contiguous assessment areas. Analysis and conclusions were conducted for each assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test evaluated the Bank's record of helping to meet the credit needs of its assessment area by considering small business, home mortgage, and community development lending. Lending performance was evaluated pursuant to the following criteria: Lending Activity, Assessment Area Concentration, Borrower Profile, Geographic Distribution, Community Development Lending Activities, Responsiveness to Credit Needs, and Product Innovation.

Commerce Bank was rated "Satisfactory" in the Lending Test. The following sections address the Bank's performance by Lending Test component throughout the overall combined assessment area.

Lending Activity

Overall, the Bank's lending activity reflects adequate responsiveness to assessment area credit needs considering the size of the institution, loan portfolio composition, and high level of competition within the combined assessment area. Given the needs highlighted by the community contacts, the Bank's responsiveness was substantiated by its origination of home improvement loans.

Examiners reviewed the Bank's loan-to-deposit (LTD) ratio, lending volume, and competition within the assessment area to analyze the Bank's lending activity. Although an analysis of the Bank's LTD ratio is not part of the Lending Test under Large Bank CRA performance criteria, it provides an additional and valuable tool in assessing the Bank's volume and level of lending relative to the credit needs in the assessment area. The Bank's LTD ratio is reasonable, considering the size of the institution, the financial condition of the Bank, and assessment area credit needs. Commerce Bank's average net LTD ratio over the 14 quarters since the prior CRA evaluation is 64.5 percent. The Bank's quarterly LTD ratio experienced narrow fluctuations, with a low of 56.1 percent, as of March 31, 2014, and a high of 75.5 percent, as of September 30, 2012.

As previously discussed, the Bank's loan portfolio consists primarily of real estate secured commercial loans (35.9 percent) and commercial and industrial loans (35.8 percent).

The Bank originated 489 small business loans totaling approximately \$125.1 million in the combined assessment area in 2012, 2013, and YTD 2014. Based on its performance through the first two quarters of 2014, the Bank is on pace to match (or exceed) the number and dollar amount of loans from the activity in 2012 and 2013. Lending activity was compared to aggregate small business data in the assessment area to further analyze performance. Among the 136 lenders that reported small business loans within the counties that comprise the combined assessment area, the Bank ranked 33rd in a 2012 market share report.

Overall, the Bank originated 1,429 residential loans totaling \$171.1 million in the combined assessment area in 2012, 2013, and YTD 2014. The high number of originations in 2013 is a result of the inclusion of East/West Mortgage loans. Market share reports from 2012 indicate the Bank ranked 65th out of 567 lenders in the combined assessment area, with a market share of 0.3 percent.

Assessment Area Concentration

This performance criterion measures the percentage of the Bank's lending that benefits the combined assessment area and evaluates the adequacy of such lending. Overall, an adequate percentage of small business and home mortgage loans were made inside the Bank's combined assessment area. Using the reported small business and HMDA data, 50.1 percent of the Bank's loans were originated inside the combined assessment area by number, and approximately 43.9 percent of the loans were originated inside of the combined assessment area by dollar volume. The 43.9 percent is attributed to the refinance activity by East/West Mortgage. These larger dollar loans were primarily originated outside the Bank's combined assessment area. Table 3 provides details regarding the Bank's distribution of loans in 2012, 2013, and YTD 2014.

Table 3 – Assessment Area Concentration – Combined AA										
Loan Category or Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000s)	%	\$(000s)	%	\$(000s)
Small Business Loans										
2012	134	38.4	215	61.6	349	30,715	35.2	56,430	64.8	87,145
2013	238	50.9	230	49.1	468	64,238	57.9	46,746	42.1	110,984
YTD 2014	117	45.0	143	55.0	260	30,136	61.8	18,635	38.2	48,771
Total Small Business	489	45.4	588	54.6	1,077	125,089	50.6	121,811	49.4	246,900
Home Mortgage Loans										
2012										
Home Purchase	8	80.0	2	20.0	10	2,814	14.1	17,149	85.9	19,963
Refinance	21	80.8	5	19.2	26	27,930	75.7	8,953	24.3	36,883
Home Improvement	356	77.9	101	22.1	457	22,515	95.1	1,152	4.9	23,667
Total	385	78.1	108	21.9	493	53,259	66.2	27,254	33.8	80,513
2013										
Home Purchase	20	36.4	35	63.6	55	31,339	53.8	26,886	46.2	58,225
Refinance	163	18.4	721	81.6	884	61,720	24.0	195,811	76.0	257,531
Home Improvement	672	65.7	351	34.3	1,023	19,634	77.0	5,870	23.0	25,504
Total	855	43.6	1,107	56.4	1,962	112,693	33.0	228,567	67.0	341,260
YTD 2014										
Home Purchase	2	100.0	0	0.0	2	246	100.0	0	0.0	246
Refinance	4	100.0	0	0.0	4	2,869	100.0	0	0.0	2,869
Home Improvement	183	62.9	108	37.1	291	2,028	57.9	1,475	42.1	3,503
Total	189	63.6	108	36.4	297	5,143	77.7	1,475	22.3	6,618
Total Home Mortgage	1,429	51.9	1,323	48.1	2,752	171,095	39.9	257,296	60.1	428,391
Grand Total	1,918	50.1	1,911	49.9	3,829	296,184	43.9	379,107	56.1	675,291

Source: 2012, 2013, and YTD 2014 HMDA LARs and CRA Registers

Small Business Lending

As depicted in Table 3, Commerce Bank originated 489 small business loans totaling \$125.1 million inside its combine assessment area in 2012, 2013, and YTD 2014, representing 45.4 percent by number and 50.6 percent by dollar amount. By number, the Bank's overall small business lending performance is less than a majority; however, by dollar, the performance is just over 50.0 percent. The Bank's 2013 concentration was 50.9 percent, and the number of loans also significantly increased. The increase is attributed to the addition of Mercantile and the increase to the assessment area. The YTD 2014 activity appears to be on pace with the 2013 activity.

Commerce Bank maintains a Commercial Aviation Division and many of these aircraft loans are business purpose loans included in this small business lending analysis. These loans are oftentimes outside the delineated assessment area. Also, in August 2012, Commerce Bank acquired Mercantile, and with this transaction Commerce Bank offers another niche product, taxi medallion loans, which are also reported on the Bank's small business loan register.

Home Mortgage Lending

Overall, the Bank extended a majority of loans, by number, inside the combined assessment area. More emphasis is placed on the percentage of loans by number since it has a more direct correlation to the number of borrowers served. The number of loans made inside the combined assessment area increased dramatically from 2012 to 2013 as the Bank included loans originated by East/West Mortgage on the 2013 LAR.

Table 3 also shows the concentration of loans in the combined assessment area by purpose. Home improvement loans accounted for approximately 85.0 percent of the originations during 2012, 2013, and YTD 2014 as Commerce Bank is an active Mass Save lender and these loans are reported as home improvement. These loans are typically smaller in dollar amount than other home purchase or refinance loans. During the evaluation period, 51.9 percent of all HMDA-reportable loans originated by the Bank were inside the combined assessment area.

In terms of market share within the combined assessment area, Commerce Bank ranked 65th out of 567 HMDA reporting institutions originating at least one home mortgage in 2012.

Borrower Profile

Overall, the distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among businesses of different sizes and borrowers of different income levels.

Small Business Lending

As reflected in Table 4, the Bank's performance reflects good penetration to businesses of different sizes, given certain demographic information and aggregate lending performance in the combined assessment area.

Table 4 – Distribution of Small Business Loans by Gross Annual Revenues (GARs) – Combined AA									
GAR \$(000s)	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	2013 Bank		YTD 2014 Bank	
			#	%		#	%	#	%
≤ \$1,000	70.2	39.6	101	75.4	70.5	210	88.2	110	94.0
> \$1,000	5.4	60.4	32	23.9	5.8	27	11.4	7	6.0
Not Reported	24.4	N/A	1	0.7	23.7	1	0.4	0	0.0
Total	100.0	100.0	134	100.0	100.0	238	100.0	117	100.0

Source: 2012, 2013, and YTD 2014 D&B Data; 2012, 2013, and YTD 2014 CRA Registers; 2012 Peer Small Business Data

The distribution of loans to small businesses in 2012 was slightly above the percentage of small businesses in the area. The Bank was ranked 19th out of 136 lenders in the origination of loans to small businesses. In 2013, the Bank more than doubled the number of loans made to small

businesses in 2012 and continues to exceed the percentage of small businesses in the area. Additionally, the Bank is on pace to slightly exceed the 2013 performance, by number, in 2014.

Given the comparison to aggregate lending in 2012, the Bank's 2012 market rank, and the positive trend in numbers and percentages, the Bank's performance reflects a good penetration in its overall combined assessment area.

Home Mortgage Lending

The distribution of borrowers reflects, given the demographics of the assessment area, adequate penetration among individuals of different income levels, including low- and moderate-income. Table 5 contains details on the Bank's record of lending to borrowers of different income levels. Aggregate market data is not available for comparison purposes in 2013; therefore, it is only used as a comparison for 2012.

Table 5 – Distribution of Home Mortgage Loans by Borrower Income Level – Combined AA								
Census Tract Income Level	2012 Aggregate Lending Data (% of #)	2012 Bank		% of Total Families 2013	2013 Bank		YTD 2014 Bank	
		#	%		#	%	#	%
Low	3.3	39	10.1	26.4	54	6.3	10	5.3
Moderate	11.1	67	17.4	16.6	167	19.5	23	12.2
Middle	19.1	104	27.0	19.6	210	24.6	48	25.4
Upper	52.2	151	39.2	37.4	406	47.5	99	52.4
N/A	14.3	24	6.3	0.0	18	2.1	9	4.7
Total	100.0	385	100.0	100.0	855	100.0	189	100.0

Source: 2013 U.S. Census Data; 2012, 2013, and YTD 2014 HMDA/LAR Registers; 2012 Peer Mortgage Data

As reflected in Table 5, the Bank exceeded the aggregate to low- and moderate-income borrowers in 2012. In 2013, the number of loans to low- and moderate-income borrowers increased significantly from 2012; however, this was attributed to the inclusion of loans from East/West Mortgage. An analysis of the percentages revealed a decrease from 2012 to low-income borrowers and a slight increase to moderate-income borrowers. The YTD 2014 data reflects a decrease in the number of loans to both low- and moderate-income borrowers, particularly when compared to 2012 (when loans from East/West Mortgage were not included).

Despite the decline in percentage from 2012 to 2013, and the apparent decline in number of loans in 2014, the Bank displayed an adequate penetration to low- and moderate-income borrowers, particularly when you consider the competitive lending environment, the fact that 9 percent of the area families are below the poverty level, and the fact that the median housing value in the overall combined assessment area is \$427,831, which makes home ownership difficult for low- and moderate-income individuals and families.

Geographic Distribution

Overall, the geographic distribution of small business and home mortgage loans reflects good dispersion throughout the combined assessment area. The focus of this performance criterion is to ensure that the Bank is lending throughout its combined assessment area, with an emphasis on low- and moderate-income census tracts. Examiners compared the Bank's distribution of lending to aggregate data and demographic information, as applicable. The following sections discuss the Bank's performance by loan type.

Small Business Lending

Small business lending reflects excellent dispersion throughout the combined assessment area, including low- and moderate-income geographies. Table 6 illustrates the Bank's small business lending performance by census tract income level in 2012, 2013, and YTD 2014. Table 6 also includes the distribution of businesses for 2012 and 2013. The distribution of businesses was not available for 2014.

Table 6 – Distribution of Small Business Loans by Census Tract Income Level – Combined AA									
Census Tract Income Level	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	2013 Bank		YTD 2014 Bank	
			#	%		#	%	#	%
Low	9.4	8.3	18	13.4	9.4	47	19.8	32	27.4
Moderate	19.3	20.0	35	26.1	19.2	84	35.3	28	23.9
Middle	30.8	31.9	54	40.3	30.7	70	29.4	41	35.0
Upper	40.5	39.4	27	20.2	40.7	37	15.5	16	13.7
N/A	0.0	0.4	0	0.0	0.0	0	0.0	0	0.0
Total	100.0	100.0	134	100.0	100.0	238	100.0	117	100.0

Source: 2012 and 2013 D&B Business Data; 2012, 2013, and YTD 2014 CRA Registers; 2012 Peer Small Business Data

The Bank exceeded the 2012 aggregate in both low- and moderate-income census tracts and also exceeded the percentage of businesses in both tract categories. In 2013, the Bank increased the number and percentage of loans from 2012 in both the low- and moderate-income census tracts and significantly exceeded the percentage of businesses. Given the competitive lending environment in which the Bank operates, this performance is noteworthy. Analysis for YTD 2014 indicates that the Bank is on pace to exceed the number of loans originated in the low-income tracts, but will fall short within the moderate-income tracts.

The increased performance is attributed to the Bank's niche lending in taxi medallions and aircraft loans. The addition of the Mercantile lending (taxi medallions) enhanced the Bank's small business performance.

Home Mortgage Lending

The Bank displayed adequate dispersion within the area's low- and moderate-income census tracts. Table 7 shows the analysis of the Bank's residential lending by census tract income level compared to the percentage of owner-occupied units for 2013 and aggregate performance levels for 2012.

Table 7 – Distribution of Home Mortgage Loans by Census Tract Income Level – Combined AA								
Census Tract Income Level	2012 Aggregate Lending Data (% of #)	2012 Bank		% of Owner- Occupied Housing Units 2013	2013 Bank		YTD 2014 Bank	
		#	%		#	%	#	%
Low	3.9	8	2.1	5.0	22	2.6	9	4.8
Moderate	15.4	64	16.6	19.1	134	15.7	25	13.2
Middle	36.1	191	49.6	40.0	378	44.2	74	39.1
Upper	44.6	122	31.7	35.9	321	37.5	81	42.9
N/A	0.0	0	9.0	0.0	0	0.0	0	0.0
Total	100.0	385	100.0	100.0	855	100.0	189	100.0

Source: 2013 U.S. Census Data; 2012, 2013, and YTD 2014 HMDA/LAR Registers; 2012 Peer Mortgage Data

In 2012, the Bank was slightly below the aggregate within low-income tracts and slightly above the aggregate in the moderate-income tracts. The Bank achieved market ranks of 29th (out of 55) and 54th (out of 80), respectively.

In 2013 the number of loans appears to significantly increase; however, this is attributed to the inclusion of loans originated by East/West Mortgage. While the increase is seen as positive, the Bank's percentages within low- and moderate-income tracts are below the percentage of owner-occupied housing units in both tract categories. The Bank's YTD 2014 performance seems to indicate improved performance within the low-income tracts and a decline within the moderate-income tracts.

Given the competitive nature of the combined assessment area, the limited percentage of owner-occupied housing, and the overall cost of housing, the Bank's performance is considered adequate.

Responsiveness to Credit Needs of Highly Disadvantaged Areas, Individuals, and/or Businesses

The Bank exhibited an adequate record of serving the credit needs of its assessment area, including low-income individuals, and very small businesses, consistent with safe and sound business practices. This is substantiated by the lending activity to small businesses, low- and moderate-income geographies and residents, and the community development loan activity, discussed below.

Community Development Lending

Community development lending, by definition, includes loans that have a primary purpose of community development (including affordable housing; services to low- and moderate-income individuals; activities that promote economic development; activities that support HUD's neighborhood stabilization program (NSP); or activities that revitalize or stabilize low- or moderate-income geographies, distressed/underserved non-metropolitan middle-income geographies, and designated disaster areas), and have not been reported or collected by the Bank for consideration as a home mortgage, small business, small farm, or consumer loan, unless it is a loan for a multi-family dwelling.

The institution's community development lending activities are evaluated pursuant to the following criteria; (1) the extent to which community development lending opportunities have been made available to the institution; (2) the responsiveness of the institution's community development lending; and (3) the extent of leadership the institution demonstrated in community development lending,

Commerce Bank made an adequate level of community development loans. During the evaluation period, the Bank made or renewed nine community development loans for a total of \$8.9 million. This represents no change in the number of loans since the previous evaluation, but a slight decrease in the dollar amount. During the evaluation period the Bank provided loans to a variety of community organizations and provided funding for economic development (which includes SBA 504 loans) in the combined assessment area. Table 8 provides a summary of the community development lending during the evaluation period.

Table 8 - Community Development Loans – Combined AA												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2011	0	0	0	0	1	1,400	0	0	0	0	1	1,400
2012	1	437	2	2,150	1	2,265	0	0	0	0	4	4,852
2013	1	276	2	1,150	0	0	0	0	0	0	3	1,426
1/1/14-6/30/14	0	0	1	1,300	0	0	0	0	0	0	1	1,300
Total	2	713	5	4,600	2	3,665	0	0	0	0	9	8,978

Source: Bank Records

*Targeted to Low- or Moderate Income Individuals

**Of Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

The following is a sample of the Bank's community development record:

- In 2012, the Bank originated a \$437,413 loan to the Massachusetts Housing Partnership Fund Board (MHPFB) for the purpose of financing a private individual or family to purchase a residence in Boston. The MHPFB provides funding for homebuyers, while its Permanent Rental Financing Program targets low- and moderate-income individuals and families.
- In 2012, the Bank originated a \$450,000 loan to the Boys & Girls Club of Worcester, Inc. to pay-off an existing \$150,000 line of credit and to pay the overdraft of the Club's payroll account which had a balance of \$290,085. The Boys & Girls Club provides activities and programs for people with the most need, including low- and moderate-income individuals.
- In 2012, the Bank originated a \$1.7 million loan to the Nativity School of Worcester to refund the Massachusetts Development Bond used to purchase and renovate the property in 2008. The Nativity School is a free private middle school that provides education for low-income boys in the Worcester area.

- In 2013, the Bank extended a revolving line of credit for \$150,000 to the Boys and Girls Club in Worcester. The purpose of the line was to support short-term capital needs as well as pay-off an old line of credit and overdrafts for payroll. The Boys and Girls Club works with children and supports the general community. The majority of these children are from low- and moderate-income families.
- In 2013, the Bank originated a loan for \$276,000 to South Middlesex Non-Profit Housing Corporation (SMOC Housing Corporation), a subsidiary of South Middlesex Opportunity Council, Inc. (SMOC). The loan was to refinance a portion of existing debt with New Life Initiative attached to a property in Worcester. SMOC Housing Corporation's chief mission is "to preserve and improve existing affordable housing and to develop new housing choices for low- and moderate- income residents." The property in Worcester was a large multi-family property that is used for low-income housing.
- In 2013, the Bank made a modification for \$1 million to the Easter Seals organization in Massachusetts. The Easter Seals organization assists those with disabilities by providing training, counseling, and other services. Their Massachusetts Assistive Technology Program provides assistive technology to low-income households. This Program offers devices and home modifications for free, based upon a demonstrated financial need. The majority of the program recipients are low- or moderate-income.

Innovative or Flexible Lending Practices

This criterion includes all innovative and flexible lending activities since the prior evaluation, covering the time period of May 4, 2011 through August 4, 2014.

Commerce Bank makes limited use of innovative and/or flexible lending practices in order to serve the combined assessment area's credit needs. The Bank offers a special mortgage loan program tailored to assist low- and moderate-income people install energy efficient heating systems. The Bank also offers several loan products tailored towards small businesses. The small business products represent in-house loan products as well as programs offered through the Small Business Administration (SBA). Loans originated under these programs were reported on the Bank's HMDA LARs and CRA Small Business Loan Registers. The programs are described here in order to highlight the innovative and flexible underwriting standards used to originate loans to businesses of different sizes and for low- and moderate-income people.

Small Business Lending

In addition to its standard commercial loan programs, the Bank also offers the following flexible small business loan programs through the SBA and one new innovative product since the previous examination.

- *SBA 7a Loan Programs* - The 7(a) program serves as the SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. The funds provide start-up costs to small businesses. A bank funds the entire loan, with SBA guaranteeing between 75.0 percent and 90.0 percent, depending on the use of the loan proceeds. Loan proceeds can be used for most sound business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation, and new construction), leasehold improvements, and debt refinancing (under special

conditions). Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets. During the evaluation period, Commerce Bank originated 110 loans for \$11.2 million. Commerce Bank is certified as an Express Lender and Preferred Lender by the SBA. These designations assist financial institutions in streamlining the procedures necessary to provide financial assistance to the small business community. This demonstrates the Bank's commitment to making credit accessible to small and start-up businesses, a need explicitly identified by one of the community contacts.

- *SBA 504 Loan Program* – This loan program provides long-term fixed asset financing made through a Certified Development Company (CDC). Generally, the loan structure includes a 10.0 percent equity investment by the small business, 40.0 percent participation from the CDC, and 50.0 percent participation by the Bank. During the evaluation period, Commerce Bank originated six loans totaling approximately \$8 million.
- *New Innovative Product* - The Bank created a new innovative loan product in 2011. The Bank became a lending partner with the Lutheran Social Services (LSS) through Lutheran's Microenterprise Development Program, which provides business planning and financial and business training to refugees in Massachusetts. LSS can provide micro-loans from \$500-\$15,000 and anything larger will be referred to Commerce Bank and Trust. Once an applicant completes the LSS program and workshops, they are referred to the Bank who underwrites, closes, and acts as the loan servicer on behalf of LSS. During the examination period, the Bank closed two loans totaling \$25,000 through this program

Home Mortgage Lending

The Bank mainly focuses on small business lending as East/West Mortgage focused on residential home mortgage loans; however, the Bank does offer an innovative program to assist residents in the entire assessment area.

- *Mass Save HEAT Loan Program*: The program provides no-interest loans to eligible homeowners for the installation of qualified energy-efficient improvements in their homes. Eligible energy-efficient improvements include: attic, wall, and basement insulation; high-efficiency heating systems; high-efficiency hot water systems; solar hot water systems; seven-day digital programmable thermostats; and energy star qualified replacement windows. Loans up to \$25,000 are available from Commerce Bank for both owner-occupied and non-owner-occupied properties on 1-4 family units. During the current evaluation period, the Bank originated 2,062 loans totaling approximately \$22 million.

INVESTMENT TEST

The Bank's Investment Test performance is rated "Satisfactory." The Investment Test evaluates an institution's record of helping to meet credit needs through qualified investments that benefit the assessment area or a broader statewide or regional area that includes the Bank's assessment area. A qualified investment is defined as a lawful investment, deposit, membership share, or grant that has as its primary purpose community development. Community development purposes include those that either: 1) provide affordable housing for low- or moderate- income individuals or areas; 2) provide community services targeting low- or moderate-income individuals or areas; 3) promote economic development by financing small businesses; 4)

revitalize or stabilize low- or moderate-income geographies; or 5) support, enable or facilitate eligible projects or activities in accordance with the Neighborhood Stabilization Plan. Activities considered under the Lending or Service Test may not be considered under the Investment Test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors. Per the regulation, qualified investments considered in this evaluation include all those acquired or made since the previous CRA evaluation as well as those made in prior periods and still held by the institution.

The Bank made an adequate level of qualified investments and donations that were responsive to community development needs especially when compared to the prior evaluation period. During the evaluation period, the Bank's qualified investments and donations totaled \$9.2 million.

Equity Investments

The Bank's qualified investments totaled approximately \$8.9 million and included mortgage backed securities and an investment in the Access Capital Strategies Community Investment Fund (ACSCIF). Commerce Bank purchased one new qualified equity investment during the evaluation period. The following summarizes the Bank's qualified equity investments.

Federal National Mortgage Association (FNMA) Mortgage-Backed Securities

The Bank maintains four FNMA mortgage-backed securities funded by loans made to borrowers with incomes of less than 80.0 percent of the respective MFI where the homes securing the loans are located in Worcester County. As of the evaluation, Commerce Bank reported approximately \$900,000 in these targeted investments.

Access Capital Strategies Community Investment Fund, Inc.

On November 20, 2005, Commerce Bank committed \$2 million to the ACSCIF. The ACSCIF is a SEC-registered fund structured as a business development corporation. The primary purpose of the fund is to provide a secondary market and financing vehicle for community development loans. The fund invests in private placement debt securities that support affordable housing, education, small business loan securitizations, and other job-creating investments within a targeted region specified by the investing institution. The Bank's designated target region for this investment is Central Massachusetts. The Bank funded \$1 million on December 1, 2005 and made subsequent purchases in January and February 2006 to fully fund its original commitment of \$2 million. On July 28, 2010, the Bank funded an additional \$3 million to the ACSCIF. Further, on April 24, 2014 the Bank funded an additional \$3 million.

Table 9 details the Bank's equity investment activity.

Table 9-Qualified Equity Investments – Combined AA			
Instrument	Purchase Date	Acquisition Cost	Book Value
Prior Investments			
FNMA #704184	5/14/2003	\$1,973,136	\$74,736
FNMA #701135	4/14/2003	\$2,056,101	\$189,236
FNMA #786521	7/15/2004	\$1,077,834	281,215
FNMA #786522	7/15/2004	\$1,041,043	\$349,167
ACSCIF	12/1/2005	\$1,000,000	\$1,000,000
ACSCIF	1/3/2006	\$500,000	\$500,000
ACSCIF	2/1/2006	\$500,000	\$500,000
ACSCIF	7/28/2010	\$3,000,000	\$3,000,000
Totals		\$11,148,114	\$5,894,354
New Investments			
ACSCIF	4/24/2014	\$3,000,000	3,000,000
Grand Total		\$14,148,114	\$8,894,354

SOURCE: Bank Records

Charitable Contributions

During the review period, the Bank provided \$931,927 in charitable contributions to numerous organizations within its combined assessment area. Of this amount, \$268,277, or 28.9 percent, was donated in support of activities that promote community development as defined under the CRA. The Bank's qualified donations, as a percentage of pre-tax net operating income (NOI), were 0.5 percent in 2012 and 0.3 percent in 2013. The Bank's donations assisted numerous organizations that provide education and training, affordable housing, youth programs, and health and human services benefiting low- and moderate-income individuals and families.

Table 10 displays the total number and dollar value of CRA qualified donations and grants. The table breaks out contributions according to each organization's purpose, including those that provide services for low- and moderate-income individuals, promote affordable homeownership, support small business or economic development, and revitalize low- and moderate-income areas.

Table 10 - Community Development Grants and Donations - Combined AA												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Development Organizations		Economic Development		Revitalize or Stabilize*		Neighborhood Stabilization Projects			
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
05/11/2011–12/31/2011	0	0	0	0	1	2,500	17	45,229	0	0	18	47,729
2012	1	1,000	0	0	2	2,900	39	75,788	0	0	42	79,688
2013	3	7,675	0	0	1	2,500	36	72,725	0	0	40	82,900
01/01/2014–07/23/2013	1	175	1	300	1	2,500	27	54,985	0	0	30	57,960
Total	5	8,850	1	300	5	10,400	119	248,727	0	0	130	268,277

Source: Bank Records. * Low- or Moderate-Income, Disaster, Distressed, or Underserved

The following is a sample of organizations that received donations from the Bank:

St. Johns Food for the Poor Center-This organization purchased a 5,500 square foot building and converted it into a soup kitchen with the capacity to feed more than 250 homeless or needy individuals per day. The organization benefitted the Worcester area.

United Way of Central Massachusetts- This organization connects people and resources to improve the community. They do this by ensuring the most vulnerable have a community safety net to stabilize them. Approximately 80.0 to 90.0 percent of those benefiting from this organization's programs are considered low- or moderate-income individuals.

Boys and Girls Club- This organization was established to provide services to promote and enhance the development of boys and girls by instilling a sense of competence, usefulness, belonging, and influence. The majority of the program recipients are low- or moderate-income and the entity operates in a low-income census tract.

The Massachusetts Small Business Development Center- This organization is located at the campus of Clark University. The organization provides free and confidential one-to-one management advice and technical assistance to prospective and existing small businesses. The advisors assist clients in developing their business plans, marketing plans, financials, and other critical areas to ensure a successful venture. In addition, the advisors introduce owners to the appropriate federal, state, or local financing sources.

Refugee Artisans of Worcester (RAW) - This organization was established in 2002 by a group of local artists and volunteers committed to changing the cultural scope of Worcester and Central Massachusetts. Refugee artisans are identified and assisted to self-sufficiency through the sale of their art while archiving their indigenous, through their cultural crafts. Further the income from these sales assist refugee families meet their relocation expenses and provide for daily living expenses. The majority of the artists are low- or moderate-income.

Shrewsbury Youth and Family Services-This organization is the Town of Shrewsbury's only private, non-profit human services agency of social services for low- and moderate-income families.

Family Health Center of Worcester- This organization improves the health and well-being of traditionally underserved, low-income, and culturally diverse residents by providing accessible, comprehensive primary care, dental care, and social services to individuals and families in the Greater Worcester area.

SERVICE TEST

The institution's Service Test performance is rated "High Satisfactory." The Service Test evaluates an institution's record of helping to meet the credit needs of its assessment area by analyzing both the availability and effectiveness of an institution's systems for delivering retail banking services and the extent and innovativeness of its community development services.

RETAIL BANKING SERVICES

An institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches in low- and moderate-income geographies or that primarily serve low- and moderate-income individuals; 3) the availability and effectiveness of alternative systems for delivering retail banking services; and 4) the ranges of services provided in low-, moderate-, middle-, and upper-income geographies.

Commerce Bank's retail services are readily accessible to all customers including low- and moderate-income individuals and residents of the low- and moderate-income geographies of the combined assessment area. Bank services include various deposit products, residential and consumer loans, and commercial loan products. Banking hours and services do not vary in a way that that inconveniences any portion of the assessment area.

Accessibility of Delivery Systems

The Bank's delivery systems are readily accessible to all portions of the combined assessment area. Bank locations are distributed in such a way that no portion of the combined assessment area is inconvenienced. Alternative delivery systems are available to access the Bank's branches.

Changes in Branch Locations

The Bank maintains an Office Open and Closing Policy that outlines factors considered when deciding to open or close a branch office. The Bank's branch locations improved with the addition of three new branches in Boston that were acquired through the purchase of Mercantile in 2012. The branches are located in Fenway and the South End (low-income census tracts) and Brighton (moderate-income census tract). There were no branch closings since the last evaluation.

Reasonableness of Hours and Services

Overall, business hours do not vary in a way that inconveniences portions of the assessment area, particularly low- and moderate-income individuals. Branch hours are consistent at each location with weekday hours generally from 7:00 AM to 7:00 PM, including drive-up services. Saturday hours are generally from 8:30 AM to 12:30 PM. The main office in downtown Worcester is open from 8:00 AM to 5:00 PM on weekdays and closed on Saturday. Fenway branch in Boston is open from 8:30 AM to 4:00 PM on weekdays, and does not offer drive-up services. ATMs, as well as mobile and online banking are available 24 hours a day.

Distribution of Branches and Automated Teller Machines (ATMs)

Commerce Bank is headquartered in downtown Worcester at 386 Main Street in a low-income census tract. The bank maintains five branches in Worcester, three branches in Boston, and eight branch locations in the following communities: Holden, Leominster, Shrewsbury, Marlborough, Milford, Westborough, Webster, and West Boylston for a total of 16 branch locations. Two branches and the main office are located in low-income census tracts in the cities of Worcester

and Boston. Four branches are located in moderate-income census tracts, of which three are in the Worcester AA and one in the Boston AA.

Bank ATMs are located at each of the branch offices, providing 24-hour account access. Three stand-alone ATMs are also available to customers at various locations. There are seven ATMs in Worcester and one each in Shrewsbury, Leominster, West Boylston, Westborough, Holden, Marlborough, Milford, and Webster. Additionally the Bank has four ATMs located in Boston. The Bank is also a member of the SUM ATM Network. As a result of its involvement in the SUM program, Bank customers can avoid ATM surcharges at other participating ATMs. Eleven of the Bank's 19 ATMs participate in the SUM network. The ATMs located on Southbridge Street and James Street in Worcester and the ATM on Yawkey Way in Boston are cash dispensing facilities only.

Table 11- Distribution of Branches and ATMs – Combined AA				
Census Tract Income	Percent of Tracts Entire AA	Percent of Population Entire AA	Branches	
			#	%
Low	13.5%	12.1%	3	15.8%
Moderate	24.1%	24.0%	4	21.0%
Middle	32.0%	34.3%	9	47.4%
Upper	28.0%	29.4%	3	15.8%
NA	2.4%	0.2%	0	0.0%
Total	100.0%	100.0%	19	100.0%

Source: Bank Records

Alternative Retail Banking Services

Website - The Bank maintains a website at www.bankatcommerce.com. The website provides office hours and locations, information about various deposit and loan products, and other Bank services available to customers. Consumers may apply online to open Deposit and savings accounts and to initiate consumer loan applications. Also, through an agreement with Embrace Home Loans, Newport, RI consumers may also apply for mortgage loans online.

Online Banking – Available to consumers and businesses free of charge, this service allows customers to view account balances, pay bills, transfer funds, and make loan payments through the Bank's website. Business online banking provides support for cash management services, such as ACH and wire transfers, as well as payroll administration through Treasury Plus+. Treasury Plus+ is Commerce Bank's online corporate information and funds management system.

Mobile Banking – Customers can access account information through a phone or mobile device to view balances, make deposits, transfer funds between accounts, make loan payments, and pay bills.

Multi-lingual Services – Approximately 41 of the Bank's employees speak 17 different languages, including Spanish, Portuguese, Greek, German, Arabic, Hindi, and Vietnamese. The employees are present within the lending departments, as well as general customer service. The Bank maintains this information so that employees can access these resources as necessary.

The Bank offers a variety of services targeted toward businesses, organizations, and professionals, including: merchant credit card services, lockbox services, currency and coin services, night deposit, wire transfers, payroll processing services, direct deposit, cash

management services, account reconciliation services, sweep accounts, zero balance services, and remote deposit services.

The Bank has a 24-hour customer telephone system called Telebank Mane-Line that permits customers to verify balances, transfer funds between accounts, make loan payments, place stop payment orders, and inquire about checks or deposits.

Other Retail Services

The Bank participates in the Massachusetts Community and Banking Council's (MCBC) Basic Banking Program, a voluntary program. As a participant, the Bank offers low-cost checking and savings accounts, thus making bank accounts affordable for all segments of the population. The Bank also participates in the free government check-cashing program and the free direct deposit check service.

Checking account services include free checking, interest checking, Lion's Share Checking, Choice Checking, and CampusChoice Checking. Savings account services include Regular Savings, Lion's Share Savings, and various Club Savings accounts.

Free checking accounts are also offered to customers who have filed bankruptcy in the past. As long as individuals present the appropriate bankruptcy court documents, they may open this type of account. This is a non-interest bearing account with no monthly service charges, unlimited check writing and a one-time bonus of \$50.00 when direct deposit is established with the account.

Commerce Bank offers a children's interest bearing Cub Savings Account as part of the "Savings Makes Cents Program" promoted by the Massachusetts State Treasurer. This school-banking program was developed to teach the value of money management to elementary school children. Designed to encourage local schools and banks to work together to teach children basic monetary concepts, schoolchildren are encouraged to open savings accounts and perform basic transactions on "banking day." To encourage children to save, the minimum balance to open the Cub Savings Account is only \$10.00, with no minimum balance to earn interest. There are no monthly service charges.

Community Development Services

The Bank provides an adequate level of community development services which are evaluated pursuant to the following criteria:

1. the extent of community development services offered and used;
2. the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served;
3. the degree to which they serve low- or moderate-income areas or individuals; and
4. the responsiveness to available opportunities for community development services.

The CRA regulation defines a community development service as a service that is primarily for community development purposes and is related to the provision of financial expertise. Table 12 summarizes the Bank's community development involvement during the evaluation period, with an emphasis on the number of organizations and the type of community development involvement.

Table 12 - Community Development Services – Combined AA						
Qualifying Category						
Years' service performed	Affordable Housing	Community Service	Economic Development	Revitalization Stabilization	Neighborhood Stabilization Projects	Total
6/2011-12/2011	0	2	1	0	0	3
2012	0	3	2	0	0	5
2013	1	6	3	0	0	10
2014	2	7	3	1	0	13
Total	3	18	9	1	0	31

SOURCE: Bank Records

United Way - The United Way offers and supports numerous community services targeted to low- and moderate-income individuals. Approximately 80.0 percent of the organization's funds are directed towards the needs of low- and moderate-income individuals and families. Various bank employees are involved with the United Way. The Bank created its own internal Fundraising Committee that benefits the United Way. This entity serves the Worcester AA.

South Boston Neighborhood Development Corporation - South Boston NDC seeks to improve the quality of life in the neighborhood by preserving and creating affordable housing and by encouraging development which makes it possible for people to improve their own lives. This organization provides affordable housing, addresses neighborhood challenges, such as the lack of inclusion of low- and moderate-income residents. A Vice President of the Bank sits on the Board. (Boston AA).

Children's Friend – This non-profit organization cares for orphaned, abandoned, and neglected children. They provide services for children and families whose lives are affected by difficulties, including abuse, neglect, family instability, death, substance abuse, and mental, emotional, and physical problems. A Senior Vice President of the Bank is on the Board. (Worcester AA).

Project Place – This is a supportive community that promotes hope and opportunity for homeless and low-income individuals by providing the skills, education, and resources to obtain stable employment and housing. Bank employees volunteer through Project Place to provide a four-hour financial literacy class once per quarter to low- and moderate-income individuals who are currently housed at Suffolk County House of Correction. A Senior Vice President of the Bank teaches this program. (Boston AA).

Centro Las Americas of Worcester – This non-profit organization is geared towards assisting low-income residents with case management services, citizenship, resident affairs, translations, and other community support services. By providing these services to low-income residents, their dependency on government funded public services will become reduced, while also helping them attain self-sufficiency. A Senior Vice President of the Bank sits on the Board. (Worcester AA).

Literacy Volunteers of Worcester – This non-profit organization's mission is to advance the learning of the English language for low- and moderate-income adults in the greater Worcester area. An Executive Assistant of the Bank sits on the Board. (Worcester AA).

Educational Services and Seminars

Money Management International (MMI) – MMI is a non-profit, full-service credit counseling agency that provides professional financial guidance, credit counseling, community-wide educational programs, debt management assistance, bankruptcy counseling and education services, and housing counseling assistance to consumers. Commerce Bank's main street branch in Worcester provides space to MMI at least once each year for debt management seminars targeted to low- and moderate-income individuals.

Money Smart -This is an adult financial education program established by the FDIC for building knowledge, security, and confidence. Employees provide instruction to low- and moderate-income individuals and senior citizens in the Worcester area.

Savings Make Cents – This is a banking program for elementary school children which focus on the ABC's of money management. Local schools and banks work together to teach children basic monetary concepts, including how to open a savings account, the origin of money, and basic budgeting skills. The Bank offered this program to a number of Worcester area schools.

YWCA Teen Families Together - The YWCA Central Massachusetts offers support services to pregnant and parenting teens between the ages of 16 and 20 through its Young Parents Program (YPP). Commerce Bank & Trust employee presents a Budget seminar to the Young Parents Program.

Other Services

Habitat for Humanity – Habitat for Humanity Metro West/Greater Worcester is dedicated to eliminating substandard housing locally and worldwide through constructing, rehabilitating and preserving homes; by advocating for fair and just housing policies; and by providing training and access to resources to help families improve their shelter conditions. Commerce Bank currently services Habitat for Humanity's mortgages free of charge.

WORCESTER, MA AA

SCOPE OF THE EVALUATION

The scope of the evaluation is similar to the overall scope. Please refer to the overall discussion for additional information.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE WORCESTER, MA AA:

Commerce Bank operates 13 branches in the Worcester AA, all of which provide the full range of services offered by the Bank. The branch locations are: Worcester (5), Holden, Leominster, Shrewsbury, Marlborough, Milford, Webster, Westborough, and West Boylston. Full drive-up service ATMs are located at all branches. Additionally, there is one remote ATM located in a low-income census tract in Worcester.

The Worcester AA is comprised of 137 census tracts located in the municipalities of: Auburn, Berlin, Boylston, Clinton, Douglas, Dudley, Fitchburg, Grafton, Holden, Hopedale, Hudson*, Lancaster, Leicester, Leominster, Lunenburg, Marlborough*, Milford, Millbury, Northborough, Oakham, Oxford, Paxton, Princeton, Rutland, Shrewsbury, Southborough, Sterling, Upton, Webster, West Boylston, Westborough, Westminster, and Worcester. There are 15 low-, 31 moderate-, 56 middle-, 33 upper-income census tracts, and 2 considered N/A according to 2010 U.S. Census Data.

DESCRIPTION OF THE WORCESTER, MA AA

Table 13 contains pertinent demographic information concerning the Worcester AA.

Table 13– Assessment Area Demographic Information – Worcester AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	137	10.2	21.2	39.4	27.7	1.5
Population by Geography	644,621	8.6	17.6	41.2	32.0	0.6
Owner-Occupied Housing by Geography	159,203	2.6	12.5	47.1	37.8	0.0
Business by Geography (2012)	56,744	9.7	18.7	41.4	30.1	0.1
Business by Geography (2013)	51,956	9.8	18.7	41.3	30.1	0.1
Distribution of Families by Income Level	160,752	7.1	16.8	42.1	34.0	0.0
Worcester-MSA MFI (2014)		\$78,113	Median Housing Value		\$293,419	
Boston-MSA MFI (2014)		\$86,262				
Households Below Poverty Level		10.7%				
			Unemployment Rate – June 2014			
			Worcester County		6.3%	
			Middlesex County		4.6%	

Source: 2010 U.S. Census and FFIEC 2014.

Business Data

According to 2013 Dun & Bradstreet business geo-demographic data, there are approximately 51,956 businesses operating within the Worcester AA. When analyzed by size, 71.7 percent of all businesses have GARs of \$1 million or less. Additional geo-demographic information for 2012 is listed in the Table 13.

Housing

Housing units within the Worcester AA total 263,614, of which 159,203 (60.4 percent) are owner-occupied; 84,302 (32.0 percent) are occupied rental units; and 20,109 (7.6 percent) are vacant. Table 13 shows the breakout of all owner-occupied units.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE WORCESTER, MA AA:

LENDING TEST

Lending Activity

Table 14 depicts the level of lending in the Worcester AA as well as the lending in the Boston AA. As shown, a substantial majority of the Bank's overall lending transpires in the Worcester AA. Given the bank's branch presence, and recent entry into the Boston AA (2012), the performance in the Worcester AA reflects adequate responsiveness.

Table 14 – Lending in the Worcester AA vs. Boston AA				
	Worcester AA		Boston AA	
Loan Category or Type	# of loans	%	# of loans	%
Home Mortgage (2012)	347	90.1	38	9.9
Home Mortgage (2013)	663	77.5	192	22.5
Home Mortgage (YTD 2014)	175	92.6	14	7.4
Small Business (2012)	71	52.9	63	47.1
Small Business (2013)	61	25.6	177	74.4
Small Business (YTD 2014)	34	29.1	83	70.9
Total	1,351	70.4	567	29.6

Source: HMDA LARs (2012, 2013 and YTD 2014) and CRA LARs (2012, 2013, and YTD 2014)

Borrower Profile

The distribution of loans predicated on borrower income and business revenue was reviewed to determine the extent to which the Bank is addressing the credit needs of its Worcester AA, and specifically its small business customers and residents. Commerce Bank's performance relative to the distribution of borrowers reflects, considering the product lines offered, an overall adequate penetration of loans to business customers of different sizes and to low- and moderate-income borrowers.

Small Business Lending

As reflected in Table 15, the Bank's performance reflects adequate penetration to businesses of different sizes, given the demographics and aggregate lending performance in the assessment area.

Table 15 – Distribution of Small Business Loans by Gross Annual Revenues (GARs) – Worcester AA									
GAR \$(000s)	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	2013 Bank		YTD 2014 Bank	
			#	%		#	%	#	%
≤ \$1,000	71.7	35.9	45	63.4	72.2	39	63.9	28	82.3
> \$1,000	5.0	N/A	24	33.8	5.4	22	36.1	6	17.7
Not Reported	23.3	N/A	2	2.8	22.4	0	0.0	0	0.0
Total	100.0	-	71	100.0	100.0	61	100.0	34	100.0

Source: 2012 and 2013 D&B Business Data; 2012, 2013, and YTD 2014 CRA Registers; 2012 Peer Small Business Data

As depicted in Table 15, in 2012 the Bank originated 45 small business loans, or 63.4 percent of the total by number, to businesses with GARs of \$1 million or less. The Bank's performance is slightly below the percentage of small businesses at 71.7 percent, but exceeded the aggregate percentage. In 2013, the number of loans made to small businesses decreased, while the percentage remained comparable to 2012. The YTD 2014 data reflects an increasing trend in number and percentage.

Given the competitive lending environment in which the Bank operates, comparison to aggregate, and apparent increasing trend in 2014, the Bank's performance is adequate.

Home Mortgage Lending

Home mortgage data was reviewed to assess how well the Bank is addressing the credit needs of its Worcester AA residents, with emphasis on low- and moderate-income borrowers. As depicted in Table 16, Commerce Bank demonstrated adequate penetration among home mortgage loan customers of different incomes.

Table 16 – Distribution of Home Mortgage Loans by Borrower Income Level – Worcester AA								
Census Tract Income Level	2012 Aggregate Lending Data (% of #)	2012 Bank		% of Total Families 2013	2013 Bank		YTD 2014 Bank	
		#	%		#	%	#	%
Low	6.7	37	10.7	21.5	48	7.2	10	5.7
Moderate	16.6	66	19.0	16.4	135	20.4	22	12.6
Middle	22.9	100	28.8	20.9	161	24.3	46	26.3
Upper	39.5	140	40.4	41.2	315	47.5	95	54.3
N/A	14.3	4	1.1	0.0	4	0.6	2	1.1
Total	100.0	347	100.0	100.0	663	100.0	175	100.0

Source: 2013 U.S. Census; 2012, 2013, and YTD 2014 HMDA/LAR Registers; 2012 Peer Mortgage Data

As reflected in Table 16, the Bank exceeded the aggregate in 2012 to both low- and moderate-income borrowers. The Bank achieved market ranks of 13th and 18th, respectively, and was in line with several local competitors, including Fidelity Bank and Bay State Savings Bank. In 2013, the number of loans increased as a result of the inclusion of loans from East/West Mortgage. The Bank's percentages were below the percentage of low-income families, but slightly above the percentage of moderate-income families. The 2014 data does not include East/West Mortgage, and appears to be on pace to be less than the 2012 totals. Again, given the

competitive nature of the assessment area, and the Bank's lending focus, Commerce Bank displayed adequate penetration to low- and moderate-income borrowers.

Geographic Distribution

Overall, the Bank's geographic distribution of small business and home mortgage loans reflects adequate dispersion in the Worcester AA.

Small Business Lending

As depicted in Table 17, in 2012 the Bank exceeded the aggregate percentages in both low- and moderate-income tracts and also exceeded the percentage of businesses in these two tract categories. In 2013 the Bank continued to exceed the percentage of businesses in the low- and moderate-income tracts. The number of loans in these tract categories were similar to the 2012 totals, albeit slightly less. A review of the YTD 2014 data revealed a slight decline in number and percentage.

Given the Bank's performance in 2012 and 2013 and the competitive lending environment in the Worcester AA, the Bank's small business lending activity within the low- and moderate-income tracts reflects good dispersion.

Table 17 – Distribution of Small Business Loans by Census Tract Income Level – Worcester AA									
Census Tract Income Level	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	2013 Bank		YTD 2014 Bank	
			#	%		#	%	#	%
Low	9.7	8.4	15	21.1	9.8	15	24.6	5	14.7
Moderate	18.7	18.4	15	21.1	18.7	13	21.3	5	14.7
Middle	41.4	41.8	30	42.3	41.3	23	37.7	14	41.2
Upper	30.1	31.4	11	15.5	30.1	10	16.4	10	29.4
N/A	0.1	0.0	0	0.0	0.1	0	0.0	0	0.0
Total	100.0	100.0	71	100.0	100.0	61	100.0	34	100.0

Source: 2012 and 2013 D&B Business Data; 2012, 2013, and YTD 2014 CRA Registers; 2012 Peer Small Business Data

Home Mortgage Lending

As reflected in Table 18, the Bank's distribution of home mortgage loans in the Worcester AA represents an adequate dispersion in the low- and moderate-income census tracts. In 2012, the Bank was slightly below the aggregate within the low-income tracts but exceeded the aggregate within the moderate-income tracts. A market rank comparison revealed that Commerce ranked 17th and 13th, respectively. These ranks compared reasonably with local competition; however, several small institutions achieved higher market ranks, including Fidelity Bank.

In 2013 the number of loans increased, but was aided by the inclusion of loans from East/West Mortgage. The Bank's percentage within the low-income tracts was less than the percentage of owner-occupied housing units, but exceeded this percentage in the moderate-income tracts. A review of the YTD 2014 data revealed a positive trend within the low-income tracts (when compared to 2012), but a decreasing trend in the moderate-income tracts.

Given the competitive lending environment in the Worcester AA, coupled with the Bank's lending focus, and certain demographic constraints, including the percentage of owner-occupied

housing, Commerce Bank displayed adequate dispersion within the area's low- and moderate-income tracts.

Table 18 – Distribution of Home Mortgage Loans by Census Tract Income Level – Worcester AA

Census Tract Income Level	2012 Aggregate Lending Data (% of #)	2012 Bank		% of Owner-Occupied Housing Units 2013	2013 Bank		YTD 2014 Bank	
		#	%		#	%	#	%
Low	1.8	5	1.5	2.6	11	1.7	6	3.4
Moderate	10.2	51	14.7	12.5	104	15.6	22	12.6
Middle	43.1	175	50.4	47.1	302	45.6	71	40.6
Upper	44.9	116	33.4	37.8	246	37.1	76	43.4
N/A	0.0	0	0.0	0.0	0	0.0	0	0.0
Total	100.0	347	100.0	100.0	663	100.0	175	100.0

Source: 2013 U.S. Census Data; 2012, 2013, and YTD 2014 HMDA/LAR Registers; 2012 Peer Mortgage Data

Community Development Lending

Commerce Bank and Trust made an adequate level of community development loans within the Worcester AA during the time period reviewed.

During the evaluation period the Bank originated six community development loans totaling approximately \$4.9 million that benefited the Worcester AA portion of the Bank's delineated assessment area. Table 19 contains a summary of the Bank's lending activity. Additionally, please refer to the overall Community Development Lending section for additional information.

Table 19 - Community Development Loans – Worcester AA

Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2011	0	0	0	0	0	0	0	0	0	0	0	0
2012	0	0	2	2,150	0	0	0	0	0	0	2	2,150
2013	1	276	2	1,150	0	0	0	0	0	0	3	1,426
1/1/14- 6/30/14	0	0	1	1,300	0	0	0	0	0	0	1	1,300
Total	1	276	5	4,600	0	0	0	0	0	0	6	4,876

Source: Bank Records

*Targeted to Low- or Moderate Income Individuals

**Of Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

Innovative or Flexible Lending Practices

Similar to the overall performance, the Bank makes limited use of innovative and flexible loan products to serve the credit needs within the Worcester AA. The Bank offers loan programs through the SBA 7a and 504 loan programs. Also, the Bank granted a number of loans through

the Mass Save Loans that assist low- and moderate-income residents throughout the Worcester AA. The Bank's loan products are offered in all its branches throughout the Worcester AA.

For specific information regarding the special or innovative loan programs as well as the number and dollar volume of loans extended under these programs throughout the combined assessment area, please refer to the overall Innovative and Flexible Lending Practices section.

INVESTMENT TEST

Qualified Investments

The Bank provided an adequate level of qualified equity investments and grants within the Worcester AA. All of the Bank's qualified investments benefitted this area of the combined assessment area. Please refer to the overall Investment Test section for additional information and examples.

SERVICE TEST

The Bank maintains 13 branches in Worcester AA. Five branches are located in Worcester and the other eight branches are located in Holden, Leominster, Shrewsbury, Marlborough, Milford, Westborough, Webster, and West Boylston. One branch in the Worcester AA is located in low-income census tract, while three branches are located in moderate-income census tracts.

A total of 15 Bank ATMs are located in the Worcester AA. There are ATMs located at each of the 13 branch offices, and two stand-alone ATMs providing 24-hour account access. Five of the 15 ATMs located in the Worcester AA are located in low- or moderate-income census tracts. There are seven ATMs in Worcester and one each in Shrewsbury, Leominster, West Boylston, Westborough, Holden, Marlborough, Milford, and Webster.

Accessibility of Delivery Systems

The Bank's delivery systems are readily accessible to all portions of the Worcester AA. Alternative systems, such as ATMs, telephone banking, and computer-based access, are also accessible to all portions of the area.

Changes in Branch Locations

No branches were opened or closed in the Worcester AA since the previous evaluation.

Reasonableness of Businesses Hours and Services

Services do not vary in a way that inconveniences certain portions of the Worcester AA, particularly LMI geographies and/or individuals. Please refer to the overall Service Test analysis for additional detail regarding the Bank's services and business hours.

Community Development Services

Bank officers and staff members provided their financial expertise to various community development organizations. The Bank provided an adequate level of support to local non-profit organizations in the Worcester AA. Please refer to the overall discussion for greater details on community development services.

BOSTON, MA AA

SCOPE OF THE EVALUATION

The scope of the evaluation is similar to the overall scope. Please refer to the overall Scope section for additional information.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE BOSTON, MA AA:

The Boston AA is comprised of the following 24 cities and towns: Arlington, Belmont, Boston, Brookline, Cambridge, Chelsea, Everett, Hingham, Hull, Lexington, Malden, Medford, Milton, Needham, Newton, Quincy, Revere, Somerville, Waltham Watertown, Wellesley, Winchester, Winthrop, and Woburn. Commerce Bank added this assessment area when it acquired the assets of Mercantile in August 2012. The Bank has three branches located in the Boston AA, which are all full-service branches. Two branches are located low-income census tracts and one is located in a moderate-income census tract. None of the branches offer drive-up ATMs.

DESCRIPTION OF THE BOSTON, MA AA:

Using the 2010 U.S. Census Data, the Boston AA is comprised of 411 census tracts; 64 low-; 108 moderate-; 116 middle-; 111 upper-; and 12 N/A income geographies. Table 20 illustrates the Boston AA demographic information based on the 2010 U.S. Census Data.

Table 20– Assessment Area Demographic Information – Boston AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	411	15.6	26.3	28.2	27.0	2.9
Population by Geography	1,663,707	14.3	27.9	30.4	27.4	0.0
Owner-Occupied Housing by Geography	308,617	6.1	21.8	34.4	37.7	0.0
Business by Geography (2012)	172,572	9.2	19.5	26.8	44.0	0.5
Business by Geography (2013)	158,363	9.2	19.2	26.7	44.4	0.5
Distribution of Families by Income Level (2014)	354,861	13.3	27.0	31.0	28.7	0.0
HUD Adjusted MFI (2013) – Boston MSA		\$92,851	Median Housing Value		\$515,152	
HUD Adjusted MFI (2014) – Boston MSA		\$86,262				
Families Below Poverty Level		9.7%	Unemployment Rate 2014			
			Middlesex County		4.6%	
			Norfolk County		4.9%	
			Suffolk County		6.0%	
			Plymouth County		5.6%	

Source: U. S. Census; HUD 2013 and 2014 MFI.

Business Data

According to 2013 Dun & Bradstreet business geo-demographic data, there are approximately 158,363 businesses operating within the Boston AA portion of the bank's combined assessment area. When analyzed by size, 70.1 percent of all businesses have GARs of \$1 million or less. Additional geo-demographic information for 2012 is listed in Table 20.

Housing

Housing units within the Boston AA total 709,760, of which 308,617 are owner-occupied.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE BOSTON, MA AA

LENDING TEST

Lending Activity

Table 21 depicts the level of lending in the Boston AA as well as the lending in the Worcester AA. As shown, the majority of the Bank's overall lending transpired in the Worcester AA. However, it must be recognized that the Bank did not enter the Boston AA until its acquisition of Mercantile in August 2012. Given the limited time in the area, small number of branches (three), and level of competition, the performance in the Boston AA reflects adequate responsiveness.

Table 21 – Lending in the Worcester AA vs. Boston AA				
	Worcester AA		Boston AA	
Loan Category or Type	# of loans	%	# of loans	%
Home Mortgage (2012)	347	90.1	38	9.9
Home Mortgage (2013)	663	77.5	192	22.5
Home Mortgage (YTD 2014)	175	92.6	14	7.4
Small Business (2012)	71	52.9	63	47.1
Small Business (2013)	61	25.6	177	74.4
Small Business (YTD 2014)	34	29.1	83	70.9
Total	1,351	70.4	567	29.6

Source: HMDA LARs (2012, 2013 and YTD 2014) and CRA LARs (2012, 2013, and YTD 2014)

Borrower Profile

Overall, the distribution of loans predicated on borrower income and business revenue was reviewed to determine the extent to which the Bank is addressing the credit needs of its Boston AA small business customers and low- and moderate-income borrowers. Commerce Bank's performance reflects good penetration to business customers of different sizes and to low- and moderate-income borrowers.

Small Business Lending

As noted in Table 22, the Bank's performance reflects excellent penetration to businesses of different sizes, given the demographics and aggregate lending performance in the assessment area.

Table 22 – Distribution of Small Business Loans by Gross Annual Revenues (GARs) – Boston AA									
GAR \$(000s)	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	2013 Bank		YTD 2014 Bank	
			#	%		#	%	#	%
≤ \$1,000	69.5	40.8	57	90.5	70.1	171	96.6	82	98.8
> \$1,000	5.5	-	5	7.9	5.9	5	2.8	1	1.2
Not Reported	25.0	-	1	1.6	24.0	1	0.6	0	0.0
Total	100.0	-	63	100.0	100.0	177	100.0	83	100.0

Source: 2012, 2013, and YTD 2014 D&B Business Data; 2012, 2013, and YTD 2014 CRA Registers; 2012 Peer Small Business Data

In 2012 the Bank significantly exceeded the aggregate percentage. In both 2012 and 2013 the Bank also significantly exceeded the percentage of small businesses in the area. Finally, the trend in the number of loans to small businesses steadily increased from 2012 to YTD 2014. The Bank is on pace to exceed its 2013 total to businesses with GARs less than or equal to \$1 million. This performance was positively impacted by the Bank's niche lending involving taxi medallions.

Given the competitive lending environment in which the Bank operates, its ability to significantly exceed the aggregate, exceed the percentage of small businesses in the area, and the display a positive trend in the number of loans, is noteworthy.

Home Mortgage Lending

Home mortgage data was reviewed to assess how well the Bank is addressing the credit needs of residents in the Boston AA, with emphasis on low- and moderate-income borrowers. As depicted in Table 23, Commerce Bank's performance reflects adequate penetration to low- and moderate-income borrowers.

Table 23 – Distribution of Home Mortgage Loans by Borrower Income Level – Boston AA								
Census Tract Income Level	2012 Aggregate Lending Data (% of #)	2012 Bank		% of Total Families 2013	2013 Bank		YTD 2014 Bank	
		#	%		#	%	#	%
Low	4.0	2	5.3	28.4	6	3.1	0	0.0
Moderate	14.4	1	2.6	16.4	32	16.7	1	7.1
Middle	22.6	4	10.5	18.7	49	25.5	2	14.3
Upper	46.2	11	29.0	36.5	91	47.4	4	28.6
N/A	12.8	20	52.6	0.0	14	7.3	7	50.0
Total	100.0	38	100.0	100.0	192	100.0	14	100.0

Source: 2013 U.S. Census; 2012, 2013, and YTD 2014 HMDA/LAR Registers; 2012 Peer Mortgage Data

In 2012, the bank exceeded the aggregate to low-income borrowers, but was significantly below the aggregate to moderate-income borrowers. Similar to other areas of the evaluation, the Bank's lending totals increased in 2013 due to the inclusion of loans from East/West Mortgage. The Bank's percentage to low-income borrowers was significantly below the percentage of low-income families in the area; however, this discrepancy is partially explained by the percentage of families living below the poverty level and the high cost of housing in the area. The Bank's lending to moderate-income borrowers in 2013 was slightly higher than the percentage of moderate-income families in the area. This performance was noted as positive. The YTD 2014 data reflects limited activity, and is attributed to competition and loss of loans from East/West Mortgage.

Given the competitive lending environment the Bank operates in, coupled with the cost of housing in the area, the Bank's lending to low- and moderate-income borrowers is considered adequate.

Geographic Distribution

Overall, the Bank's geographic distribution of small business and home mortgage loans reflects good dispersion in 2012, 2013, and YTD 2014.

Small Business Lending

As depicted in Table 24, the Bank was less than the aggregate and the percentage of businesses within the area's low- income tracts, but exceeded the aggregate and the percentage of businesses in the moderate-income tracts. The Bank significantly increased the number of loans and its percentages in 2013, and exceeded the percentage of businesses in both tract categories. The Bank's YTD 2014 performance is also good, as lending in the low-income tracts is on pace to exceed 2013 totals.

Given the competitive nature of the assessment area, the Bank exhibited good dispersion in the Boston AA. The Bank's performance was benefitted by its taxi medallion lending activity.

Table 24 – Distribution of Small Business Loans by Census Tract Income Level – Boston AA									
Census Tract Income Level	2012 % of Total Businesses	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 % of Total Businesses	2013 Bank		YTD 2014 Bank	
			#	%		#	%	#	%
Low	9.2	8.3	3	4.8	9.2	32	18.1	27	32.5
Moderate	19.4	20.4	20	31.7	19.2	71	40.1	23	27.7
Middle	27.2	29.3	25	39.7	27.1	47	26.6	27	32.5
Upper	43.7	41.5	15	23.8	44.0	27	15.2	6	7.3
N/A	0.5	0.5	0	0.0	0.5	0	0.0	0	0.0
Total	100.0	100.0	63	100.0	100.0	177	100.0	83	100.0

Source: 2012 and 2013 D&B Business Data; 2012, 2013, and YTD 2014 CRA Registers; 2012 Peer Small Business Data

Home Mortgage Lending

The Bank's home mortgage loan distribution in the Boston AA represents adequate dispersion in the low- and moderate-income census tracts. In 2012, the Bank exceeded the aggregate in both low- and moderate-income tracts. In 2013, as noted previously, the number of loans increased with the inclusion of loans originated by East/West Mortgage. Despite the increase, the Bank's percentages were below the percentage of owner-occupied housing in both low- and moderate-income tracts. Further, the number of loans originated in YTD 2014 appears to be below the Bank's 2012 level.

Table 25 – Distribution of Home Mortgage Loans by Census Tract Income Level – Boston AA								
Census Tract Income Level	2012 Aggregate Lending Data (% of #)	2012 Bank		% of Owner-Occupied Housing Units 2013	2013 Bank		YTD 2014 Bank	
		#	%		#	%	#	%
Low	4.7	3	7.9	6.0	11	5.7	3	21.4
Moderate	17.1	13	34.2	21.8	30	15.6	3	21.4
Middle	33.7	16	42.1	35.4	76	39.6	3	21.4
Upper	44.5	6	15.8	36.8	75	39.1	5	35.8
N/A	0.0	0	0.0	0.0	0	0.0	0	0.0
Total	100.0	38	100.0	100.0	192	100.0	14	100.0

Source: 2013 U.S. Census; 2012, 2013, and YTD 2014 HMDA/LAR Registers; 2012 Peer Mortgage Data

Community Development Lending

Commerce Bank made an adequate level of community development loans within the Boston AA during the evaluation period. During the evaluation period, the Bank originated three community development loans totaling approximately \$4.1 million that benefited the Boston AA portion of the bank's entire assessment area. Table 26 contains a summary of the lending activity. Please refer to the overall Community Development Lending section for additional information.

Table 26 - Community Development Loans - Boston AA												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2011	0	0	0	0	1	1,400	0	0	0	0	1	1,400
2012	1	437	0	0	1	2,265	0	0	0	0	2	2,702
2013	0	0	0	0	0	0	0	0	0	0	0	0
1/1/14-6/30/14	0	0	0	0	0	0	0	0	0	0	0	0
Total	1	437	0	0	2	3,665	0	0	0	0	3	4,102

Source: Bank Records

*Targeted to Low- or Moderate Income Individuals

**Of Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

Innovative or Flexible Lending Practices

Similar to the overall performance, the Bank makes limited use of innovative and flexible loan products to serve the credit needs within the Boston AA. The Bank offers loan programs through the SBA 7a and 504 loan programs. Also, the Bank granted a number of loans through the Mass Save Loans that assist low- and moderate-income residents throughout the Boston AA. The Bank's loan products are offered in all its branches within the Boston AA.

For specific information regarding the special or innovative loan programs as well as the number and dollar volume of loans extended under these programs throughout the combined assessment area, please refer to the overall Innovative and Flexible Lending Practices section.

INVESTMENT TEST

The Bank entered the Boston AA following the acquisition of Mercantile in August 2012. A review of the Bank's qualified investments in 2013 and YTD 2014 revealed no activity. The Bank's level of qualified investments is poor.

SERVICE TEST

The Bank maintains three branches in the Boston AA. Two branches in the Boston AA are located in low-income census tracts and one branch is located in moderate-income census tract.

A total of four Bank ATMs are located in the Boston AA. There are ATMs located at each of the three branch offices, and one stand-alone ATM providing 24-hour account access. Of the four ATMs located in the Boston AA, two are located in low-income census tracts and one is located in a moderate-income census tract. The stand-alone ATM is located in a middle-income census tract.

Accessibility of Delivery Systems

The Bank's delivery systems are readily accessible to all portions of the Boston AA. Alternative systems, such as ATMs, telephone banking, and computer-based access, are also accessible to all portions of the area.

Changes in Branch Locations

The Bank acquired all three offices following the Mercantile acquisition in August 2012. Each branch is located in the City of Boston. The branches are located in Fenway (low-income census tract), Brighton (moderate-income census tract), and South End (low-income census tract). There were no branch closings since the last evaluation.

Reasonableness of Businesses Hours and Services

Services do not vary in a way that inconveniences certain portions of the Boston AA, particularly low- and moderate-income geographies and/or individuals. Please refer to the overall Service Test analysis for additional detail regarding the Bank's services and business hours.

Community Development Services

Bank officers and staff members provided their financial expertise to community development organizations. Given the timing of the Mercantile acquisition (August 2012), the Bank provided an adequate level of support to local non-profit organizations in the Boston AA. Please refer to the overall discussion in the Service Test for additional information and examples.

METROPOLITAN AREAS

Conclusions about the Bank's CRA-related activities must also be provided for each MSA in which the Bank maintains a branch office. Ratings are not assigned under the Lending, Investment, and Service Tests in each MSA. Therefore, in the sections that follow, separate descriptions and analyses for the Worcester, MA MSA # 49340 and the Boston-Cambridge-Newton, MA-New Hampshire MSA #14460 are provided.

WORCESTER, MA MSA (#49340)

SCOPE OF THE EVALUATION

The scope is similar to the overall scope discussed previously. Please refer to the overall discussion for additional information.

DESCRIPTION OF OPERATIONS IN THE WORCESTER, MA MSA (#49340)

Commerce Bank operates 12 branches in MSA #49340, which provides a full range of services offered by the bank. All the branch locations can be identified in the previously discussed Worcester AA with the exception of the Marlborough branch which is located in the Boston-Cambridge-Newton, MA-NH MSA.

The MSA (#49340) consists of the municipalities of: Auburn, Berlin, Boylston, Clinton, Douglas, Dudley, Fitchburg, Grafton, Holden, Hopedale, Lancaster, Leicester, Leominster, Lunenburg, Milford, Millbury, Northborough, Oakham, Oxford, Paxton, Princeton, Rutland, Shrewsbury, Southborough, Sterling, Upton, Webster, West Boylston, Westborough, Westminster, and Worcester.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE WORCESTER MSA

Using a limited-scope review, the Bank's performance in the Worcester MSA is similar to the Bank's performance for the overall conclusions for each test in the Worcester AA and does not impact the rating for the bank.

BOSTON-CAMBRIDGE-NEWTON, MA-NH MSA (#14460)

SCOPE OF THE EVALUATION

The scope is similar to the overall scope discussed previously. Please refer to the overall discussion of the Boston AA for additional information.

DESCRIPTION OF OPERATIONS IN THE BOSTON-CAMBRIDGE-NEWTON, MA-NH MSA (#14460)

Commerce Bank operates four branches in the MSA #14460, which provides a full range of services offered by the bank. All the branch locations can be identified in the Boston AA above, including the branch in the City of Marlborough.

The MSA (#14460) consists of the municipalities of: Arlington, Belmont, Boston, Brookline, Cambridge, Chelsea, Everett, Hudson, Lexington, Malden, Marlborough, Medford, Milton,

Needham, Newton, Quincy, Revere, Somerville, Waltham Watertown, Wellesley, Winchester, Winthrop, and Woburn.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE BOSTON MSA

Using a limited-scope review, the Bank's performance in MSA (#14460) is similar to the Bank's performance for the overall conclusions for each test in the Boston AA and does not impact the rating for the Bank.

APPENDIX A
Division of Banks
Fair Lending Policies and Procedures

The Bank's fair lending performance was reviewed to determine how it relates to the guidelines established by Regulatory Bulletin 1.3-106, the Division's Community Reinvestment and Fair Lending Policy. Based upon the review of the Bank's public comment file and its performance relative to fair lending policies and practices, no violations of anti-discrimination laws and regulations were identified.

MINORITY APPLICATION FLOW

According to the 2010 U.S. Census Data, the Bank's combined assessment area contained a total population of 2,307,900 individuals of which 34.1 percent are minorities. The assessment area's minority and ethnic population is 9.9 percent Black/African American, 8.7 percent Asian/Pacific Islander, 0.2 percent American Indian, 11.9 percent Hispanic or Latino and 3.3 percent other.

For 2012, 2013 and YTD June 30 2014, the Bank received 2,144 HMDA reportable loan applications from within its assessment area. Of these applications, 138 or 6.4 percent were received from minority applicants. For the same time period, the Bank also received 121 applications or 5.6 percent from ethnic groups of Hispanic origin within its combined assessment area.

The Bank's level of lending was compared with that of the aggregate's lending performance levels for the most recent year that data was available, the year 2012. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. Refer to the table below for information on the Bank's minority application flow as well as the aggregate lenders (excluding the Bank) in the Bank's assessment area.

Table 27 - MINORITY APPLICATION FLOW							
RACE	Bank 2012		2012 Aggregate Data	Bank 2013		Bank YTD	
	#	%	%	#	%	#	%
American Indian/ Alaska Native	3	0.5	0.1	1	0.1	0	0.0
Asian	24	3.9	7.7	36	2.8	9	3.6
Black/ African American	7	1.2	2.3	24	1.9	5	1.9
Hawaiian/Pac Isl.	1	0.2	0.1	0	0.0	4	1.5
2 or more Minority	1	0.2	0.1	0	0.0	0	0.0
Joint Race (White/Minority)	9	1.4	1.7	14	1.1	0	0.0
Total Minority	45	7.4	12.0	75	5.9	18	7.0
White	506	83.0	63.3	1,086	85.2	213	82.2
Race Not Available	59	9.6	24.7	114	8.9	28	10.8
Total	610	100.0	100.0	1,275	100.0	259	100.0
ETHNICITY							
Hispanic or Latino	32	5.3	2.6	53	4.2	11	4.3
Not Hispanic or Latino	514	84.2	72.0	1,120	87.8	219	84.5
Joint (Hisp/Lat /Not Hisp/Lat)	5	0.8	0.8	15	1.2	5	1.9
Ethnicity Not Available	59	9.7	24.6	87	6.8	24	9.3
Total	610	100.0	100.0	1,275	100.0	259	100.0

Source: 2012, 2012 and YTD 6/30/2014 HMDA/ LAR, 2011 HMDA Aggregate Data

The Bank's performance was lower than the aggregate's performance level for minority applicants. The Bank received 7.4 percent of applications from racial minorities in 2012, compared to the aggregate level of 12.0 percent. Conversely the Bank received 6.1 percent of applications from Hispanic applicants, compared to 3.4 percent for the aggregate. In 2013, the Bank's performance decreased for minority applicants (5.9 percent) and decreased for Hispanic applicants (5.4 percent). Further for YTD 2014 the Bank's performance increased for minority applicants (7.0 percent) and increased slightly for Hispanic applicants (6.2 percent).

APPENDIX B GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams, or railroad tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

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) but excluding 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.

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

HOUSING TERMS

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 which 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).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

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.

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.

INCOME TERMS

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

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

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

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.

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.

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.

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

HUD Adjusted Income Data: The US Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent US Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

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.

APPENDIX C

INVESTMENT DEFINITIONS

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. 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. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. 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. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: 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; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Low Income Housing Tax Credits: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the US Department of the Treasury and the Internal Revenue Service. The US Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. 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 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 in place throughout the compliance period, usually 30 years.

Qualified Investments: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

APPENDIX D

Standard PE Language

LENDING TEST

Scope of Test

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Community Development Lending:

Performance Criteria

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

Innovative and Flexible Lending Practices:

Performance Criteria

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

INVESTMENT TEST

Scope of Test

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test.

The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

SERVICE TEST

Scope of Test

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- or moderate-income individuals; 3) the availability and effectiveness of alternate systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies.

In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the main office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 386 Main Street, Worcester, Massachusetts 01615."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.