



## Financial News Release

FOR IMMEDIATE RELEASE:

Tuesday, January 20, 2009

### **COMMERCE BANCSHARES, INC. REPORTS FOURTH QUARTER EARNINGS PER SHARE OF \$.58**

Commerce Bancshares, Inc. announced earnings of \$.58 per share for the three months ended December 31, 2008 compared to \$.58 in the fourth quarter of last year. Net income for the fourth quarter of 2008 amounted to \$43.8 million compared to \$43.7 million in the fourth quarter of last year.

For the year ended December 31, 2008, earnings per share totaled \$2.48 compared to \$2.69 in 2007, a decrease of 7.8%. Net income amounted to \$188.7 million in 2008 compared with \$206.7 million in 2007. For the year, the return on average assets was 1.15%, and the return on average equity was 11.83%. At year end, the Tier I leverage ratio was 9.06% compared to 8.76% a year earlier.

In making this announcement, David W. Kemper, Chairman and CEO, said, "Our key objective last year was to navigate through the deteriorating economy and severe dislocations in the financial markets while continuing our long-term plan to build our franchise. In the face of these challenges, we strengthened our balance sheet while maintaining strong capital and excellent liquidity. This quarter we were pleased to report 14% growth in net interest income over the same quarter last year, driven by lower funding costs coupled with growth in earning assets. Also, while the effects of this difficult economy constrained growth in non-interest income, the Company still generated over \$85 million of fee income representing 35% of total revenue. Non-interest expense also remained controlled."

Mr. Kemper continued, "During the quarter we increased our allowance for loan losses by \$16.6 million to \$172.6 million. This allowance now represents 237% of total non-accrual loans and 1.53% of outstanding loans. Non-performing assets, consisting of non-accrual loans and foreclosed property, grew this quarter from \$46.2 million to \$79.1 million. The increase in non-performing assets this quarter was mainly the result of placing one large residential construction loan relationship within our geographical footprint on non-accrual status. We expect continuing weak economic conditions and deteriorating credit in 2009."

Total assets at December 31, 2008 were \$17.5 billion, total loans were \$11.6 billion, and total deposits were \$12.9 billion. During the fourth quarter the Company sold \$369 million par value of auction rate securities in exchange for government guaranteed student loans and recorded a pre-tax gain of \$7.9 million. Pre-tax impairment charges of \$9.0 million were also taken on certain other loans held for sale. Also during the quarter, net loan charge-offs totaled \$24.7 million, up from \$18.7 million in the previous quarter, with 63% of these loan losses related to non-residential consumer loan products.

Commerce Bancshares, Inc. is a registered bank holding company offering a full line of banking services, including investment management and securities brokerage. The Company currently operates in over 360 locations in Missouri, Illinois, Kansas, Oklahoma and Colorado. The Company also has operating subsidiaries involved in mortgage banking, credit related insurance, and private equity investment activities.

**Summary of Non-Performing Assets and Past Due Loans**

<i>(Dollars in thousands)</i>	<b>9/30/08</b>	<b>12/31/08</b>	<b>12/31/07</b>
<b>Non-Accrual Loans</b>	<b>\$41,600</b>	<b>\$72,896</b>	<b>\$19,739</b>
<b>Foreclosed Real Estate</b>	<b>\$4,622</b>	<b>\$6,181</b>	<b>\$13,678</b>
<b>Total Non-Performing Assets</b>	<b>\$46,222</b>	<b>\$79,077</b>	<b>\$33,417</b>
<b>Non-Performing Assets to Loans</b>	<b>.42%</b>	<b>.70%</b>	<b>.32%</b>
<b>Non-Performing Assets to Total Assets</b>	<b>.27%</b>	<b>.45%</b>	<b>.21%</b>
<b>Loans 90 Days &amp; Over Past Due – Still Accruing</b>	<b>\$31,878</b>	<b>\$39,964</b>	<b>\$20,886</b>

The financial news release, including management’s discussion of fourth quarter results, is posted to the Company’s web site at [www.commercebank.com](http://www.commercebank.com).

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**COMMERCE BANCSHARES, INC. and SUBSIDIARIES**  
**FINANCIAL HIGHLIGHTS**

<i>(Unaudited)</i>	For the Three Months Ended			For the Year Ended	
	Sept. 30 2008	Dec. 31 2008	Dec. 31 2007	Dec. 31 2008	Dec. 31 2007
<b>FINANCIAL SUMMARY</b> <i>(In thousands, except per share data)</i>					
Net interest income	\$151,564	<b>\$156,289</b>	\$137,467	<b>\$592,739</b>	\$538,072
Taxable equivalent net interest income	154,423	<b>160,133</b>	139,651	<b>604,083</b>	546,841
Non-interest income	95,593	<b>85,226</b>	98,101	<b>375,712</b>	371,581
Investment securities gains, net	1,149	<b>4,814</b>	3,270	<b>30,294</b>	8,234
Provision for loan losses	29,567	<b>41,333</b>	14,062	<b>108,900</b>	42,732
Non-interest expense	184,532	<b>143,403</b>	162,897	<b>616,113</b>	574,758
Net income	24,673	<b>43,836</b>	43,692	<b>188,655</b>	206,660
Cash dividends	18,018	<b>18,052</b>	17,104	<b>72,055</b>	68,915
Net total loan charge-offs	18,734	<b>24,745</b>	14,064	<b>69,867</b>	42,733
Business charge-offs	1,775	<b>2,099</b>	1,847	<b>4,414</b>	4,393
Real estate - construction and land charge-offs	1,217	<b>4,021</b>	537	<b>6,215</b>	2,012
Real estate - business charge-offs	257	<b>978</b>	768	<b>2,176</b>	1,075
Consumer credit card charge-offs	8,314	<b>8,674</b>	6,606	<b>31,516</b>	23,698
Consumer charge-offs	6,060	<b>6,901</b>	3,542	<b>21,447</b>	9,538
Home equity charge-offs	208	<b>91</b>	205	<b>429</b>	446
Real estate - personal charge-offs	182	<b>1,358</b>	14	<b>1,714</b>	139
Overdraft charge-offs	721	<b>623</b>	545	<b>1,956</b>	1,432
Per share:					
Net income - basic	\$0.32	<b>\$0.58</b>	\$0.58	<b>\$2.50</b>	\$2.72
Net income - diluted	\$0.32	<b>\$0.58</b>	\$0.58	<b>\$2.48</b>	\$2.69
Cash dividends	\$0.238	<b>\$0.238</b>	\$0.227	<b>\$0.952</b>	\$0.907
Diluted wtd. average shares o/s	76,172	<b>76,293</b>	76,106	<b>76,136</b>	76,848
<b>RATIOS</b>					
Average loans to deposits (1)	93.29%	<b>91.09%</b>	89.76%	<b>92.11%</b>	88.49%
Return on total average assets	0.60%	<b>1.04%</b>	1.09%	<b>1.15%</b>	1.33%
Return on total average stockholders' equity	6.07%	<b>10.84%</b>	11.46%	<b>11.83%</b>	14.00%
Non-interest income to revenue (2)	38.68%	<b>35.29%</b>	41.64%	<b>38.80%</b>	40.85%
Efficiency ratio (3)	74.23%	<b>58.90%</b>	68.67%	<b>63.16%</b>	62.72%
<b>AT PERIOD END</b>					
Book value per share based on total stockholders' equity	\$21.12	<b>\$20.80</b>	\$20.26		
Market value per share	\$44.19	<b>\$43.95</b>	\$42.72		
Allowance for loan losses as a percentage of loans	1.42%	<b>1.53%</b>	1.26%		
Tier I leverage ratio	9.11%	<b>9.06%</b>	8.76%		
Common shares outstanding	75,701,500	<b>75,790,948</b>	75,385,536		
Shareholders of record	4,487	<b>4,512</b>	4,581		
Number of bank/ATM locations	367	<b>368</b>	354		
Full-time equivalent employees	5,202	<b>5,217</b>	5,083		
<b>OTHER YTD INFORMATION</b>					
High market value per share		<b>\$52.86</b>	\$46.05		
Low market value per share		<b>\$34.76</b>	\$39.26		

(1) Includes loans held for sale

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

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

All share and per share amounts have been restated to reflect the 5% stock distributed December 2008.

**COMMERCE BANCSHARES, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

<i>(Unaudited)</i> <i>(In thousands, except per share data)</i>	For the Three Months Ended			For the Year Ended	
	Sept. 30 2008	Dec. 31 2008	Dec. 31 2007	Dec. 31 2008	Dec. 31 2007
<b>INTEREST INCOME</b>					
Interest and fees on loans	\$161,816	<b>\$157,684</b>	\$185,844	<b>\$654,845</b>	\$734,986
Interest and fees on loans held for sale	3,774	<b>3,654</b>	4,626	<b>14,968</b>	21,940
Interest on investment securities	41,749	<b>47,595</b>	40,494	<b>171,551</b>	153,294
Interest on federal funds sold and securities purchased under agreements to resell	2,125	<b>497</b>	5,788	<b>8,287</b>	25,881
Interest on deposits with banks	-	<b>198</b>	-	<b>198</b>	-
Total interest income	<u>209,464</u>	<u><b>209,628</b></u>	<u>236,752</u>	<u><b>849,849</b></u>	<u>936,101</u>
<b>INTEREST EXPENSE</b>					
Interest on deposits:					
Savings, interest checking and money market	14,802	<b>11,364</b>	27,472	<b>61,133</b>	116,094
Time open and C.D.'s of less than \$100,000	16,128	<b>15,467</b>	28,180	<b>77,322</b>	110,957
Time open and C.D.'s of \$100,000 and over	11,542	<b>12,937</b>	18,448	<b>55,665</b>	73,739
Interest on other borrowings	15,428	<b>13,571</b>	25,185	<b>62,990</b>	97,239
Total interest expense	<u>57,900</u>	<u><b>53,339</b></u>	<u>99,285</u>	<u><b>257,110</b></u>	<u>398,029</u>
Net interest income	151,564	<b>156,289</b>	137,467	<b>592,739</b>	538,072
Provision for loan losses	<u>29,567</u>	<u><b>41,333</b></u>	<u>14,062</u>	<u><b>108,900</b></u>	<u>42,732</u>
Net interest income after provision for loan losses	<u>121,997</u>	<u><b>114,956</b></u>	<u>123,405</u>	<u><b>483,839</b></u>	<u>495,340</u>
<b>NON-INTEREST INCOME</b>					
Deposit account charges and other fees	27,854	<b>27,172</b>	30,610	<b>110,361</b>	117,350
Bank card transaction fees	29,317	<b>28,843</b>	28,266	<b>113,862</b>	103,613
Trust fees	20,518	<b>19,377</b>	20,392	<b>80,294</b>	78,840
Trading account profits and commissions	2,604	<b>4,317</b>	3,172	<b>14,268</b>	8,647
Consumer brokerage services	3,439	<b>3,294</b>	3,014	<b>13,553</b>	12,445
Loan fees and sales	1,594	<b>(7,297)</b>	1,919	<b>(2,413)</b>	8,835
Other	10,267	<b>9,520</b>	10,728	<b>45,787</b>	41,851
Total non-interest income	<u>95,593</u>	<u><b>85,226</b></u>	<u>98,101</u>	<u><b>375,712</b></u>	<u>371,581</u>
<b>INVESTMENT SECURITIES GAINS, NET</b>	<u>1,149</u>	<u><b>4,814</b></u>	<u>3,270</u>	<u><b>30,294</b></u>	<u>8,234</u>
<b>NON-INTEREST EXPENSE</b>					
Salaries and employee benefits	83,766	<b>83,589</b>	78,433	<b>333,612</b>	308,768
Net occupancy	11,861	<b>11,582</b>	11,584	<b>46,317</b>	45,789
Equipment	6,122	<b>6,296</b>	6,246	<b>24,569</b>	24,121
Supplies and communication	9,276	<b>8,790</b>	8,524	<b>35,335</b>	34,162
Data processing and software	14,229	<b>14,436</b>	13,685	<b>56,387</b>	50,342
Marketing	4,926	<b>4,334</b>	4,247	<b>19,994</b>	18,199
Loss on purchase of auction rate securities	32,967	-	-	<b>33,266</b>	-
Indemnification obligation	2,879	<b>(3,690)</b>	20,951	<b>(9,619)</b>	20,951
Other	18,506	<b>18,066</b>	19,227	<b>76,252</b>	72,426
Total non-interest expense	<u>184,532</u>	<u><b>143,403</b></u>	<u>162,897</u>	<u><b>616,113</b></u>	<u>574,758</u>
Income before income taxes	34,207	<b>61,593</b>	61,879	<b>273,732</b>	300,397
Less income taxes	<u>9,534</u>	<u><b>17,757</b></u>	<u>18,187</u>	<u><b>85,077</b></u>	<u>93,737</u>
<b>NET INCOME</b>	<u>\$24,673</u>	<u><b>\$43,836</b></u>	<u>\$43,692</u>	<u><b>\$188,655</b></u>	<u>\$206,660</u>
Net income per share - basic	<u>\$0.32</u>	<u><b>\$0.58</b></u>	<u>\$0.58</u>	<u><b>\$2.50</b></u>	<u>\$2.72</u>
Net income per share - diluted	<u>\$0.32</u>	<u><b>\$0.58</b></u>	<u>\$0.58</u>	<u><b>\$2.48</b></u>	<u>\$2.69</u>
Cash dividends per common share	<u>\$0.238</u>	<u><b>\$0.238</b></u>	<u>\$0.227</u>	<u><b>\$0.952</b></u>	<u>\$0.907</u>

**COMMERCE BANCSHARES, INC. and SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

<i>(Unaudited)</i>	Sept. 30	Dec. 31	Dec. 31
<i>(In thousands)</i>	2008	2008	2007
<b>ASSETS</b>			
Loans	\$10,985,789	<b>\$11,283,246</b>	\$10,605,368
Allowance for loan losses	(156,031)	<b>(172,619)</b>	(133,586)
<b>Net loans</b>	<u>10,829,758</u>	<u><b>11,110,627</b></u>	<u>10,471,782</u>
Loans held for sale	392,697	<b>361,298</b>	235,896
Investment securities:			
Available for sale	3,659,488	<b>3,630,753</b>	3,165,020
Trading	12,353	<b>9,463</b>	26,478
Non-marketable	153,423	<b>139,900</b>	105,517
<b>Total investment securities</b>	<u>3,825,264</u>	<u><b>3,780,116</b></u>	<u>3,297,015</u>
Federal funds sold and securities purchased under agreements to resell	457,295	<b>169,475</b>	655,165
Interest earning deposits with banks	---	<b>638,158</b>	---
Cash and due from banks	496,970	<b>491,723</b>	673,081
Land, buildings and equipment - net	409,676	<b>411,168</b>	406,249
Goodwill	125,585	<b>125,585</b>	124,570
Other intangible assets - net	18,299	<b>17,191</b>	21,413
Other assets	397,856	<b>427,106</b>	319,660
<b>Total assets</b>	<u><u>\$16,953,400</u></u>	<u><u><b>\$17,532,447</b></u></u>	<u><u>\$16,204,831</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Deposits:			
Non-interest bearing demand	\$1,187,334	<b>\$1,375,000</b>	\$1,413,849
Savings, interest checking and money market	7,451,845	<b>7,610,306</b>	7,155,366
Time open and C.D.'s of less than \$100,000	2,018,444	<b>2,067,266</b>	2,374,782
Time open and C.D.'s of \$100,000 and over	1,654,464	<b>1,842,161</b>	1,607,555
<b>Total deposits</b>	<u>12,312,087</u>	<u><b>12,894,733</b></u>	<u>12,551,552</u>
Federal funds purchased and securities sold under agreements to repurchase	1,559,975	<b>1,026,537</b>	1,239,219
Other borrowings	1,250,510	<b>1,747,781</b>	583,639
Other liabilities	232,217	<b>286,764</b>	302,735
<b>Total liabilities</b>	<u>15,354,789</u>	<u><b>15,955,815</b></u>	<u>14,677,145</u>
Stockholders' equity:			
Preferred stock	---	---	---
Common stock	360,935	<b>379,505</b>	359,694
Capital surplus	482,441	<b>621,458</b>	475,220
Retained earnings	760,145	<b>633,159</b>	669,142
Treasury stock	(161)	<b>(761)</b>	(2,477)
Accumulated other comprehensive income (loss)	(4,749)	<b>(56,729)</b>	26,107
<b>Total stockholders' equity</b>	<u>1,598,611</u>	<u><b>1,576,632</b></u>	<u>1,527,686</u>
<b>Total liabilities and stockholders' equity</b>	<u><u>\$16,953,400</u></u>	<u><u><b>\$17,532,447</b></u></u>	<u><u>\$16,204,831</u></u>

**COMMERCE BANCSHARES, INC. and SUBSIDIARIES**  
**AVERAGE BALANCES**

<i>(Unaudited)</i> <i>(Dollars in thousands)</i>	For the Three Months Ended			For the Year Ended	
	Sept. 30 2008	Dec. 31 2008	Dec. 31 2007	Dec. 31 2008	Dec. 31 2007
<b>Loans:</b>					
Business	\$3,473,797	<b>\$3,389,273</b>	\$3,212,440	<b>\$3,478,927</b>	\$3,110,386
Real estate - construction and land	698,420	<b>723,558</b>	677,651	<b>701,519</b>	671,986
Real estate - business	2,324,683	<b>2,285,336</b>	2,222,816	<b>2,281,664</b>	2,204,041
Real estate - personal	1,508,736	<b>1,543,282</b>	1,541,861	<b>1,522,172</b>	1,521,066
Consumer	1,717,075	<b>1,669,607</b>	1,642,600	<b>1,674,497</b>	1,558,302
Student	-	<b>54,534</b>	-	<b>13,708</b>	-
Home equity	479,025	<b>494,217</b>	454,781	<b>474,635</b>	443,748
Consumer credit card	790,303	<b>770,213</b>	712,312	<b>776,810</b>	665,964
Overdrafts	12,381	<b>10,553</b>	17,152	<b>11,926</b>	13,823
<b>Total loans</b>	<u>11,004,420</u>	<u><b>10,940,573</b></u>	<u>10,481,613</u>	<u><b>10,935,858</b></u>	<u>10,189,316</u>
Loans held for sale	352,283	<b>393,029</b>	289,192	<b>347,441</b>	321,916
<b>Investment securities (excluding unrealized gains and losses):</b>					
Available for sale	3,352,799	<b>3,720,966</b>	3,310,548	<b>3,446,742</b>	3,254,467
Trading	23,278	<b>19,923</b>	29,897	<b>28,840</b>	22,321
Non-marketable	144,476	<b>150,290</b>	102,951	<b>133,996</b>	92,251
<b>Total investment securities</b>	<u>3,520,553</u>	<u><b>3,891,179</b></u>	<u>3,443,396</u>	<u><b>3,609,578</b></u>	<u>3,369,039</u>
Federal funds sold and securities purchased under agreements to resell	419,628	<b>369,374</b>	537,859	<b>425,273</b>	527,304
Interest earning deposits with banks	-	<b>185,665</b>	-	<b>46,670</b>	-
<b>Total interest earning assets</b>	<u>15,296,884</u>	<u><b>15,779,820</b></u>	<u>14,752,060</u>	<u><b>15,364,820</b></u>	<u>14,407,575</u>
<b>Total assets</b>	<u><u>16,387,099</u></u>	<u><u><b>16,794,456</b></u></u>	<u><u>15,894,020</u></u>	<u><u><b>16,454,333</b></u></u>	<u><u>15,480,327</u></u>
<b>Deposits:</b>					
Non-interest bearing deposits	668,191	<b>691,058</b>	660,310	<b>670,118</b>	647,888
Interest bearing deposits:					
Savings	410,201	<b>402,130</b>	375,974	<b>400,948</b>	392,942
Interest checking	185,984	<b>208,817</b>	207,536	<b>195,858</b>	194,555
Money market	7,312,621	<b>7,300,157</b>	6,864,403	<b>7,204,267</b>	6,802,388
Time open & C.D.'s of less than \$100,000	2,041,276	<b>2,052,594</b>	2,391,787	<b>2,149,119</b>	2,359,386
Time open & C.D.'s of \$100,000 and over	1,554,804	<b>1,787,116</b>	1,499,654	<b>1,629,500</b>	1,480,856
Total interest bearing deposits	<u>11,504,886</u>	<u><b>11,750,814</b></u>	<u>11,339,354</u>	<u><b>11,579,692</b></u>	<u>11,230,127</u>
<b>Total deposits</b>	<u>12,173,077</u>	<u><b>12,441,872</b></u>	<u>11,999,664</u>	<u><b>12,249,810</b></u>	<u>11,878,015</u>
<b>Borrowings:</b>					
Federal funds purchased and securities sold under agreements to repurchase	1,368,050	<b>1,081,946</b>	1,720,651	<b>1,373,625</b>	1,696,613
Other borrowings	1,103,224	<b>1,534,214</b>	492,214	<b>1,092,746</b>	292,446
<b>Total borrowings</b>	<u>2,471,274</u>	<u><b>2,616,160</b></u>	<u>2,212,865</u>	<u><b>2,466,371</b></u>	<u>1,989,059</u>
Total interest bearing liabilities	13,976,160	<b>14,366,974</b>	13,552,219	<b>14,046,063</b>	13,219,186
Total stockholders' equity	1,616,468	<b>1,608,995</b>	1,512,857	<b>1,594,941</b>	1,476,403
<b>Net yield on interest earning assets (tax-equivalent basis)</b>	4.02%	<b>4.04%</b>	3.76%	<b>3.93%</b>	3.80%

**COMMERCE BANCSHARES, INC.**  
**Management Discussion of Fourth Quarter Results**  
**December 31, 2008**

For the quarter ended December 31, 2008, net income amounted to \$43.8 million, an increase of \$19.2 million over the previous quarter and a slight increase over the same quarter last year. For the current quarter, the return on average assets was 1.04%, the return on average equity was 10.8%, and the efficiency ratio was 58.9%. The current quarter included a pre-tax gain of \$7.9 million on the sale of \$369 million par value auction rate securities (ARS) for which the Company received federally guaranteed student loans in exchange. The Company also recorded an impairment charge of \$9.0 million related to certain other held for sale loans. Additionally, the Company increased its allowance for loan losses by \$16.6 million this quarter. The 3<sup>rd</sup> quarter of 2008 included a pre-tax loss of \$33.0 million as a result of the Company's purchase of ARS from its customers.

**Balance Sheet Review**

During the 4<sup>th</sup> quarter of 2008, average loans, excluding loans held for sale, decreased \$63.8 million, or .6%, compared to the previous quarter. Also, average loans increased \$459.0 million, or 4.4%, this quarter compared to the same period last year. During the quarter, the Company reclassified certain loans collateralized by land to either construction or personal real estate loans. The effect of this change was to increase average construction and personal real estate loans by \$53 million and \$48 million, respectively, and decrease average business, consumer and business real estate loans by \$19 million, \$10 million and \$72 million, respectively. Exclusive of this change, most loan products experienced declines in average balances, except for business real estate and home equity loans.

As mentioned above, in December 2008 the Company acquired \$368 million of federally guaranteed student loans from a student loan agency in exchange for certain ARS acquired by the Company in the previous quarter, and owed by that agency. The loans, which have an average estimated life of approximately 7 years, were recorded at fair value which resulted in a discount from the face amount of approximately 2.5%. A gain on the sale of the ARS of \$7.9 million was also recognized. The Company also maintains agreements with various entities to purchase certain loans which are held for sale. Due to uncertainties surrounding some of these entities' ability to fulfill these contracts in the future, the Company adjusted loans totaling \$206.1 million to fair value and recorded impairment charges of \$9.0 million in the current quarter.

Available for sale investment securities (excluding fair value adjustments) increased on average by \$368.2 million to \$3.7 billion this quarter compared with the previous quarter. The majority of this increase was the result of purchases of ARS near the end of the 3<sup>rd</sup> quarter of approximately \$540 million par value. As noted above, \$369 million of these securities were sold in December 2008. During the current quarter, maturities and principal pay-downs of securities totaled \$147.8 million, while the Company reinvested \$306.2 million in mortgage-backed securities, \$116.5 million in corporate securities, \$60.4 million in U.S. treasury and agency securities, and \$33.9 million in other asset-backed securities.

Total average deposits increased \$268.8 million, or 2.2%, during the 4<sup>th</sup> quarter of 2008 compared to the previous quarter, and increased \$442.2 million, or 3.7%, compared to the 4<sup>th</sup> quarter of 2007. Compared to the previous quarter, the increase in average deposits resulted mainly from increases in certificates of deposit (\$243.6 million), and non-interest bearing demand deposits (\$22.9 million). The average loans to deposits ratio in the current quarter was 91.1%, compared to 93.3% in the previous quarter.

During the current quarter, the Company's average borrowings increased \$144.9 million compared to the previous quarter. This overall increase was mainly due to increases in funding from the Federal Home Loan Bank of \$150.7 million and the Federal Reserve's Term Auction Facility (TAF) of \$280.4 million, but was partly offset by lower average borrowings of federal funds purchased and repurchase agreements of \$286.1 million.

**Net Interest Income**

Net interest income in the 4<sup>th</sup> quarter of 2008 amounted to \$156.3 million, an increase of \$4.7 million, or 3.1%, compared with the previous quarter and an increase of \$18.8 million, or 13.7%, compared to the 4<sup>th</sup> quarter of last year. During the 4<sup>th</sup> quarter of 2008, the net yield on earning assets (tax equivalent) was 4.04%, compared with 4.02% in the previous quarter and 3.76% in the same period last year.

The increase of \$4.7 million in net interest income in the 4<sup>th</sup> quarter of 2008 over the previous quarter was primarily the result of lower rates paid on deposits and other borrowings, coupled with higher average investment securities balances and higher rates earned on these securities. Interest income on loans (tax equivalent) decreased by \$4.1 million this quarter, due to lower average balances of overall loans coupled with lower loan rates, which have re-priced quickly this quarter given the recent Federal Reserve actions to lower rates. Interest income on investment securities increased \$6.8 million (tax equivalent) as a result of higher average balances of municipal, corporate and mortgage-backed investments coupled with higher rates earned mainly on mortgage-backed securities.

Interest expense on deposits declined \$2.7 million in the 4<sup>th</sup> quarter of 2008 compared with the previous quarter as a result of lower rates paid on all deposit products, but was partly offset by growth in average certificates of deposit balances. Interest expense on borrowings decreased \$1.9 million due to significantly lower rates on the TAF debt, even though there were higher balances outstanding for Federal Home Loan Bank advances and borrowings under the TAF.

The overall tax equivalent yield on interest earning assets in the 4<sup>th</sup> quarter decreased 14 basis points from the previous quarter to 5.38%, while the overall cost of interest bearing liabilities decreased 17 basis points to 1.48%.

**Non-Interest Income**

For the 4<sup>th</sup> quarter of 2008, total non-interest income amounted to \$85.2 million, a decrease of \$12.9 million, or 13.1%, compared to \$98.1 million in the same period last

## COMMERCE BANCSHARES, INC.

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year. Also, 4<sup>th</sup> quarter non-interest income declined \$10.4 million, or 10.8%, compared to \$95.6 million recorded in the previous quarter. The decline in non-interest income from the 4<sup>th</sup> quarter of 2007 resulted mainly from lower deposit and trust fee income, coupled with a \$9.0 million impairment charge taken on certain held for sale loans mentioned above. Bank card fees for the quarter increased 2.0% over the 4<sup>th</sup> quarter of last year, primarily due to growth in fees earned on corporate card transactions, which grew by 27.7%, but were negatively impacted by lower retail sales this quarter affecting both merchant and credit card fees. Trust fees for the quarter decreased 5.0% from the same period last year and reflected the impact that lower markets have had on trust assets. Deposit account fees declined 11.2% from the same period last year as a result of an 18.7% decline in overdraft fee income, which was partly offset by growth in corporate cash management fees of 12.5%. Bond trading income for the current quarter totaled \$4.3 million, an increase of 36.1% over the same period last year, and brokerage fee income increased 9.3%.

#### Investment Securities Gains and Losses

Net securities gains amounted to \$4.8 million in the 4<sup>th</sup> quarter of 2008, compared to net gains of \$1.1 million in the previous quarter and net gains of \$3.3 million in the same quarter last year. Net gains in the current quarter included a \$7.9 million gain on ARS sold in December, as mentioned above, partly offset by losses of \$2.9 million relating to fair value adjustments on certain of the Company's private equity investments. Minority interest amounts related to these fair value adjustments (recorded as a reduction to non-interest expense) totaled \$304 thousand.

#### Non-Interest Expense

Non-interest expense for the current quarter amounted to \$143.4 million, a decrease of \$19.5 million compared with amounts recorded in the same period last year. Included in non-interest expense in the current quarter was a net reduction of \$3.7 million in certain Visa, Inc. (Visa) indemnification costs, compared to indemnification costs of \$21.0 million for Visa obligations in the 4<sup>th</sup> quarter of 2007. Exclusive of these items, non-interest expense in the current quarter grew 3.6% compared to the same period last year. Compared to the 4<sup>th</sup> quarter of last year, salaries and benefits expense increased \$5.2 million, or 6.6%, resulting mainly from increased staffing, related to several growth initiatives, and higher medical costs. Full-time equivalent employees totaled 5,217 and 5,083 at December 31, 2008 and 2007, respectively.

Compared with the 4<sup>th</sup> quarter of last year, occupancy and equipment costs were virtually unchanged, while supplies and communication expense and marketing costs increased 3.1% and 2.0% respectively. Data processing and software costs increased 5.5% when compared to the same quarter last year as a result of higher costs for new software and servicing systems, coupled with bank card processing costs which increased in relation to higher bank card revenues.

#### Income Taxes

The effective tax rate for the Company was 28.8% for the current quarter, compared with 27.9% in the previous quarter and 29.4% in the 4<sup>th</sup> quarter of 2007.

#### Credit Quality

Net loan charge-offs for the 4<sup>th</sup> quarter of 2008 amounted to \$24.7 million, compared with \$18.7 million in the prior quarter and \$14.1 million in the 4<sup>th</sup> quarter of last year. The increase in net charge-offs in the 4<sup>th</sup> quarter of 2008 compared to the previous quarter was mainly the result of continued higher consumer and credit card loan losses, which totaled \$15.6 million for the quarter, higher losses on construction loans, which increased by \$2.8 million over the previous quarter, and an increase in personal real estate loan losses. Combined net loan charge-offs for business, business real estate and construction loans totaled \$7.1 million for the quarter compared to \$3.2 million in the same quarter last year. The ratio of annualized net loan charge-offs to total average loans was .90% in the current quarter compared to .68% in the previous quarter.

For the 4<sup>th</sup> quarter of 2008, annualized net charge-offs on average consumer credit card loans increased to 4.48%, compared with 4.19% in the previous quarter and 3.68% in the same period last year. Consumer loan net charge-offs for the quarter amounted to 1.64% of average consumer loans, compared to 1.40% in the previous quarter and .86% in the same quarter last year. The provision for loan losses for the quarter totaled \$41.3 million, and was \$11.8 million higher than the previous quarter and \$27.3 million higher than the 4<sup>th</sup> quarter of 2007. Higher levels of consumer losses coupled with growth in the Company's loan watch list were the main reasons for the higher provision levels, as the Company increased the allowance for loan losses this quarter by \$16.6 million. The allowance for loan losses at December 31, 2008 amounted to \$172.6 million, or 1.53% of total loans, excluding loans held for sale, and was 237% of total non-accrual loans.

Total non-performing assets amounted to \$79.1 million, an increase of \$32.9 million over the previous quarter, and represented .70% of loans outstanding. Non-performing assets are comprised of non-accrual loans (\$72.9 million) and foreclosed real estate (\$6.2 million). The increase in non-performing assets was mainly the result of placing a \$19.9 million residential construction loan relationship within our market on non-accrual status. Loans past due more than 90 days and still accruing interest totaled \$40.0 million at December 31, 2008.

#### Other

The Company's purchases of treasury stock during the current quarter were not significant.

#### Forward Looking Information

This information contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include future financial and operating results, expectations, intentions and other statements that are not historical facts. Such statements are based on current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements.