



## Financial News Release

FOR IMMEDIATE RELEASE:

Wednesday, October 15, 2008

### **COMMERCE BANCSHARES, INC. REPORTS THIRD QUARTER EARNINGS PER SHARE**

Commerce Bancshares, Inc. announced earnings of \$.36 per share for the three months ended September 30, 2008, a decrease of 53.2% compared to \$.77 per share in the third quarter of 2007. Net income for the third quarter amounted to \$26.5 million compared with \$55.9 million in the same period last year. The quarter was affected by the Company's previously announced purchase of auction rate securities from its customers, which resulted in a pre-tax non-cash expense of \$33.0 million, or \$.29 per share. Additionally, the Company elected to increase its allowance for loan losses by \$10.8 million this quarter, raising the allowance from 1.31% to 1.42% of average outstanding loans.

For the nine months ended September 30, 2008, earnings per share totaled \$2.02 compared to \$2.22 for the first nine months of last year. Net income amounted to \$146.6 million in 2008 compared with \$163.0 million in 2007. For the first nine months of 2008, the return on average assets was 1.2%, and the return on average equity was 12.3%.

In making this announcement, David W. Kemper, Chairman and CEO, said, "Against a backdrop of significant economic challenges facing our economy and the entire banking industry, we are pleased to report continued solid revenue growth this quarter. Net interest income grew by 12% over the same quarter last year as a result of a 6% increase in earning assets and improved net interest margins. Additionally, bankcard fees grew 11% during the third quarter compared with the same period last year reflecting continued strong growth in merchant, debit and corporate card fees. During the quarter, we elected to purchase, from our customers, auction rate securities totaling \$530 million. Due to the temporary illiquid nature of these securities, under fair value accounting rules, we recorded a non-cash loss of \$33.0 million. Excluding this item, non-interest expense in the current quarter remained well controlled and was up only 1% compared to the prior quarter."

Mr. Kemper continued, "The Company's strong capital base of \$1.6 billion has grown 7% over the same period last year; our liquidity levels are significant and improving. During the quarter, net loan charge-offs totaled \$18.7 million, up from \$14.5 million in the previous quarter, principally as a result of higher non-mortgage consumer loan losses. Non-performing assets, consisting of non-accrual loans and foreclosed property, grew this quarter from \$36.7 million to \$46.2 million, primarily because of the continued weak environment for residential construction. Non-performing assets represent a modest .42% of outstanding loans. Given the current economic conditions, during the quarter we elected to increase our allowance for loan losses by \$10.8 million to \$156 million. This allowance now represents 375% of total non-accrual loans and 1.42% of outstanding loans."

Total assets at September 30, 2008 were \$17.0 billion, total loans were \$11.4 billion, and total deposits were \$12.3 billion. The Company's bank financial strength rating was recently reaffirmed by Moody's, and this rating ranks the bank among the top five of the fifty largest banks in the country.

Late in the afternoon on October 14, 2008, Visa, Inc. issued a press release disclosing the settlement of its litigation with Discover Financial Services. The terms of the settlement and any potential impact on the Company's third quarter earnings from indemnification charges (as disclosed in the most recent Form 10-K) is unknown at this time. It is anticipated that the details and any effect will be reflected in the Company's Form 10-Q.

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 activities.

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

<i>(Dollars in thousands)</i>	<b>6/30/08</b>	<b>9/30/08</b>	<b>9/30/07</b>
<b>Non-Accrual Loans</b>	<b>\$29,184</b>	<b>\$41,600</b>	<b>\$25,962</b>
<b>Foreclosed Real Estate</b>	<b>\$7,525</b>	<b>\$4,622</b>	<b>\$15,408</b>
<b>Total Non-Performing Assets</b>	<b>\$36,709</b>	<b>\$46,222</b>	<b>\$41,370</b>
<b>Non-Performing Assets to Loans</b>	<b>.33%</b>	<b>.42%</b>	<b>.40%</b>
<b>Non-Performing Assets to Total Assets</b>	<b>.22%</b>	<b>.27%</b>	<b>.26%</b>
<b>Loans 90 Days &amp; Over Past Due – Still Accruing</b>	<b>\$26,293</b>	<b>\$31,878</b>	<b>\$19,227</b>

The financial news release, including management's discussion of third 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 Nine Months Ended	
	June 30 2008	Sept. 30 2008	Sept. 30 2007	Sept. 30 2008	Sept. 30 2007
<b>FINANCIAL SUMMARY</b> <i>(In thousands, except per share data)</i>					
Net interest income	\$144,779	<b>\$151,564</b>	\$135,262	<b>\$436,450</b>	\$400,605
Taxable equivalent net interest income	147,244	<b>154,423</b>	137,357	<b>443,950</b>	407,190
Non-interest income	102,733	<b>95,593</b>	95,137	<b>290,486</b>	273,480
Investment securities gains, net	1,008	<b>1,149</b>	1,562	<b>25,480</b>	4,964
Provision for loan losses	18,000	<b>29,567</b>	11,455	<b>67,567</b>	28,670
Non-interest expense	147,423	<b>181,653</b>	139,093	<b>469,831</b>	411,861
Net income	55,979	<b>26,487</b>	55,898	<b>146,633</b>	162,968
Cash dividends	18,000	<b>18,018</b>	17,133	<b>54,003</b>	51,811
Net total loan charge-offs	14,491	<b>18,734</b>	11,456	<b>45,122</b>	28,669
Business charge-offs	1,049	<b>1,775</b>	1,853	<b>2,315</b>	2,546
Consumer credit card charge-offs	7,935	<b>8,314</b>	5,331	<b>22,842</b>	17,092
Consumer charge-offs	4,530	<b>6,060</b>	2,318	<b>14,546</b>	5,996
Home equity charge-offs	136	<b>208</b>	131	<b>338</b>	241
Real estate - construction charge-offs	203	<b>1,217</b>	605	<b>2,194</b>	1,475
Real estate - business charge-offs	39	<b>257</b>	744	<b>1,198</b>	307
Real estate - personal charge-offs	73	<b>182</b>	71	<b>356</b>	125
Overdraft charge-offs	526	<b>721</b>	403	<b>1,333</b>	887
Per share:					
Net income - basic	\$0.78	<b>\$0.36</b>	\$0.78	<b>\$2.04</b>	\$2.25
Net income - diluted	\$0.77	<b>\$0.36</b>	\$0.77	<b>\$2.02</b>	\$2.22
Cash dividends	\$0.250	<b>\$0.250</b>	\$0.238	<b>\$0.750</b>	\$0.714
Diluted wtd. average shares o/s	72,436	<b>72,545</b>	72,707	<b>72,460</b>	73,427
<b>RATIOS</b>					
Average loans to deposits (1)	92.30%	<b>93.29%</b>	88.67%	<b>92.46%</b>	88.06%
Return on total average assets	1.37%	<b>0.64%</b>	1.43%	<b>1.20%</b>	1.42%
Return on total average stockholders' equity	14.12%	<b>6.52%</b>	15.10%	<b>12.32%</b>	14.88%
Non-interest income to revenue (2)	41.51%	<b>38.68%</b>	41.29%	<b>39.96%</b>	40.57%
Efficiency ratio (3)	59.10%	<b>73.07%</b>	59.81%	<b>64.17%</b>	60.64%
<b>AT PERIOD END</b>					
Book value per share based on total stockholders' equity	\$22.32	<b>\$22.20</b>	\$20.75		
Market value per share	\$39.66	<b>\$46.40</b>	\$43.70		
Allowance for loan losses as a percentage of loans	1.31%	<b>1.42%</b>	1.28%		
Tier I leverage ratio	9.03%	<b>9.12%</b>	8.79%		
Common shares outstanding	71,934,900	<b>72,096,667</b>	71,878,511		
Shareholders of record	4,539	<b>4,487</b>	4,623		
Number of bank/ATM locations	366	<b>367</b>	360		
Full-time equivalent employees	5,181	<b>5,202</b>	5,077		
<b>OTHER YTD INFORMATION</b>					
		Sept. 30 2008	Sept. 30 2007		
High market value per share		<b>\$52.99</b>	\$48.35		
Low market value per share		<b>\$36.50</b>	\$41.22		

(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.

**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 Nine Months Ended	
	June 30 2008	Sept. 30 2008	Sept. 30 2007	Sept. 30 2008	Sept. 30 2007
<b>INTEREST INCOME</b>					
Interest and fees on loans	\$161,007	<b>\$161,816</b>	\$188,863	<b>\$497,161</b>	\$549,142
Interest and fees on loans held for sale	3,623	<b>3,774</b>	5,049	<b>11,314</b>	17,314
Interest on investment securities	41,310	<b>41,749</b>	38,011	<b>123,956</b>	112,800
Interest on federal funds sold and securities purchased under agreements to resell	2,264	<b>2,125</b>	6,351	<b>7,790</b>	20,093
Total interest income	<u>208,204</u>	<u><b>209,464</b></u>	<u>238,274</u>	<u><b>640,221</b></u>	<u>699,349</u>
<b>INTEREST EXPENSE</b>					
Interest on deposits:					
Savings, interest checking and money market	14,353	<b>14,802</b>	31,173	<b>49,769</b>	88,622
Time open and C.D.'s of less than \$100,000	20,468	<b>16,128</b>	28,541	<b>61,855</b>	82,777
Time open and C.D.'s of \$100,000 and over	13,886	<b>11,542</b>	18,812	<b>42,728</b>	55,291
Interest on other borrowings	14,718	<b>15,428</b>	24,486	<b>49,419</b>	72,054
Total interest expense	<u>63,425</u>	<u><b>57,900</b></u>	<u>103,012</u>	<u><b>203,771</b></u>	<u>298,744</u>
Net interest income	144,779	<b>151,564</b>	135,262	<b>436,450</b>	400,605
Provision for loan losses	<u>18,000</u>	<u><b>29,567</b></u>	<u>11,455</u>	<u><b>67,567</b></u>	<u>28,670</u>
Net interest income after provision for loan losses	<u>126,779</u>	<u><b>121,997</b></u>	<u>123,807</u>	<u><b>368,883</b></u>	<u>371,935</u>
<b>NON-INTEREST INCOME</b>					
Deposit account charges and other fees	28,260	<b>27,854</b>	30,148	<b>83,189</b>	86,740
Bank card transaction fees	29,394	<b>29,317</b>	26,409	<b>85,019</b>	75,347
Trust fees	20,286	<b>20,518</b>	19,823	<b>60,917</b>	58,448
Consumer brokerage services	3,411	<b>3,439</b>	3,056	<b>10,259</b>	9,431
Trading account profits and commissions	3,183	<b>2,604</b>	2,174	<b>9,951</b>	5,475
Loan fees and sales	1,150	<b>1,594</b>	2,919	<b>4,884</b>	6,916
Other	17,049	<b>10,267</b>	10,608	<b>36,267</b>	31,123
Total non-interest income	<u>102,733</u>	<u><b>95,593</b></u>	<u>95,137</u>	<u><b>290,486</b></u>	<u>273,480</u>
<b>INVESTMENT SECURITIES GAINS, NET</b>	<u>1,008</u>	<u><b>1,149</b></u>	<u>1,562</u>	<u><b>25,480</b></u>	<u>4,964</u>
<b>NON-INTEREST EXPENSE</b>					
Salaries and employee benefits	83,247	<b>83,766</b>	77,312	<b>250,023</b>	230,335
Net occupancy	10,805	<b>11,861</b>	11,572	<b>34,735</b>	34,205
Equipment	6,244	<b>6,122</b>	5,761	<b>18,273</b>	17,875
Supplies and communication	8,545	<b>9,276</b>	8,546	<b>26,545</b>	25,638
Data processing and software	14,159	<b>14,229</b>	12,697	<b>41,951</b>	36,657
Marketing	5,447	<b>4,926</b>	4,775	<b>15,660</b>	13,952
Loss on purchase of auction rate securities	299	<b>32,967</b>	-	<b>33,266</b>	-
Other	18,677	<b>18,506</b>	18,430	<b>49,378</b>	53,199
Total non-interest expense	<u>147,423</u>	<u><b>181,653</b></u>	<u>139,093</u>	<u><b>469,831</b></u>	<u>411,861</u>
Income before income taxes	83,097	<b>37,086</b>	81,413	<b>215,018</b>	238,518
Less income taxes	<u>27,118</u>	<u><b>10,599</b></u>	<u>25,515</u>	<u><b>68,385</b></u>	<u>75,550</u>
<b>NET INCOME</b>	<u>\$55,979</u>	<u><b>\$26,487</b></u>	<u>\$55,898</u>	<u><b>\$146,633</b></u>	<u>\$162,968</u>
Net income per share - basic	<u>\$0.78</u>	<u><b>\$0.36</b></u>	<u>\$0.78</u>	<u><b>\$2.04</b></u>	<u>\$2.25</u>
Net income per share - diluted	<u>\$0.77</u>	<u><b>\$0.36</b></u>	<u>\$0.77</u>	<u><b>\$2.02</b></u>	<u>\$2.22</u>
Cash dividends per common share	<u>\$0.250</u>	<u><b>\$0.250</b></u>	<u>\$0.238</u>	<u><b>\$0.750</b></u>	<u>\$0.714</u>

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

<i>(Unaudited)</i> <i>(In thousands)</i>	June 30 2008	Sept. 30 2008	Sept. 30 2007
<b>ASSETS</b>			
Loans	\$11,116,274	<b>\$10,985,789</b>	\$10,451,029
Allowance for loan losses	(145,198)	<b>(156,031)</b>	(133,588)
<b>Net loans</b>	<u>10,971,076</u>	<u><b>10,829,758</b></u>	<u>10,317,441</u>
Loans held for sale	329,122	<b>392,697</b>	303,658
Investment securities:			
Available for sale	3,628,061	<b>3,659,488</b>	3,411,804
Trading	21,923	<b>12,353</b>	17,189
Non-marketable	132,991	<b>153,423</b>	93,086
<b>Total investment securities</b>	<u>3,782,975</u>	<u><b>3,825,264</b></u>	<u>3,522,079</u>
Federal funds sold and securities purchased under agreements to resell	466,165	<b>457,295</b>	520,484
Cash and due from banks	620,472	<b>496,970</b>	543,626
Land, buildings and equipment - net	406,446	<b>409,676</b>	403,747
Goodwill	125,585	<b>125,585</b>	125,088
Other intangible assets - net	19,348	<b>18,299</b>	22,322
Other assets	297,274	<b>396,791</b>	265,864
<b>Total assets</b>	<u>\$17,018,463</u>	<u><b>\$16,952,335</b></u>	<u>\$16,024,309</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Deposits:			
Non-interest bearing demand	\$1,398,766	<b>\$1,187,334</b>	\$1,148,991
Savings, interest checking and money market	7,481,065	<b>7,451,845</b>	6,971,076
Time open and C.D.'s of less than \$100,000	2,104,566	<b>2,018,444</b>	2,398,877
Time open and C.D.'s of \$100,000 and over	1,551,228	<b>1,654,464</b>	1,432,831
<b>Total deposits</b>	<u>12,535,625</u>	<u><b>12,312,087</b></u>	<u>11,951,775</u>
Federal funds purchased and securities sold under agreements to repurchase	1,613,801	<b>1,559,975</b>	2,059,095
Other borrowings	1,075,685	<b>1,250,510</b>	345,749
Other liabilities	187,812	<b>229,338</b>	176,124
<b>Total liabilities</b>	<u>15,412,923</u>	<u><b>15,351,910</b></u>	<u>14,532,743</u>
Stockholders' equity:			
Preferred stock	---	---	---
Common stock	360,125	<b>360,935</b>	352,330
Capital surplus	476,497	<b>482,441</b>	421,733
Retained earnings	753,490	<b>761,959</b>	794,779
Treasury stock	(172)	<b>(161)</b>	(91,040)
Accumulated other comprehensive income (loss)	15,600	<b>(4,749)</b>	13,764
<b>Total stockholders' equity</b>	<u>1,605,540</u>	<u><b>1,600,425</b></u>	<u>1,491,566</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$17,018,463</u>	<u><b>\$16,952,335</b></u>	<u>\$16,024,309</u>

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

<i>(Unaudited)</i> <i>(Dollars in thousands)</i>	For the Three Months Ended			For the Nine Months Ended	
	June 30 2008	Sept. 30 2008	Sept. 30 2007	Sept. 30 2008	Sept. 30 2007
<b>Loans:</b>					
Business	\$3,549,811	<b>\$3,473,797</b>	\$3,103,903	<b>\$3,509,030</b>	\$3,075,994
Real estate - construction	699,502	<b>698,420</b>	705,232	<b>694,119</b>	670,077
Real estate - business	2,282,139	<b>2,324,683</b>	2,220,136	<b>2,280,431</b>	2,197,714
Real estate - personal	1,510,346	<b>1,508,736</b>	1,538,279	<b>1,515,084</b>	1,514,058
Consumer	1,675,389	<b>1,717,075</b>	1,605,879	<b>1,676,139</b>	1,529,894
Home equity	466,240	<b>479,025</b>	446,208	<b>468,060</b>	440,030
Consumer credit card	785,451	<b>790,303</b>	670,973	<b>779,025</b>	650,345
Overdrafts	10,662	<b>12,381</b>	14,468	<b>12,387</b>	12,701
<b>Total loans</b>	<u>10,979,540</u>	<u><b>11,004,420</b></u>	<u>10,305,078</u>	<u><b>10,934,275</b></u>	<u>10,090,813</u>
Loans held for sale	331,366	<b>352,283</b>	293,610	<b>332,134</b>	332,944
<b>Investment securities (excluding unrealized gains and losses):</b>					
Available for sale	3,414,176	<b>3,352,799</b>	3,222,014	<b>3,354,667</b>	3,235,568
Trading	22,312	<b>23,278</b>	16,343	<b>31,834</b>	19,768
Non-marketable	129,495	<b>144,476</b>	98,177	<b>128,525</b>	88,645
<b>Total investment securities</b>	<u>3,565,983</u>	<u><b>3,520,553</b></u>	<u>3,336,534</u>	<u><b>3,515,026</b></u>	<u>3,343,981</u>
Federal funds sold and securities purchased under agreements to resell	421,539	<b>419,628</b>	511,834	<b>444,042</b>	523,747
<b>Total interest earning assets</b>	<u>15,298,428</u>	<u><b>15,296,884</b></u>	<u>14,447,056</u>	<u><b>15,225,477</b></u>	<u>14,291,485</u>
<b>Total assets</b>	<u>16,404,444</u>	<u><b>16,387,099</b></u>	<u>15,529,022</u>	<u><b>16,340,131</b></u>	<u>15,340,914</u>
<b>Deposits:</b>					
Non-interest bearing deposits	660,063	<b>668,191</b>	660,681	<b>663,087</b>	643,702
Interest bearing deposits:					
Savings	409,848	<b>410,201</b>	392,317	<b>400,551</b>	398,660
Interest checking	186,802	<b>185,984</b>	211,469	<b>191,506</b>	190,180
Money market	7,226,086	<b>7,312,621</b>	6,814,225	<b>7,172,071</b>	6,781,490
Time open & C.D.'s of less than \$100,000	2,186,889	<b>2,041,276</b>	2,389,019	<b>2,181,529</b>	2,348,467
Time open & C.D.'s of \$100,000 and over	1,585,354	<b>1,554,804</b>	1,485,637	<b>1,576,578</b>	1,474,521
Total interest bearing deposits	<u>11,594,979</u>	<u><b>11,504,886</b></u>	<u>11,292,667</u>	<u><b>11,522,235</b></u>	<u>11,193,318</u>
<b>Total deposits</b>	<u>12,255,042</u>	<u><b>12,173,077</b></u>	<u>11,953,348</u>	<u><b>12,185,322</b></u>	<u>11,837,020</u>
<b>Borrowings:</b>					
Federal funds purchased and securities sold under agreements to repurchase	1,419,523	<b>1,368,050</b>	1,628,453	<b>1,471,561</b>	1,688,512
Other borrowings	998,506	<b>1,103,224</b>	346,076	<b>944,516</b>	225,125
<b>Total borrowings</b>	<u>2,418,029</u>	<u><b>2,471,274</b></u>	<u>1,974,529</u>	<u><b>2,416,077</b></u>	<u>1,913,637</u>
Total interest bearing liabilities	14,013,008	<b>13,976,160</b>	13,267,196	<b>13,938,312</b>	13,106,955
Total stockholders' equity	1,594,110	<b>1,616,468</b>	1,468,600	<b>1,590,222</b>	1,464,118
<b>Net yield on interest earning assets (tax-equivalent basis)</b>	3.87%	<b>4.02%</b>	3.77%	<b>3.89%</b>	3.81%

## COMMERCE BANCSHARES, INC.

### Management Discussion of Third Quarter Results September 30, 2008

For the quarter ended September 30, 2008, net income amounted to \$26.5 million, a decline of \$29.4 million from the same quarter last year and a decline of \$29.5 million from the previous quarter. For the current quarter, the return on average assets was .64%, the return on average equity was 6.5%, and the efficiency ratio was 73.1%. The current quarter included a charge against earnings of \$33.0 million as a result of the Company's previously announced purchase of auction rate securities from its customers. Additionally, the Company increased its allowance for loan losses by \$10.8 million this quarter. The 2<sup>nd</sup> quarter of 2008 included a pre-tax gain of \$6.9 million on the sale of a small branch in southeast Kansas.

#### Balance Sheet Review

During the 3<sup>rd</sup> quarter of 2008, average loans, excluding loans held for sale, increased \$24.9 million, or .2%, compared to the previous quarter, representing annualized growth of less than 1%. Also, average loans increased \$699.3 million, or 6.8%, this quarter compared to the same period last year. Overall during the quarter, the increase in average loans compared with the previous quarter consisted mainly of growth in business real estate (\$42.5 million), consumer (\$41.7 million) and home equity line of credit loans (\$12.8 million), offset by a \$76.0 million decline in business loans. The decline in average business loans resulted from decreases in loans to a number of agribusiness customers, coupled with seasonal reductions in line of credit usage from several larger borrowers. The growth in average business real estate loans this quarter was due to new lending and greater line of credit usage, mostly occurring in the 2<sup>nd</sup> quarter, but affecting 3<sup>rd</sup> quarter averages. Growth in consumer loans was mainly due to higher lending totals for both auto and marine/recreational loans. During the 3<sup>rd</sup> quarter, the Company elected to reduce its loan originations for certain types of marine and recreational vehicle loans due to current economic conditions.

Available for sale investment securities (excluding fair value adjustments) decreased on average by \$61.4 million to \$3.4 billion this quarter compared with the previous quarter. Period end investment securities balances (excluding fair value adjustments) totaled \$3.7 billion, or \$64.2 million greater than at June 30, 2008. During the current quarter, the Company purchased from its customers \$529.9 million par of auction rate securities which had become illiquid. These securities were recorded in the municipal category. Maturities and principal pay-downs of securities totaled \$232.5 million, while the Company reinvested \$168.0 million in mortgage-backed securities, \$1.3 million in U.S. treasury securities, and \$535 thousand in other municipal securities. During the current quarter, \$375.1 million of investments in government mutual funds were sold, of which \$312.0 million related to a specific repurchase agreement transaction mentioned in the previous quarterly discussion.

Total average deposits decreased \$82.0 million, or .7%, during the 3<sup>rd</sup> quarter of 2008 compared to the previous quarter, and increased \$219.7 million, or 1.8%, compared to

the 3<sup>rd</sup> quarter of 2007. Compared to the previous quarter, the decline in average deposits resulted from decreases in certificates of deposit (\$176.2 million), partly offset by an increase in money market accounts (\$86.5 million). The average loans to deposits ratio in the current quarter was 93.3%, compared to 92.3% in the previous quarter.

During the current quarter, the Company's average borrowings increased \$53.2 million compared to the prior quarter. This overall increase was mainly due to increases in funding from the Federal Home Loan Bank (\$158.5 million) but was partly offset by lower average borrowings from the Federal Reserve Bank (\$53.8 million) and a reduction in federal funds purchased and repurchase agreements of \$51.5 million.

#### Net Interest Income

Net interest income in the 3<sup>rd</sup> quarter of 2008 amounted to \$151.6 million, an increase of \$6.8 million, or 4.7%, compared with the previous quarter and an increase of \$16.3 million, or 12.1%, compared to the 3<sup>rd</sup> quarter of last year. During the 3<sup>rd</sup> quarter of 2008, the net yield on earning assets (tax equivalent) was 4.02%, compared with 3.87% in the previous quarter and 3.77% in the same period last year.

The increase of \$6.8 million in net interest income in the 3<sup>rd</sup> quarter of 2008 over the previous quarter was primarily the result of lower rates paid and lower average balances on deposits, coupled with higher average loan balances and higher rates earned on investment securities. Interest income on loans (tax equivalent) increased by \$843 thousand this quarter, mainly due to an increase in business real estate and consumer loans. The Company earned higher rates on consumer credit card loans this quarter, partly offset by lower rates earned on business and business real estate loans. Interest income on investment securities increased \$757 thousand (tax equivalent) as a result of higher rates earned on the portfolio. This increase was partly offset by lower overall average balances in the portfolio, except in municipal obligations which increased due to the auction rate security purchases mentioned earlier.

Interest expense on deposits declined \$6.2 million in the 3<sup>rd</sup> quarter of 2008 compared with the previous quarter as a result of lower rates paid on certificates of deposit, in addition to lower average certificates of deposit balances. Interest expense on other borrowings increased \$710 thousand due to higher balances outstanding of Federal Home Loan Bank advances. This increase was partly offset by declines in other borrowings and lower rates paid on federal funds purchased.

The overall tax equivalent yield on interest earning assets in the 3<sup>rd</sup> quarter decreased 2 basis points from the previous quarter to 5.52%, while the overall cost of interest bearing liabilities decreased 17 basis points to 1.65%.

#### Non-Interest Income

For the 3<sup>rd</sup> quarter of 2008, total non-interest income amounted to \$95.6 million, an increase of .5% compared to

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\$95.1 million in the same period last year, and a decrease of 7.0% compared to \$102.7 million recorded in the previous quarter. The decline in non-interest income from the 2<sup>nd</sup> quarter of 2008 was partly due to a pre-tax gain of \$6.9 million on the sale of a bank branch in the previous quarter. The increase in non-interest income over the 3<sup>rd</sup> quarter of last year resulted mainly from continued double-digit growth in bank card, brokerage and bond trading income. Bank card fees for the quarter increased 11.0% over the 3<sup>rd</sup> quarter of last year, primarily due to growth in fees earned on debit, merchant and corporate card transactions, which grew by 9.5%, 9.1% and 27.3%, respectively. Trust fees for the quarter increased 3.5% over the same period last year mainly as a result of growth in personal trust fees (up 7.2%) but were partly offset by lower institutional trust fee income. Deposit account fees declined 7.6% this quarter from the same period last year as a result of a 10.9% decline in overdraft fee income, offset by growth in corporate cash management fees of 5.9%. Overdraft fee income was negatively impacted by lower transaction volume compared to the same quarter last year. Brokerage fee income for the current quarter totaled \$3.4 million, an increase of 12.5% over the same period last year, and bond trading income for the quarter increased 19.8%. Gains on sales of student loans in the current quarter declined \$1.3 million as fewer loans were sold this quarter.

The ratio of non-interest income to total revenue was 38.7% in the 3<sup>rd</sup> quarter of 2008 compared with 41.3% in the same period last year. The decline in the ratio of non-interest income to total revenue was mainly due to the large increase in net interest income this quarter, which was up 12.1% compared to last year.

#### Investment Securities Gains and Losses

Net securities gains amounted to \$1.1 million in the 3<sup>rd</sup> quarter of 2008, compared to net gains of \$1.0 million in the previous quarter and net gains of \$1.6 million in the same quarter last year. Net gains in the current quarter were mostly related to fair value adjustments on certain of the Company's private equity investments. Minority interest expense (recorded in non-interest expense) related to the fair value adjustments on private equity investments was not significant.

#### Non-Interest Expense

Non-interest expense for the current quarter amounted to \$181.7 million, an increase of \$42.6 million compared with amounts recorded in the same period last year. As described previously, non-interest expense for the current quarter includes a non-cash pre-tax loss of \$33.0 million related to the purchase of auction rate securities from customers. Exclusive of this item, non-interest expense would have amounted to \$148.7 million or an increase of 6.9% over the previous year, and only .9% higher than the previous quarter. Compared to the 3<sup>rd</sup> quarter of last year, salaries and benefits expense increased \$6.5 million, or 8.3%, resulting partly from increased staffing related to several growth initiatives, higher incentives earned, and increased medical costs. Full-time equivalent employees totaled 5,202 and 5,077 at September 30, 2008 and 2007, respectively.

Compared with the 3<sup>rd</sup> quarter of last year, occupancy costs increased 2.5% and were well controlled. Equipment costs and supplies and communications costs increased by 6.3% and 8.5%, respectively, but were both affected by certain non-recurring expense reductions recorded in the previous year, totaling \$605 thousand combined. Exclusive of these non-recurring reductions in the prior year, equipment expense would have been flat with the previous year while supplies and communications would have shown growth of 4.8%. Data processing costs increased 12.1%, mainly reflecting higher bank card processing costs which increased in relation to higher bank card revenues this quarter.

#### Income Taxes

The effective tax rate for the Company was 28.6% for the current quarter, compared with 32.6% in the previous quarter and 31.3% in the 3<sup>rd</sup> quarter of 2007. The lower effective tax rate this quarter was the result of lower pre-tax income, largely due to the loss on auction rate securities and the higher loan loss provision recorded this quarter.

#### Credit Quality

Net loan charge-offs for the 3<sup>rd</sup> quarter of 2008 amounted to \$18.7 million, compared with \$14.5 million in the prior quarter and \$11.5 million in the 3<sup>rd</sup> quarter of last year. The increase in net charge-offs in the 3<sup>rd</sup> quarter of 2008 compared to the previous quarter was mainly the result of a combined increase of \$1.9 million in consumer banking and consumer credit card loan losses, coupled with a \$1.0 million increase in construction loan net charge-offs, which was mainly the result of one large construction loan charge-off. Additionally, business loan net charge-offs this quarter included \$1.1 million relating to an equipment loan. Combined net loan charge-offs for business, business real estate and construction loans totaled \$5.7 million year-to-date, up \$1.4 million from amounts reported for the first nine months of 2007. The ratio of annualized net loan charge-offs to total average loans was .68% in the current quarter compared to .53% in the previous quarter.

For the 3<sup>rd</sup> quarter of 2008, annualized net charge-offs on average consumer credit card loans increased to 4.19%, compared with 4.06% in the previous quarter and 3.15% in the same period last year. Additionally, consumer loan net charge-offs for the quarter amounted to 1.40% of average consumer loans, compared to 1.09% in the previous quarter and .57% in the same quarter last year. The provision for loan losses for the quarter totaled \$29.6 million, and was \$11.6 million higher than the previous quarter and \$18.1 million higher than the 3<sup>rd</sup> quarter of 2007. The Company increased the allowance for loan losses by \$10.8 million, reflecting greater risk in the broader economy. The allowance for loan losses at September 30, 2008 amounted to \$156.0 million, or 1.42% of total loans, excluding loans held for sale, and was 375% of total non-accrual loans.

Total non-performing assets amounted to \$46.2 million, an increase of \$9.5 million over the previous quarter, and represented .42% of loans outstanding. Non-performing assets are comprised of non-accrual loans (\$41.6 million) and foreclosed real estate (\$4.6 million). Loans past due more than 90 days and still accruing interest totaled \$31.9 million at September 30, 2008.

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**Other**

The Company maintains a treasury stock buyback program. The Company's purchases of treasury stock during the current quarter were not significant. During the quarter the Company's Bank Strength Rating was reaffirmed by Moody's and remains among the top 5 of the fifty largest banks in the country.

**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.