

# COMMERCE BANCSHARES, INC.

## *INVESTOR UPDATE* *FEBRUARY 2016*

Charles Kim  
Chief Financial Officer

Jeffery Aberdeen  
Controller



# CAUTIONARY STATEMENT

**This presentation may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements of the Corporation’s plans, goals, objectives, expectations, projections, estimates and intentions. These forward-looking statements involve significant risks and uncertainties and are subject to change based on various factors (some of which are beyond the Corporation’s control). Factors that could cause the Corporation’s actual results to differ materially from such forward-looking statements made herein or by management of the Corporation are set forth in the Corporation’s 2015 3<sup>rd</sup> Quarter Report on Form 10-Q and the Corporation’s Current Reports on Form 8-K.**



# ABOUT COMMERCE BANCSHARES

Super-Community Bank - 150 years strong - \$24 billion in assets

37<sup>th</sup> largest U.S. bank based on asset size<sup>1</sup>

Growth opportunities in expansion markets

Commercial Payment Services offered in 48 states

Investment in distinctive, high-return businesses coupled with top quartile credit metrics

## Distribution Channels

191

Branches

387

ATMs

360M

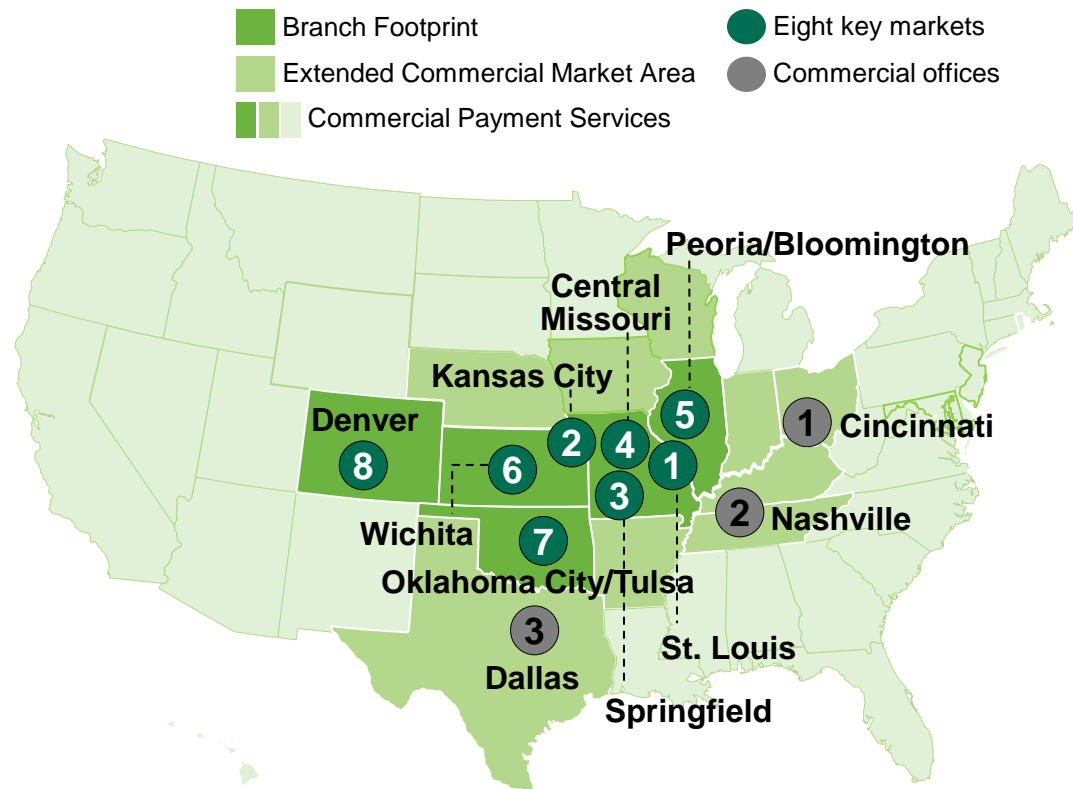
Online banking  
customers

176M

Mobile customers

61MM

Online banking /  
mobile sessions



Source: <sup>1</sup>SNL Financial as of 6/30/2015 | <sup>2</sup> Company reporting as of 12/31/2015

We ask, listen and solve.



Commerce Bancshares, Inc. 3

# SUPER-COMMUNITY BANK PLATFORM

*A CONSISTENT STRATEGY WITH A LONG TERM VIEW*

## Community Bank Front End

- Responsive to customer needs and changing preferences
- Core values embraced by employees
- Award winning customer service
- Knowledge of customers and markets reduces risk



Customer relationship-based  
*We ask, listen and solve.*

High performing teams and  
engaged workforce

Investment in distinctive, high-  
return businesses

Long history of top quartile  
credit quality metrics

Disciplined approach to  
acquisitions

Focus on operational  
efficiencies



## Super-Regional Back End

- Sophisticated payment system capabilities
- Broad consumer product offerings
- Private Banking; Trust; Capital Markets
- Shareholder driven and strong financial performance
- Competitive on unit costs



# A STRONG EMPHASIS ON CULTURE

## ENABLES EXECUTION OF CORPORATE STRATEGIES

### Core Values

We have a long term View

We collaborate as One team

We act with Integrity

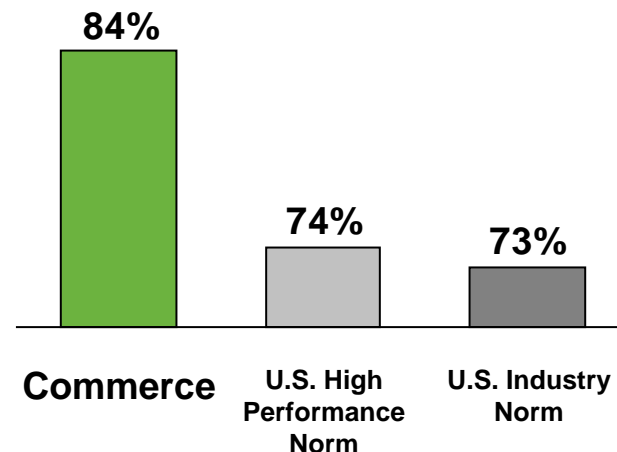
We are Customer focused

We strive for Excellence

- Engaged, long-term leadership team
- Focus on people/talent development
- Award winning customer service
- Knowledge of customers and markets
- Emphasis on credit underwriting – top quartile credit quality metrics
- Focus on EPS growth
- Collaboration drives sales across business lines

- 4,770 FTE employees
- Continuously strong employee engagement scores

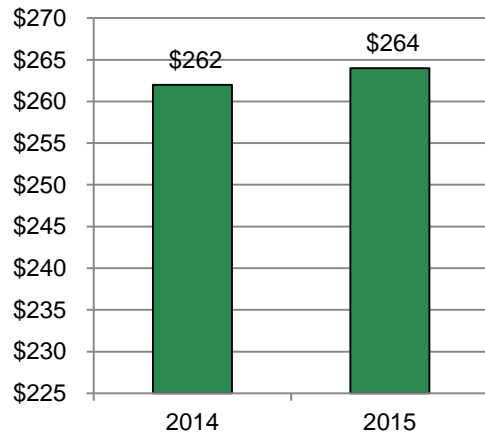
### 2015 Employee Engagement\*



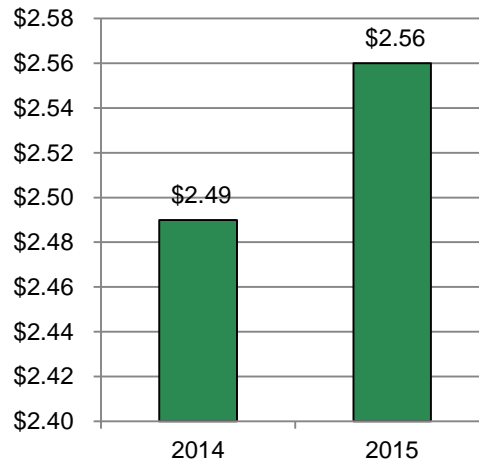
***150 years – dedicated to providing high customer service and risk adjusted shareholder returns***

# FINANCIAL PERFORMANCE VS. PRIOR YEAR

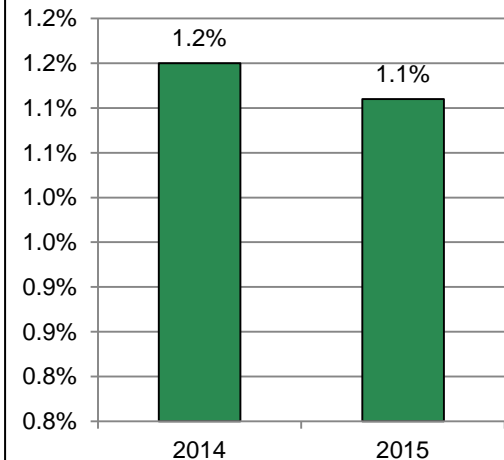
**Net Income Attributable CBI**  
\$ - millions



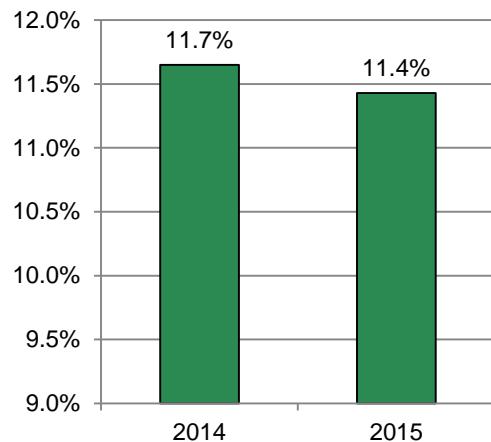
**EPS**



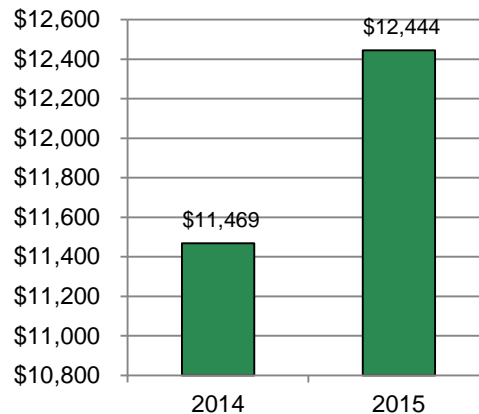
**Return on Assets**



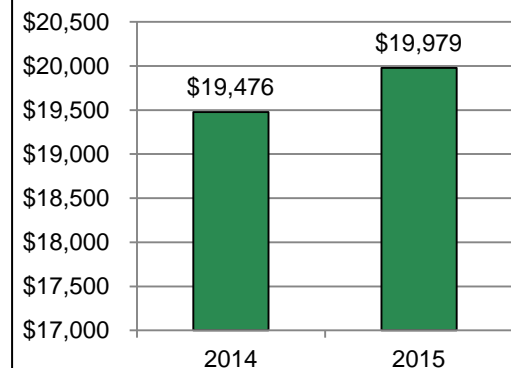
**Return on Common Equity**



**Period End Loans**  
\$ - millions

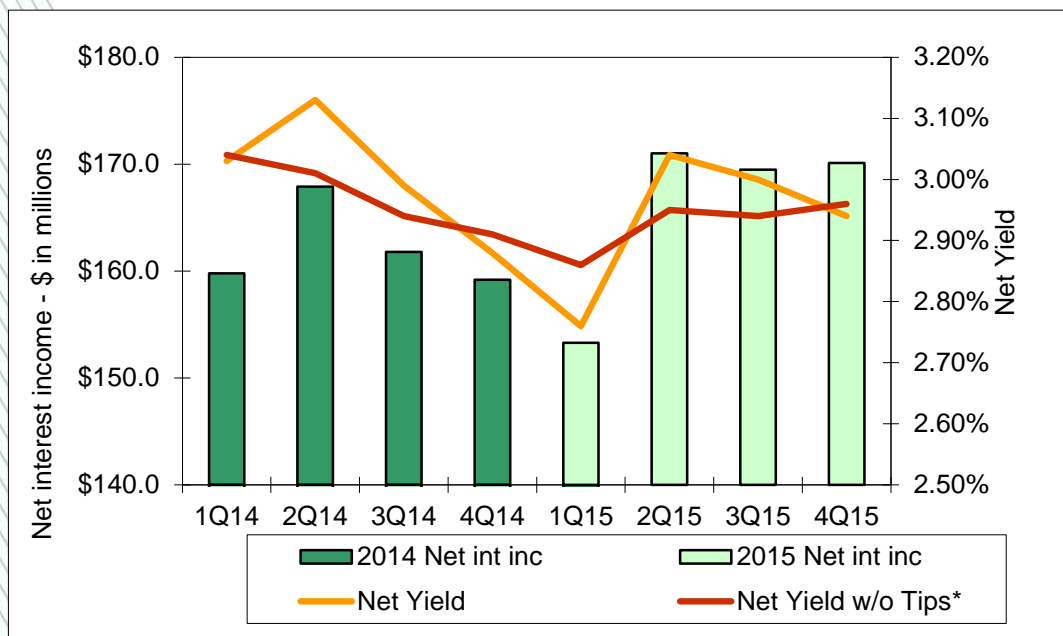


**Period End Deposits**  
\$ - millions



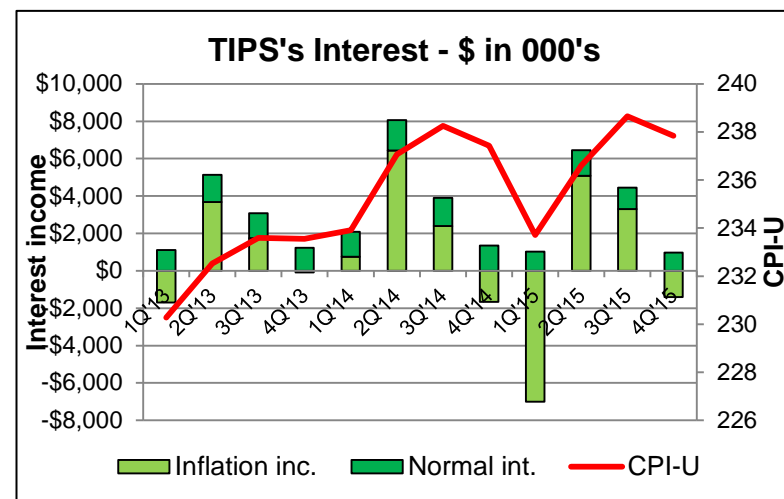


# NET INTEREST INCOME YTD – December 31, 2015



- Net interest income (tax equivalent) increased \$629 thousand this quarter vs. last quarter due to higher loan & investment interest offset by a decline in inflation income on TIPs. Interest yields on loans decreased 4 basis points. Deposit costs remained steady at .18%.
- Excluding earnings on TIP's, the net interest margin grew to 2.97% this quarter. Growth in loan balances added to net interest income.

<i>Tax equivalent - YTD</i>	2014	2015	Chge
Yield - assets	3.13%	3.06%	-0.07%
Yet yield - liabilities	0.20%	0.20%	0.00%
Net yield - earning assets	3.00%	2.94%	-0.06%



\*Excludes inflation income on tips

We ask, listen and solve.

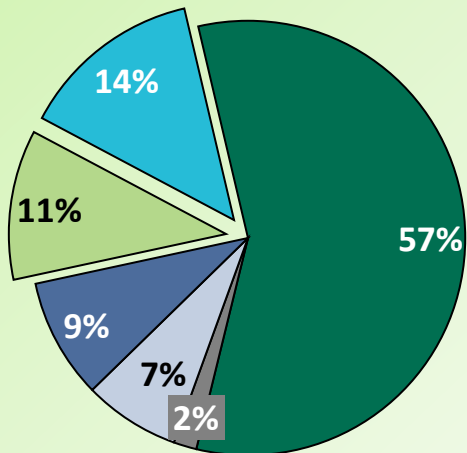


Commerce Bancshares, Inc. 7

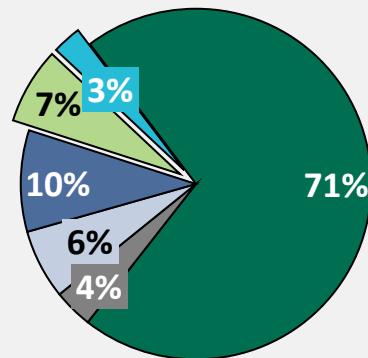
# DIVERSE REVENUE RELATIVE TO PEERS

## BALANCED MIX OF INTEREST AND NON-INTEREST INCOME

### COMMERCE BANK

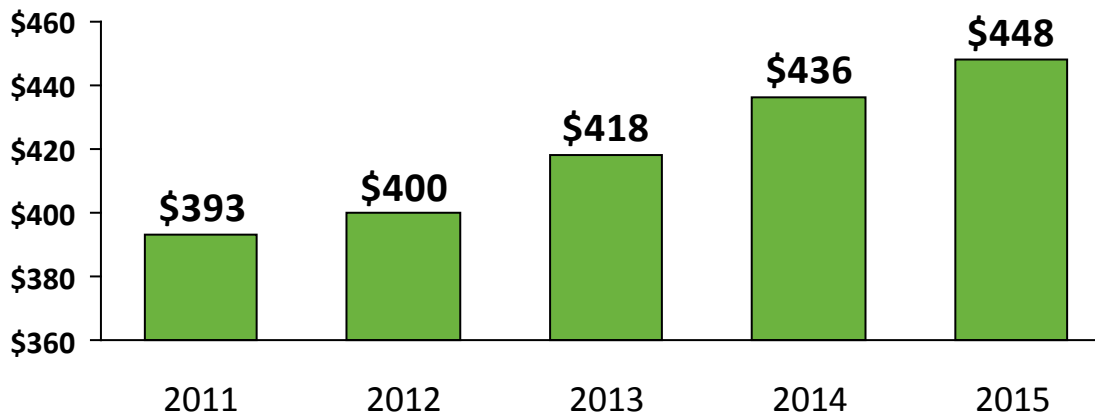


### PEER BANKS



- Net interest margin
- Fees & commission
- Deposit service charges
- Other
- Wealth management
- Card income

### Non-Interest Income \$ - millions



Peer Banks include: ASBC, BKU, BOKF, CFR, FCNCA, FHN, FMER, HBHC, IBKC, ISBC, PB, SBNY, SNV, TCB, UMBF, UBQ, WBS, VLY, WTFC

Note: Excludes Gains and Losses on Securities

Source: Financial Information Systems; data as of 9/30/2015

We ask, listen and solve.



Commerce Bancshares, Inc. 8

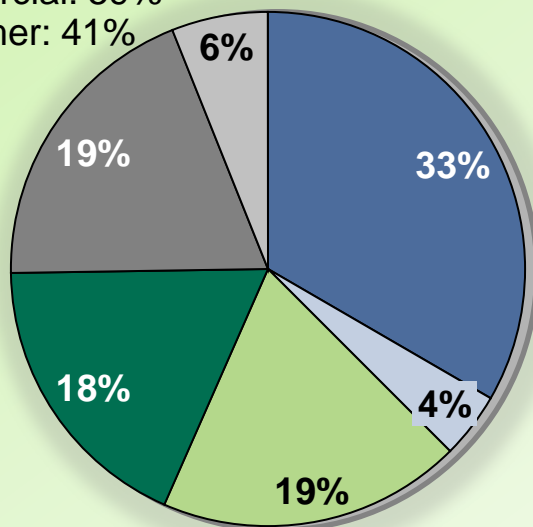


# WELL-DIVERSIFIED LOAN PORTFOLIO

## COMMERCE

Commercial: 59%

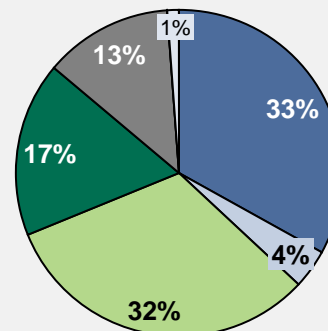
Consumer: 41%



## Peer Banks

Commercial: 69%

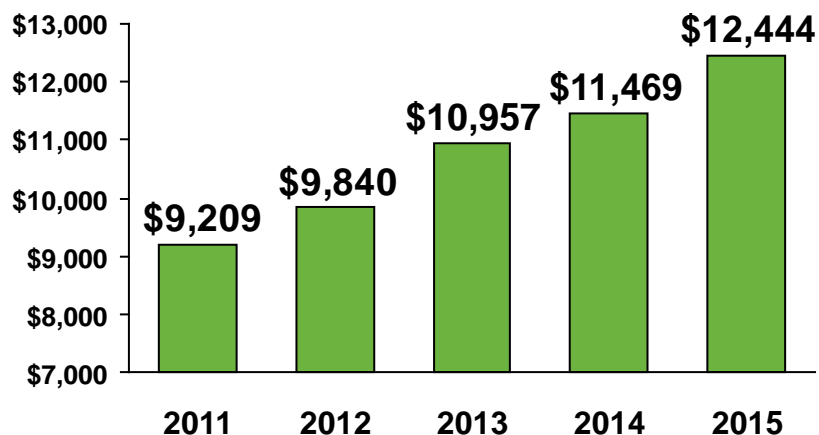
Consumer: 31%



- Business, Lease & tax free
- Construction
- Business Real Estate
- Personal Real Estate
- Consumer & HELOC
- Consumer Card
- Loans held for sale

## Period End Loan Growth

\$s in millions



Loans grew 9% in 2015

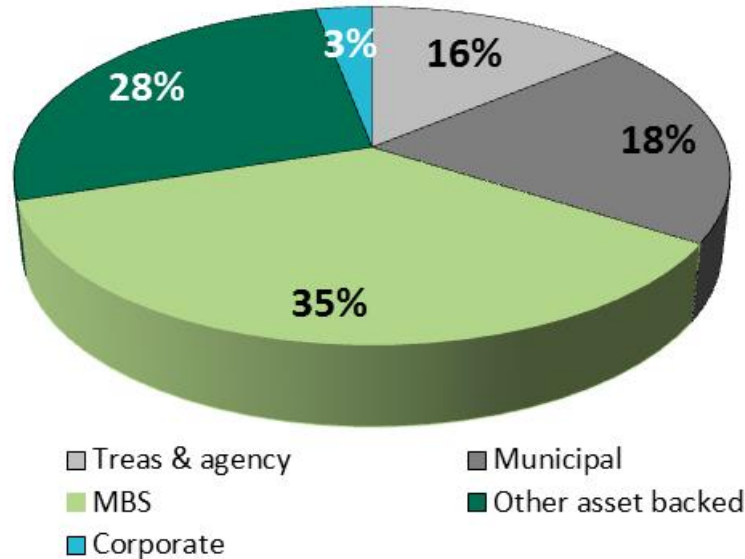
## 2015 Loan Growth came from.....

C&I	\$282	10%
Auto/consumer	256	21%
Construction	221	55%
Tax-free	95	13%
Business RE	67	3%
Lease	50	12%



# INVESTMENT PORTFOLIO: HIGH QUALITY, DIVERSE, SHORT DURATION

Composition of AFS Portfolio



## AFS Portfolio: December 31, 2015

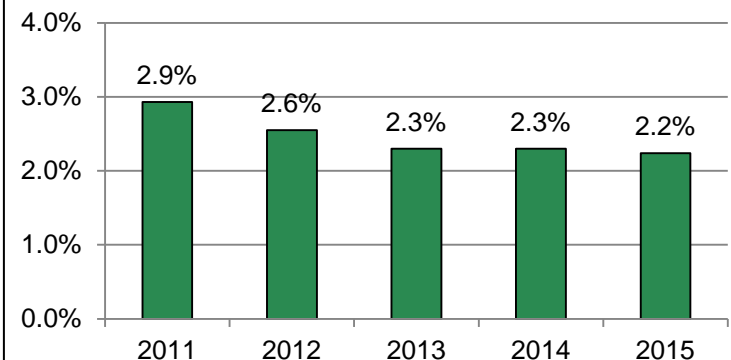
Total investments \$9.8 billion  
 Unrealized gain \$86 million  
 12 mo. maturities/  
 pay-downs \$1.6 billion

### Duration (years)

June 2014	2.7
Dec 2014	2.4
June 2015	2.9
Dec. 2015	2.9

December 31, 2015	Weighted Avg rate	Weighted Life (years)
Treasury & agency*	1.3%	3.4
Municipal - TE	3.9%	5.4
MBS	2.8%	3.4
Other asset-backed	1.3%	2.4
Corporate	2.5%	5.9

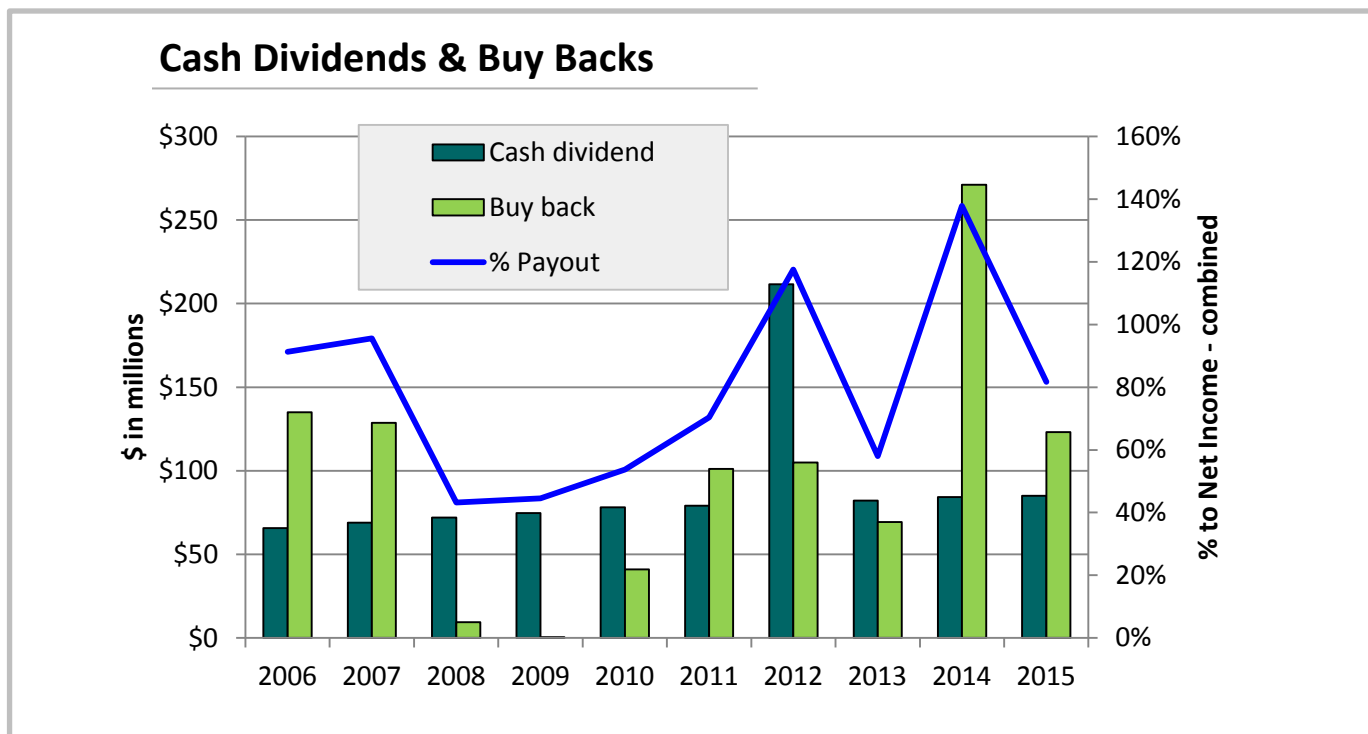
## YTD TE Rate- Investments



\*Excludes inflation effect on TIPs  
 Sources: InTrader, AFS portfolio



# STRONG CAPITAL POSITION – FLEXIBILITY IN CAPITAL PLANNING



## Capital Ratios – 12/31/2015

Tier 1 common risk-based capital	11.5%
Tier 1 risk-based capital	12.3%
Total risk-based capital	13.3%

- Repurchased treasury stock of \$123 million in 2015 including \$100 million as part of ASR transaction
- Total cash dividends in 2012 of \$212 million, included \$131 million special dividend

***48 consecutive years of regular common cash dividend increases***

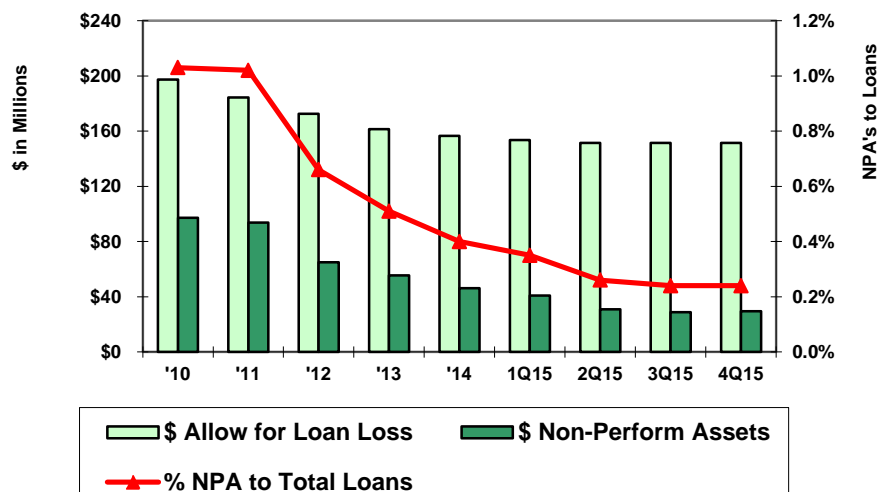


# NET LOAN CHARGE-OFFS YTD – December 31, 2015

\$ in 000's	2014YTD	2015YTD	\$ Change	2015 Loss Rate
Business	\$465	\$ (400)	(\$865)	-0.01%
Leases	-	12	12	0.00%
Overdraft	1,074	1,350	276	24.93%
Construction	(1,529)	(1,262)	267	-0.26%
Business R/E	427	(133)	(560)	-0.01%
Personal R/E	527	441	(86)	0.02%
Consumer	8,805	8,278	(527)	0.45%
HELOC	40	402	362	0.09%
Credit card	24,722	25,039	317	3.35%
<b>Total</b>	<b>\$34,531</b>	<b>\$33,727</b>	<b>(\$804)</b>	<b>0.28%</b>

- Net recoveries on construction loans slightly less than last year; business & business RE loans were also in net recovery positions this year.
- Consumer credit losses decreased \$527k vs last year; greater auto loan losses (larger loan portfolio), offset by decline in loan losses on home equity & marine/RV loans.
- Loss rate on consumer credit card loans was 3.4% this year & has been consistent all year; remains low.

Non-Performing Loans to Allowance



	2014	2015
Non accrual loans	\$ 40,775	26,575
Foreclosed assets	5,476	2,819
	<u>\$ 46,251</u>	<u>29,394</u>





# MAINTAINING THE BALANCE

Continued strong performance of the core bank



COMMERCE BANK

150 YEARS  
STRONG

Deepen relationships and profitability in **traditional markets & lines of business**

Execute on disciplined **sales** process

Achieve **continuous** process & cost **efficiencies**

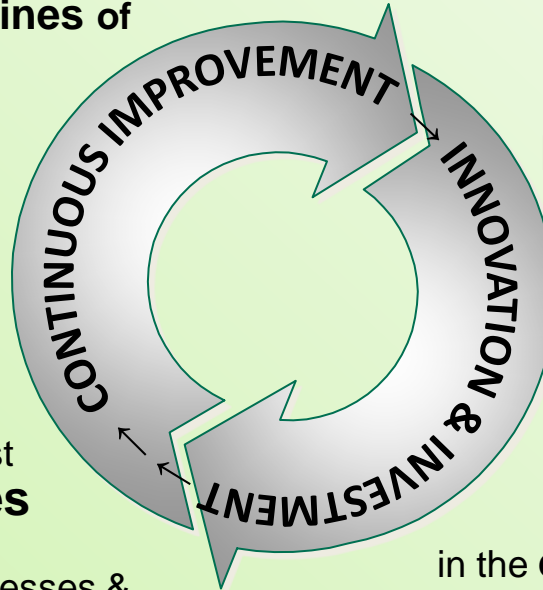
**Divest** businesses & activities that no longer provide acceptable returns

**Invest** in distinctive, high return businesses

**Innovate** on select products and services

Leverage our position


in the **expanded geographic markets** and **maximize profitability**




**Disciplined focus on priority blue chip investments**




Grow Expansion Markets 


Transform the Retail Model 


Enhance Private Client Model 

Health Services Financing 

Claims Payments 

Supply Chain Finance 

Commerce Bank Mortgage 

Enterprise CRM 



**People**  
Our greatest asset  
*The Commerce EDGE*



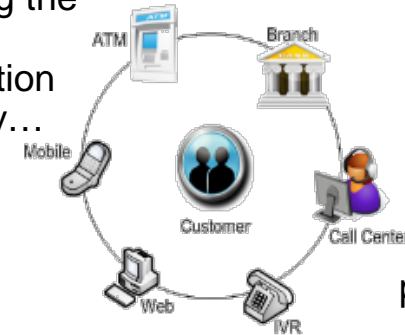


# TRANSFORMING THE RETAIL MODEL – COMMITMENT AND FOCUS

## Blue Chips and Key Priorities:

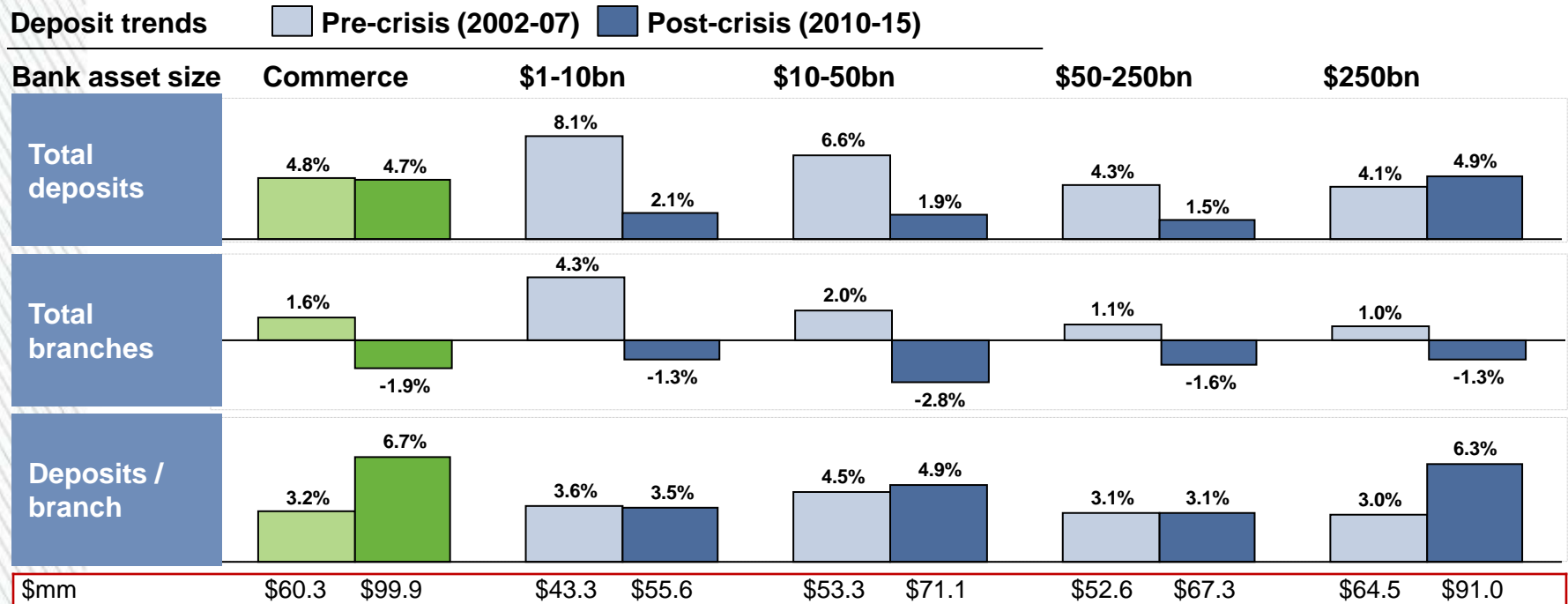
- Efficiently deliver products, services & processes to increase growth
- Deliver sales, service and revenue results
- Refine efforts to attract NTB prioritized HHs
- Deliver expanded digital capabilities
- Continue transforming the branch experience model
- Cost effectively retain the deposit portfolio

Evolving the branch distribution strategy...



...to meet changes in customer preferences

## Deposit growth picks up at largest banks while branch pruning continues



Source: JP Morgan – January 2016 (Financial data as of 9/30/2015; data set consists of all commercial banks, deposits capped at \$500mm per branch  
 Figures represent 2007YE and 2015Q3 periods



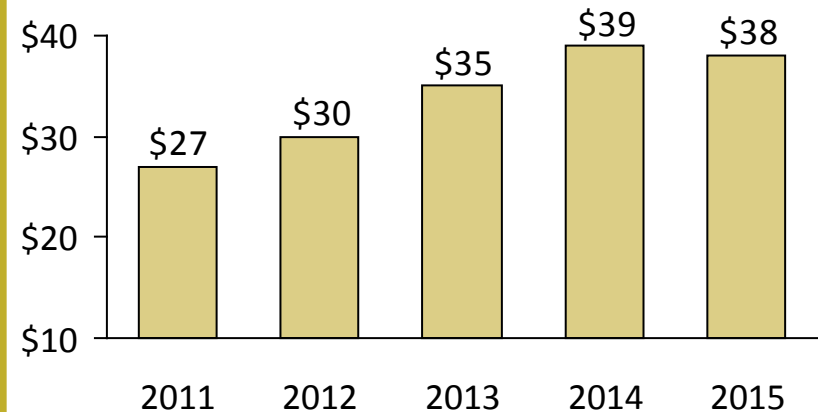
# COMMERCE TRUST COMPANY – GROWING WEALTH SECTOR

As one of the largest trust companies in the U.S., The Commerce Trust Company excels at providing objective financial advice, exceptional personal service and comprehensive wealth management solutions.

- **\$38.3 billion in total client assets<sup>1</sup>**
- **\$22.6 billion in assets under management**
- **Ranked #22 nationally** based on assets under management<sup>2</sup>
- **Commerce Family Office the 22<sup>nd</sup> largest family office in the world by assets.** *Bloomberg Markets magazine* – December 2015
- For two consecutive years, in 2013 and 2014, **Commerce Investment Advisors** received the highest rating in the **Best Fixed Income Small Fund Group** by *Lipper*, the leading provider of mutual fund information.



Trust Assets (\$ billions)



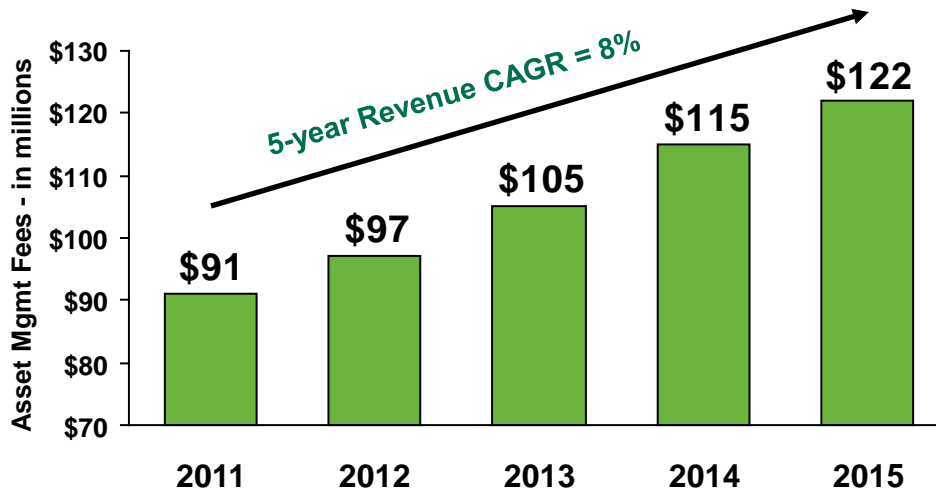
## Blue Chips and Key Priorities

- Expand sales staff and calling programs
- Focus on newer markets
- Managed product lines offer growth opportunities
- Expand Family Office
- Emerging wealth – Horizons in Brokerage

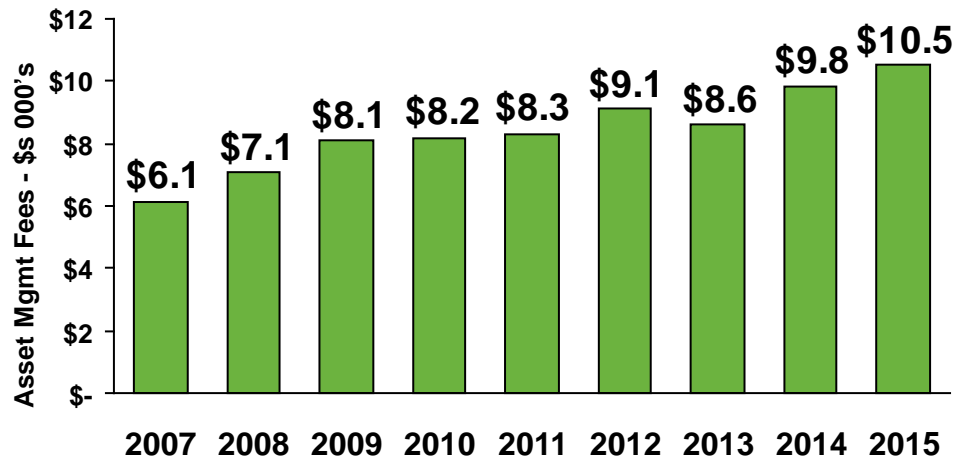


# TRENDS IN TRUST REVENUE AND SALES

## Asset Management Revenues



## Asset Management Sales



- Asset management revenues offer both continued solid growth and good margins.
- Attrition rates remain below industry results.
- Asset management sales were record \$10.5 million in 2015 reflecting continued growth opportunities.



# COMMERCIAL – REVENUE GROWTH OPPORTUNITIES

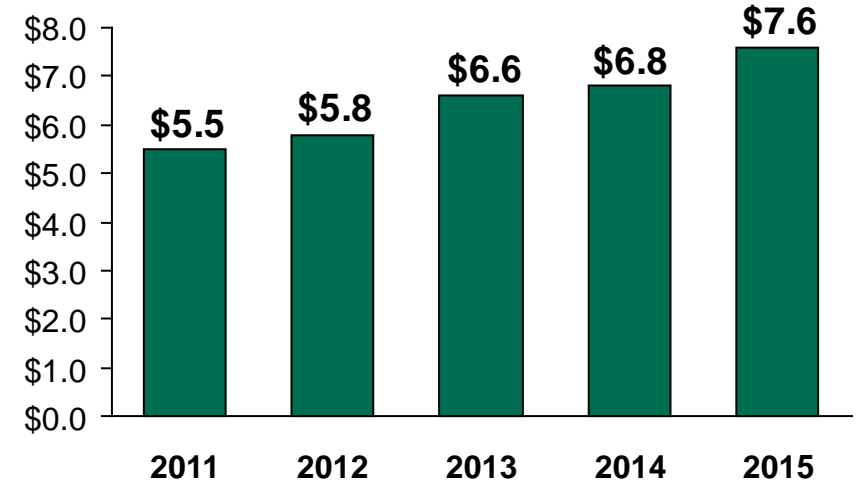


## Blue Chips and Key Priorities:

- Build out capabilities in Expansion Markets
- Refine Healthcare Banking strategy
- Embrace innovation in the Payments Systems
- Execute on our systematic sales process
- Proactively respond to hyper-competitive environment

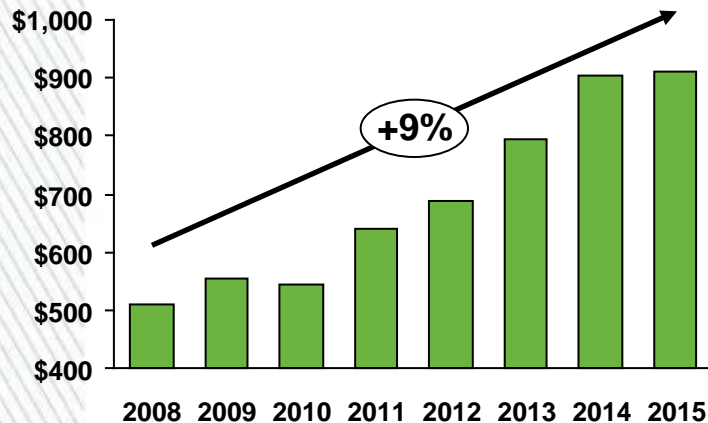
## Commercial Banking – Total loans

\$s in billions



## Loan Growth in the Healthcare Sector

\$s in millions



## Full suite of products:

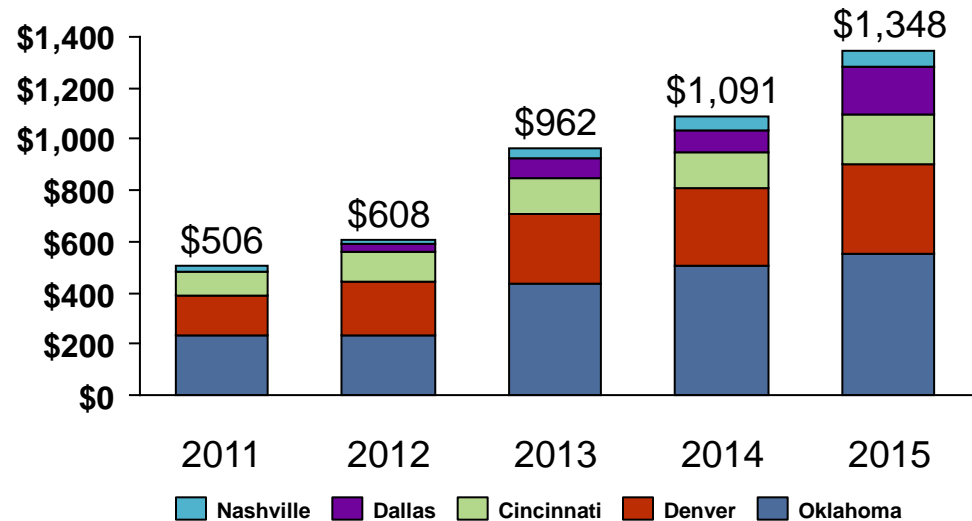
- **Health Services Financing**
- **Commerce OnePay™** and AP Automation
- **Commerce Bank Point-of-Care™** and Merchant Services
- **Commerce Bank RemitConnect®** and Lockbox Services



# COMMERCIAL BANKING – EXPANSION MARKETS

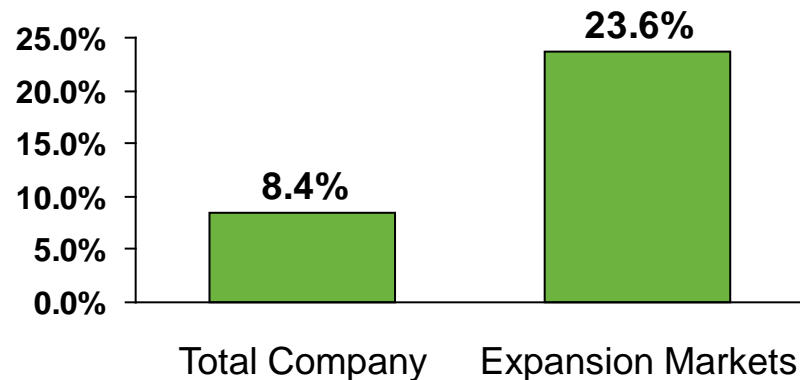


Expansion Market Loan Growth - \$ billions



Loan Growth 2015 vs 2014

Expansion Markets Offering Growth Opportunities



**EXPANSION MARKETS OFFERING GROWTH OPPORTUNITIES**



# CARD PRODUCTS – A LEADER IN THE PAYMENTS INDUSTRY



## Blue Chips and Key Priorities:

- Preserve core card volume in Card businesses
- Explore new business opportunities, and invest in distinctive, high-return businesses
  - Supply Chain Finance
  - Health Services Financing
  - Claims Payments
- Consumer Card account acquisition and increased usage and activity
- Consumer Card product development and innovation
  - Multi Account Chip
  - Toggle On Demand
  - Co-Brand growth

***Consistently ranked among the top issuers in the Nilson Report***

### Commercial Card

#7 Purchasing Card Issuer

#15 Commercial Card Issuer

### Debit Card

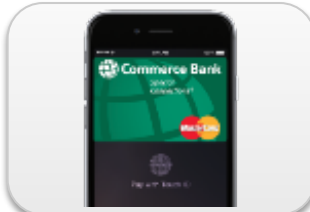
#35 Debit Card Issuer

### Consumer Card

#19 Consumer Card Issuer\*

### Merchant Services

#12 Bank Acquirer\*



\*Excludes non-banks

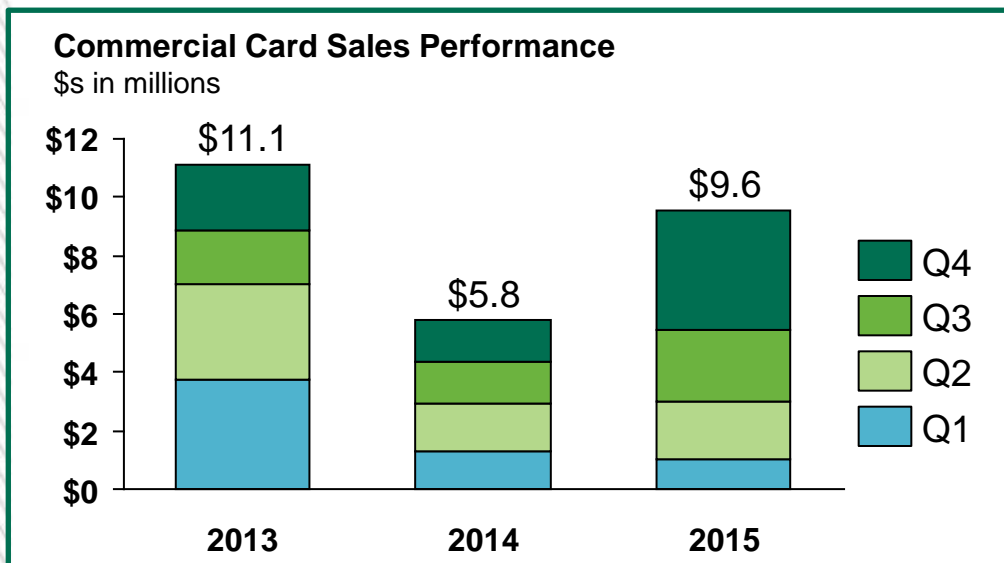
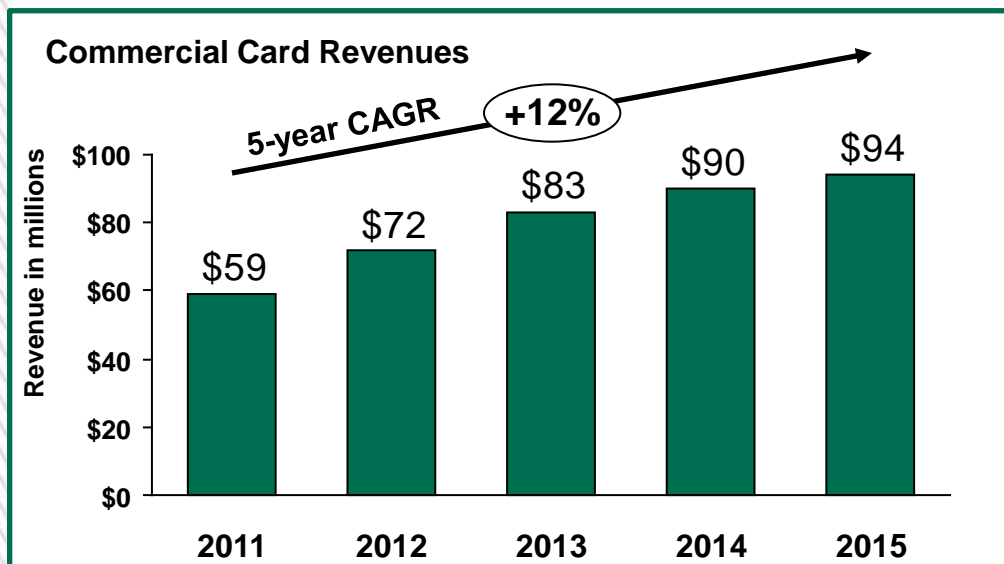
Source: Nilson Reports (Debit: April 2015; Consumer Card: February 2015; Merchant: March 2015; Purchasing: June 2015; Commercial Card June 2015)

We ask, listen and solve.



Commerce Bancshares, Inc. 19

# TRENDS IN COMMERCIAL CARD REVENUES AND SALES

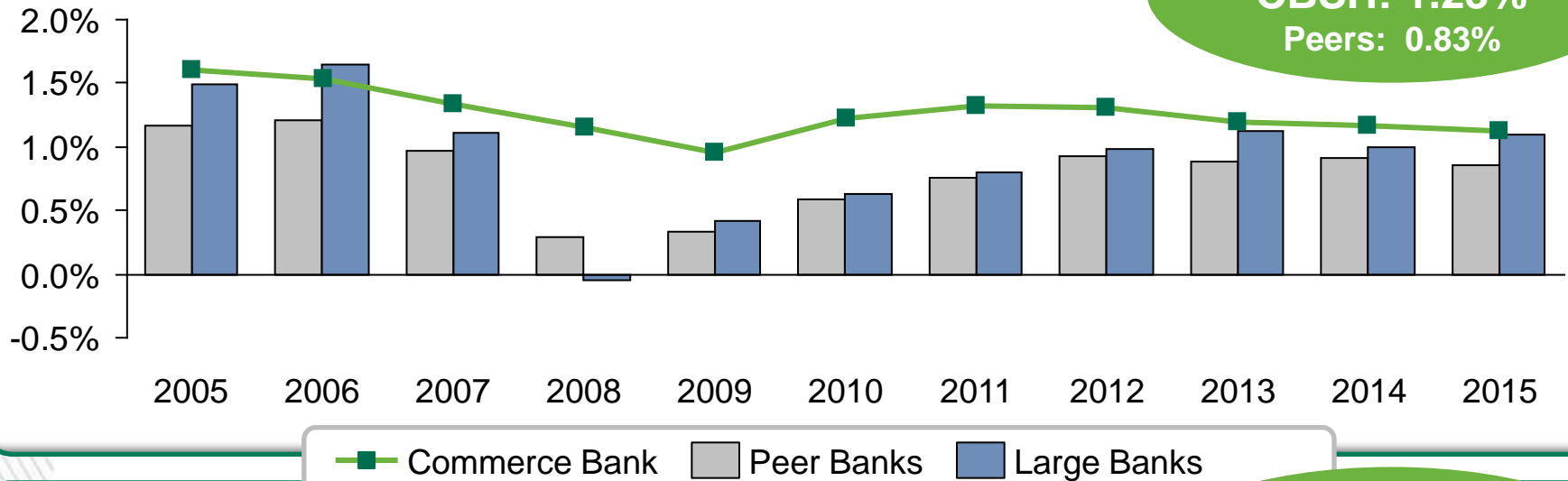


- Commercial card revenues grew 14% over previous 5 years.
- Sales lagged in 2014 due to sales force turnover but has rebounded in 2015.
- New onboarding processes developed reduces length in sales cycle for new reps.

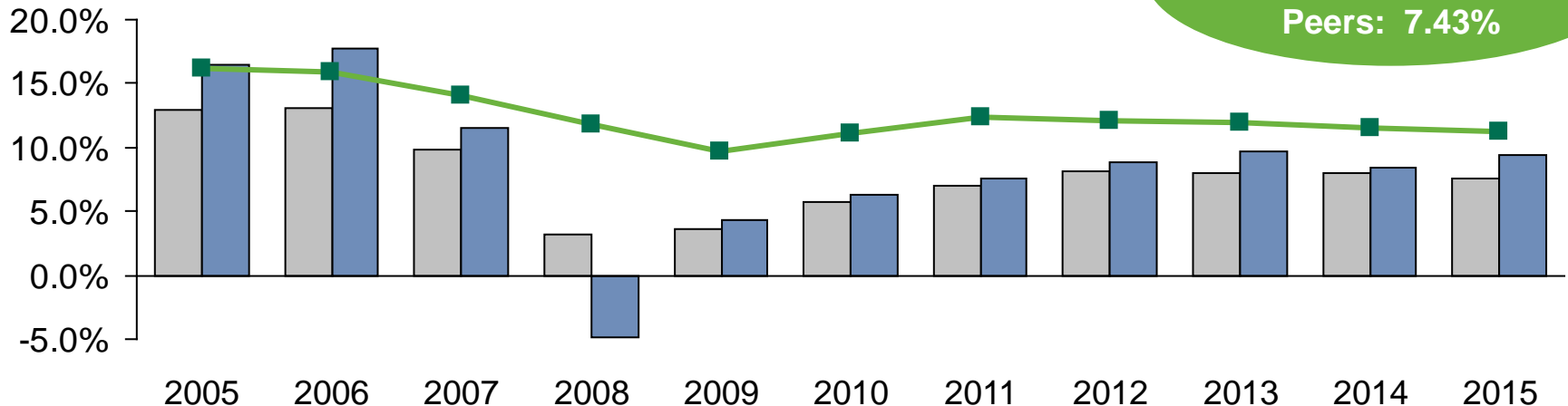


# COMMERCE BANK HAS BEEN A SOLID PERFORMER OVER TIME

## Return on Assets



## Return on Equity



Peer Banks include: ASBC, BKU, BOKF, CFR, FCNCA, FHN, FMER, HBHC, IBKC, ISBC, PB, SBNY, SNV, TCB, UMBF, UBQ, WBS, VLY, WTFC; Large Banks include: JPM, BAC, C WFC USB, PNC, FITH, RF.

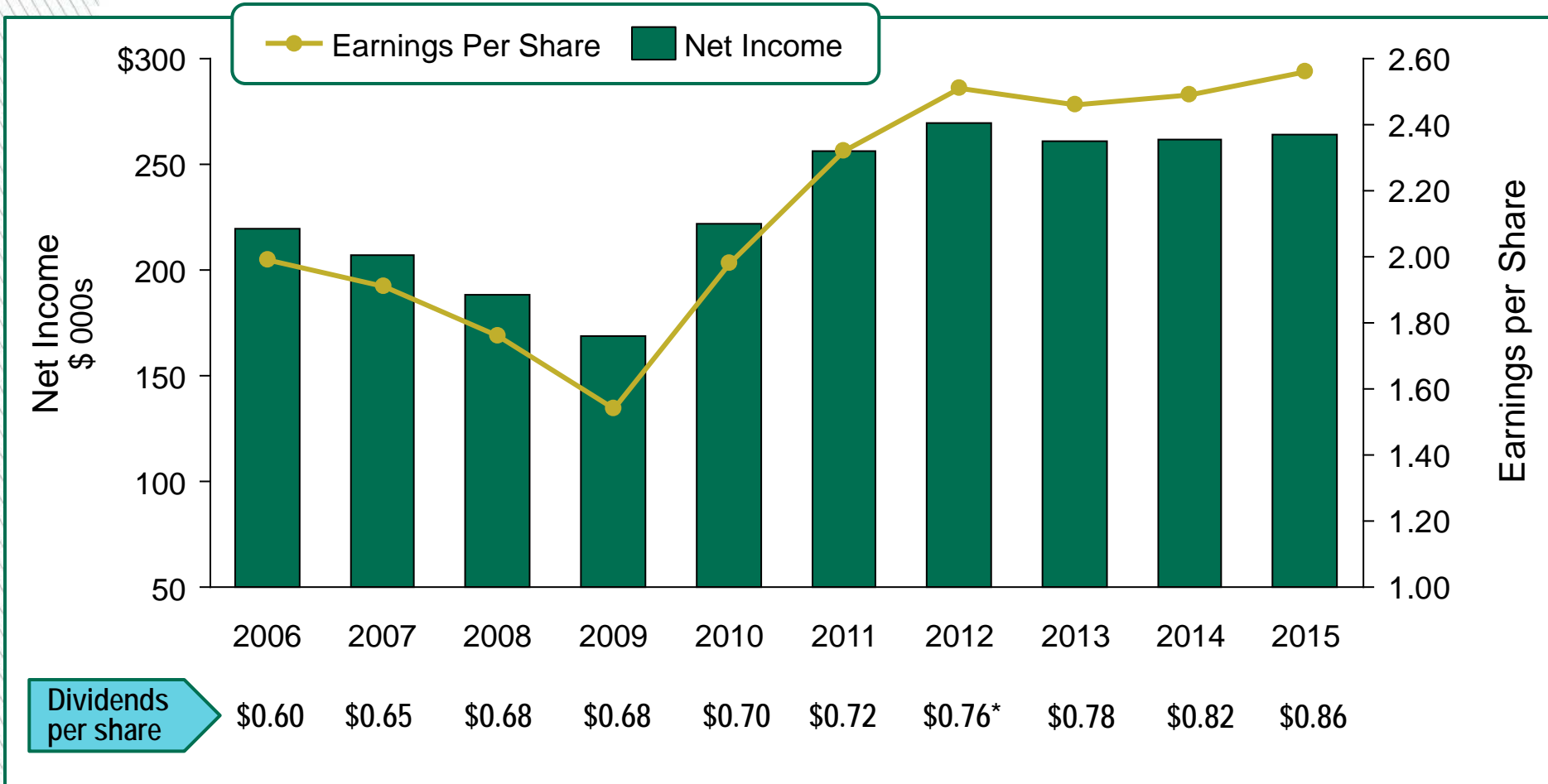
Source: Financial Information Systems; data as of 9/30/2015

We ask, listen and solve.



Commerce Bancshares, Inc. 21

# LONG TERM VIEW: NET INCOME AND EARNINGS PER SHARE



**EPS REMAINS STRONG**

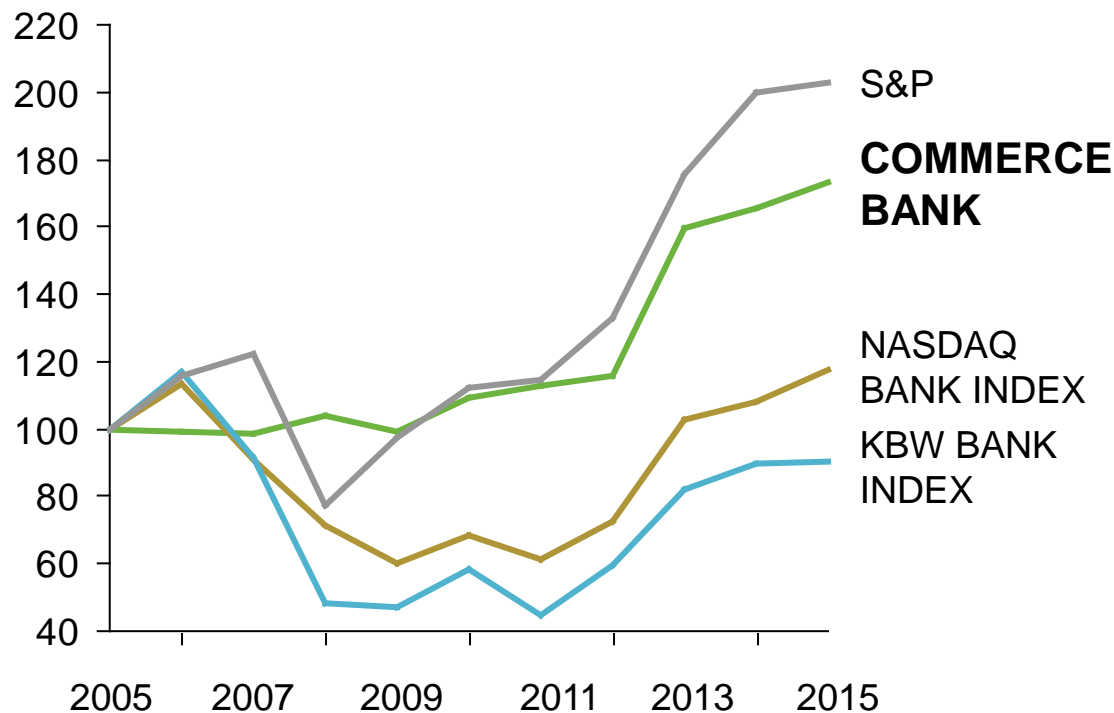
**48<sup>TH</sup> CONSECUTIVE YEAR OF DIVIDEND GROWTH**



# STEADY SHAREHOLDER RETURNS

## Total Shareholder Returns\*

Indexed, 12/31/2005 = 100



## Annualized Total Shareholder Returns\*

Percent

	1 yr	3 yr	5 yr	10 yr
CBSH	4.80%	14.30%	9.65%	5.65%
S&P 500	1.37%	15.12%	12.55%	7.32%
NASDAQ Banks	8.84%	17.41%	11.44%	1.62%
KBW Bank Index	0.49%	14.82%	9.10%	(1.04%)

***Consistent, positive returns to shareholders***  
***Significant outperformance relative to banks over long period***

