Challenge Accepted.™

# COMMERCE BANCSHARES, INC.

## INVESTOR UPDATE
## June 2018

Charles G. Kim
Chief Financial Officer

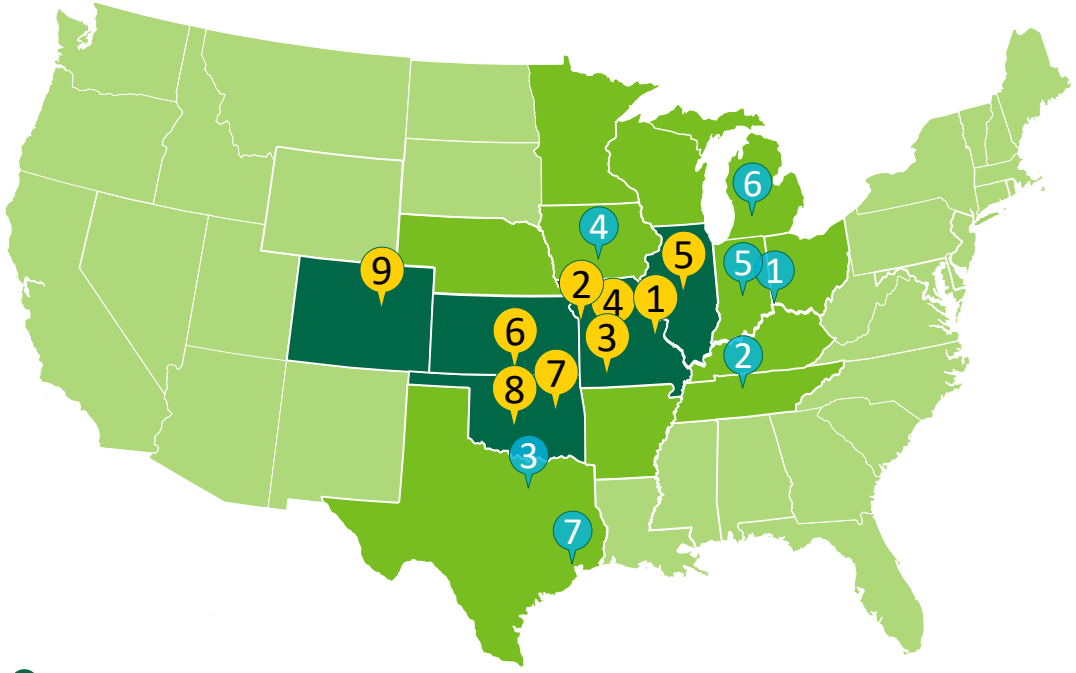
Jeffery Aberdeen
Controller

Commerce Bancshares, Inc.

# CAUTIONARY STATEMENT

A number of statements we will be making in our presentation and in the accompanying slides are “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 2018 1st Quarter Report on Form 10-Q and the Corporation’s Current Reports on Form 8-K.

# ABOUT COMMERCE BANCSHARES




- 172 branches and 372 ATMs in our footprint
- Extended Commercial Market Area
- Commercial Payments Services offered in 48 states

Nine key markets

1. St. Louis
2. Kansas City
3. Springfield
4. Central Missouri
5. Central Illinois
6. Wichita
7. Tulsa
8. Oklahoma City
9. Denver

Commercial offices

1. Cincinnati
2. Nashville
3. Dallas
4. Des Moines
5. Indianapolis
6. Grand Rapids
7. Houston

**$24.6**
BILLION IN ASSETS[2]

**45TH**
LARGEST U.S. BANK BASED ON ASSET SIZE[1]

**$6.4**
BILLION MARKET CAPITALIZATION[2]

**29TH**
LARGEST U.S. BANK BASED ON MARKET CAPITALIZATION[1]

**$49.4**
BILLION IN TRUST ASSETS[2]

**19TH**
LARGEST AMONG U.S. BANK-OWNED TRUST COMPANIES BASED ON AUM[1]

**153**
YEARS IN BUSINESS

**$20.5**
BILLION IN TOTAL DEPOSITS[2]

**$13.9**
BILLION IN TOTAL LOANS[2]

**$7.9**
BILLION IN COMMERCIAL CARD VOLUME as of 12/31/2017

**15.58%**
RETURN ON AVERAGE COMMON EQUITY[2]

**4TH**
ROACE FOR THE TOP 50 U.S. BANKS BASED ON ASSET SIZE[1]

*Source: [1]S&P Global Market Intelligence as of 03/31/2018; [2]Company reports and filings as of 03/31/2018*

# SUPER-COMMUNITY BANK PLATFORM

*A consistent strategy with a long term view*

**Community Bank**

- Quickly adapt to customer needs and changing preferences
- Core values embraced by employees
- Award winning customer service
- Focus on the full client relationship

Customer relationship-based

***CHALLENGE ACCEPTED***

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 Bank**

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

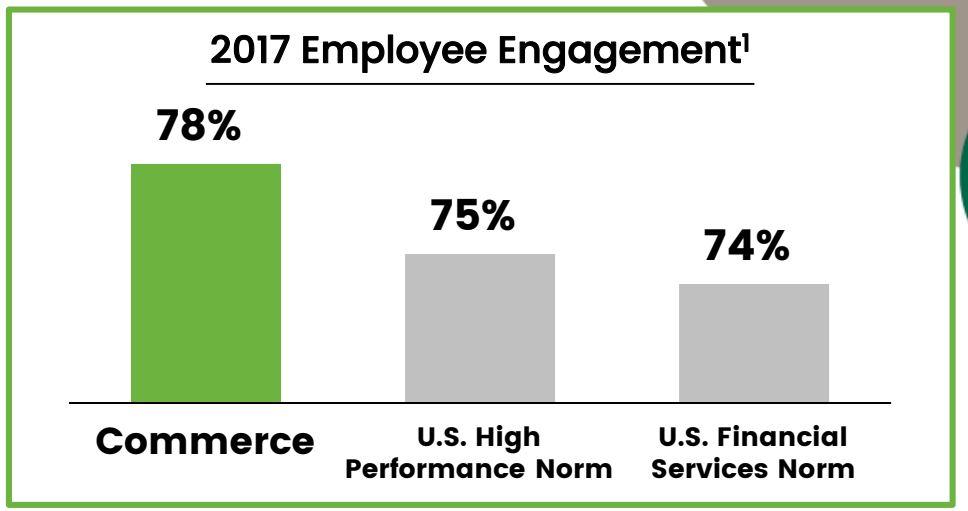
# A STRONG EMPHASIS ON CULTURE

**Giving VOICE to our VALUES**




THE Commerce EDGE

- Engaged, long-term leadership team
- Focus on people and talent development
- Knowledge of customers and markets
- Collaboration drives sales across business lines
- Focus on EPS growth
- Investing in the communities in which we operate




- Contributed $32 million to Commerce Bancshares Foundation to enable expanded community support
- Rated "outstanding" from the Federal Reserve for community reinvestment
- Employees heavily engaged in the communities we serve

***ENABLES EXECUTION OF CORPORATE STRATEGIES***

Commerce Bancshares, Inc.

[1] *The Korn Ferry Hay Group – 2017 survey results*

# RECENT RECOGNITION




The 2017 Private Asset Management Awards recognize and reward top investment professionals, wealth advisors, legal firms, consultants and other key service providers operating within the private asset management industry.




Commerce Bank was recognized with eight Greenwich Excellence Awards in the following categories:

Middle Market Banking ($10-500MM)
Cash Management - Overall Satisfaction
Cash Management - Overall Satisfaction - Midwest
Likelihood to Recommend / Net Promoter Score
Likelihood to Recommend / Net Promoter Score - Midwest
Overall Satisfaction
Overall Satisfaction - Midwest
Proactively Provides Advice – Midwest

Small Business Banking ($1-10MM)
Likelihood to Recommend / Net Promoter Score - Midwest




Commerce Bank was named a Top Midsize Employer by Forbes. We ranked in the top 15 percent, coming in at 68th on the list of 500 companies with 1,000-5,000 employees. Commerce placed seventh among all banking and financial services companies and fourth among employers headquartered in Missouri.




The award publicly recognizes Korn Ferry clients that have achieved best-in-class levels of engagement. Commerce is one of only three companies in the United States to receive this global award.

Commerce Bancshares, Inc.

# STRONG FINANCIAL PERFORMANCE IN 2017

Growth in Earnings per Share ↑16%

ROA 1.28%

ROE 12.5%

Revenue growth ↑6%

Net interest margin growth 16 bps 3.20%

Growth in loans ↑4%

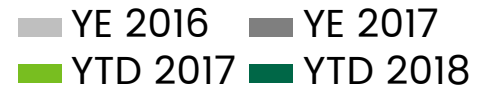
Net loan charge-offs to loans .31%

*Long term performance remains strong*

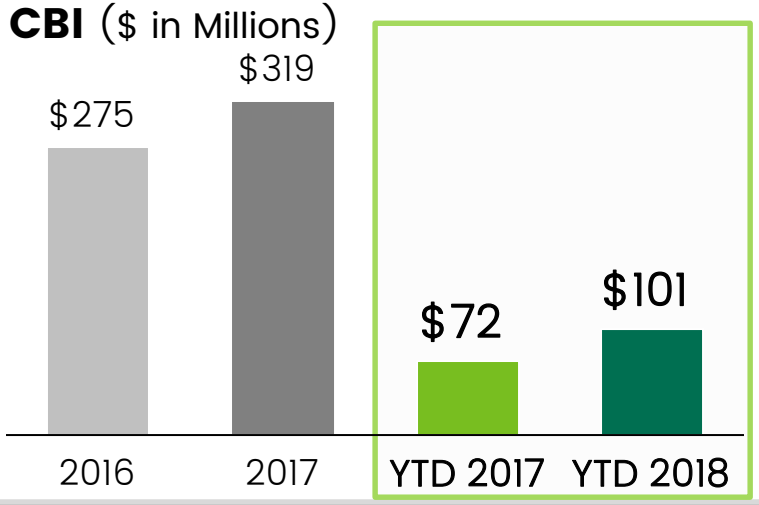
10 year TOTAL SHAREHOLDER RETURN @ 10.1%

Vs KBW Bank Index of 4.1%

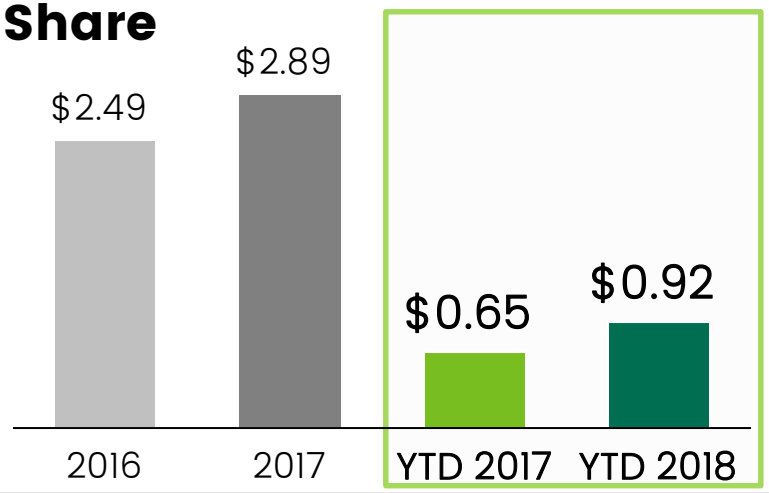
# 1Q18 FINANCIAL PERFORMANCE VS. PRIOR YEAR



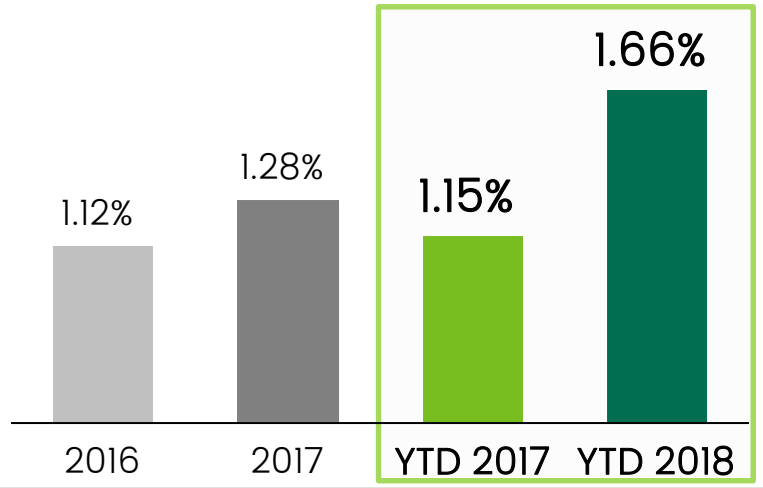

## Net Income Attributable to CBI ($ in Millions)



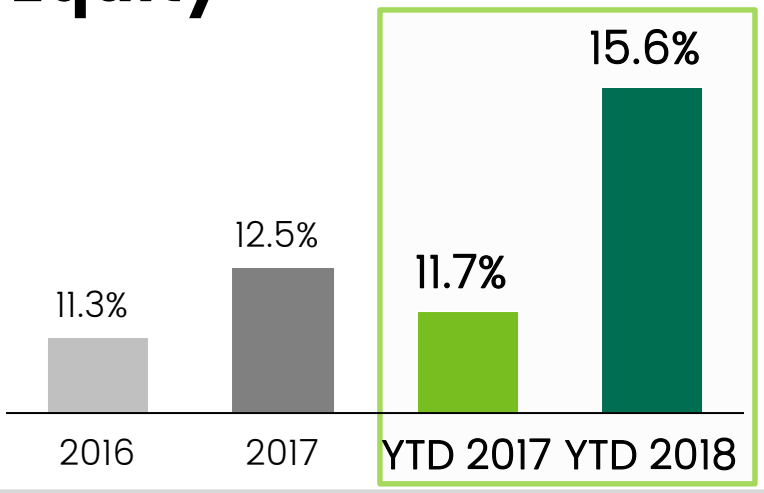

## Earnings per Common Share



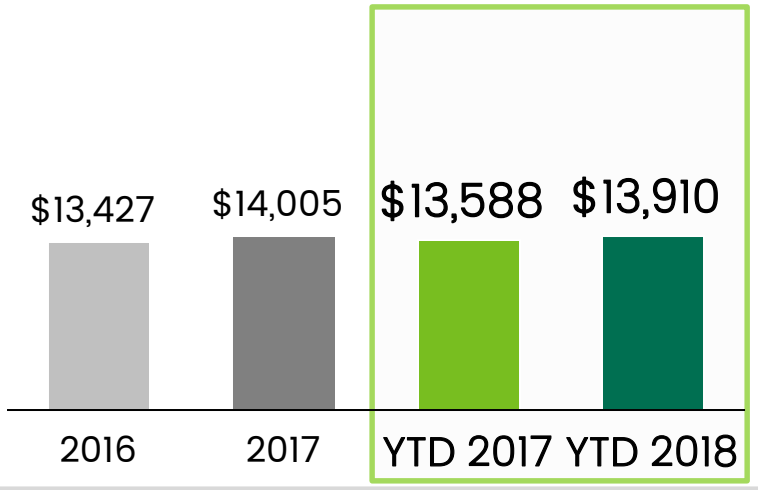

## Return on Total Assets



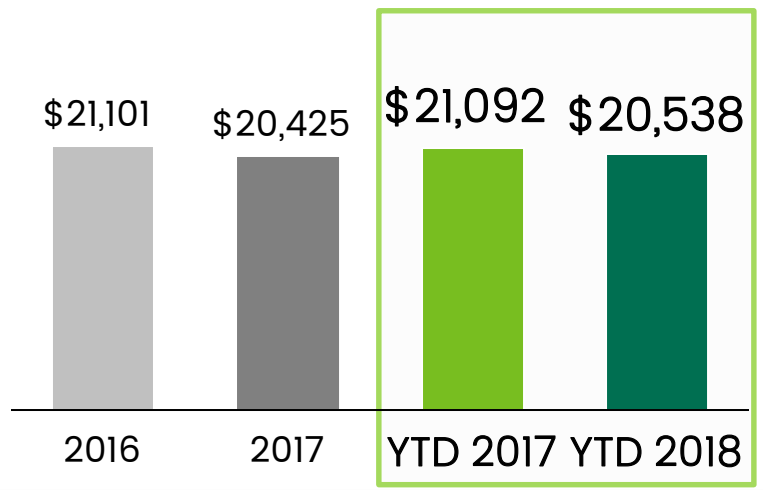

## Return on Average Common Equity




## Period End Loans ($ in Billions)




## Period End Deposits ($ In Billions)

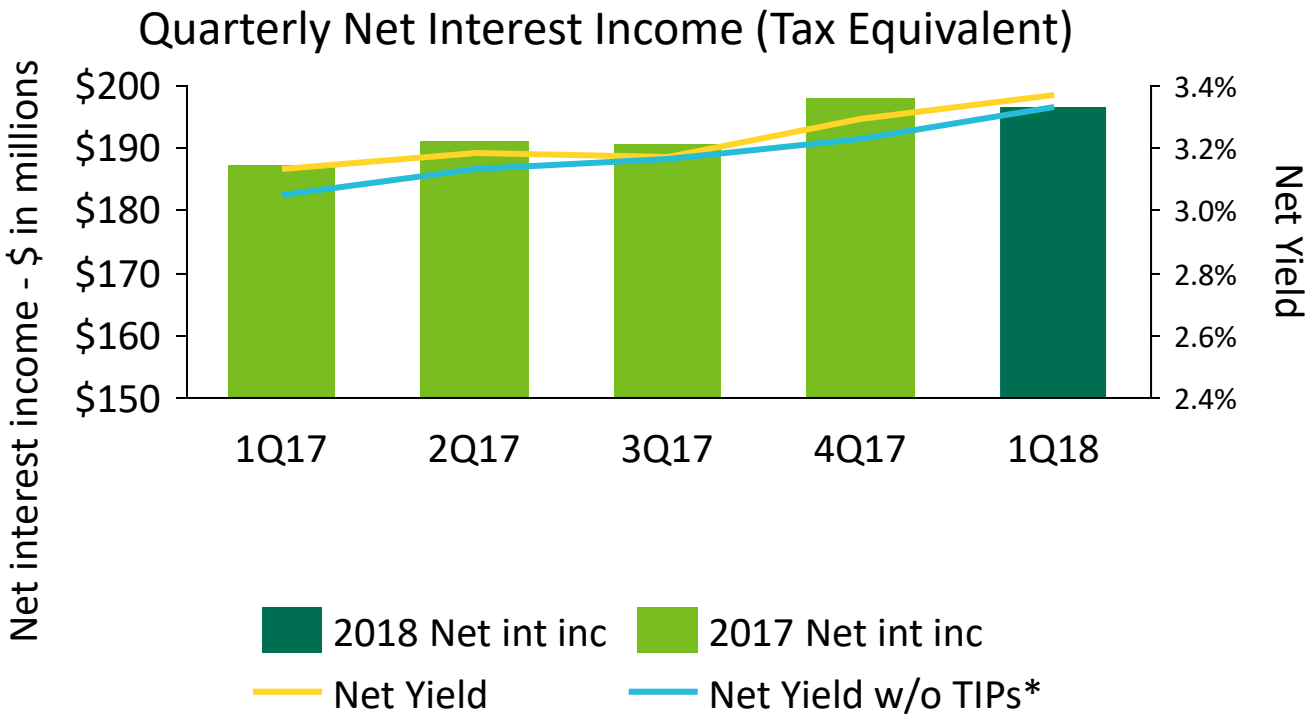



*As of March 31, 2018*

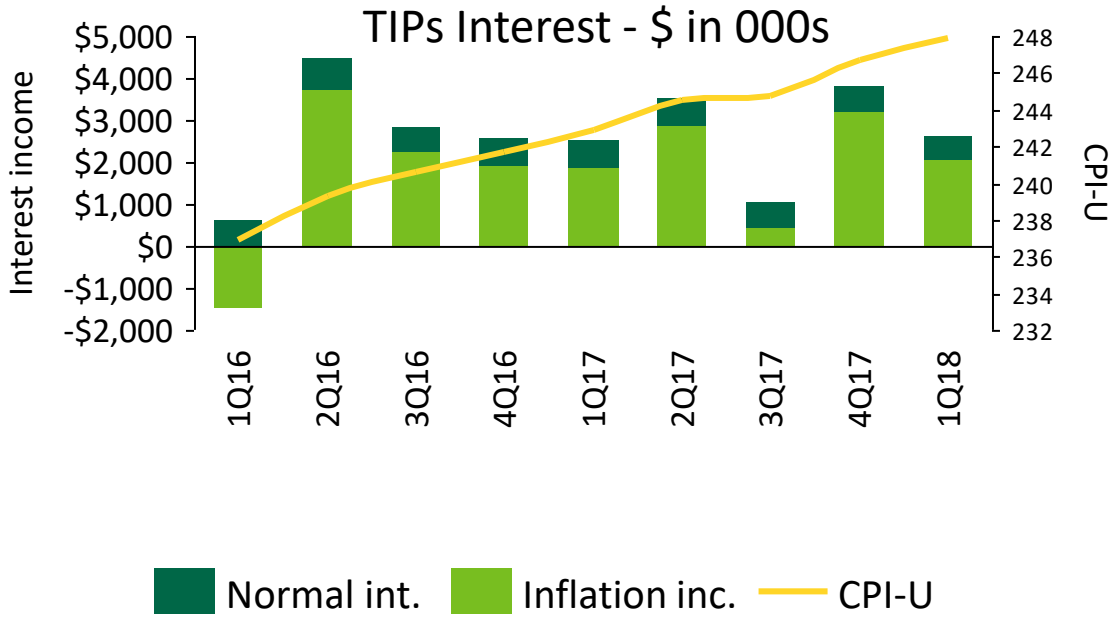
# DRIVERS OF 1ST QUARTER EARNINGS

| | |
|---|---|
| Net Interest Margin | Growth in net interest income of $15 million in current quarter compared to last year was driven by increased loan yields and stable deposit costs; margin increased to 3.37%. |
| Fee Income | Fee income grew 9% vs prior year on strength in bankcard, trust and deposit fees. |
| Non-Interest Expense | Non-interest expense remained well controlled increasing 1.6% over last year. |
| Credit | Credit environment remains favorable; net loan charge-offs of .30%. |
| Taxes | Lower tax rates generated approximately $9 million of additional net income. |
| Loans & Deposits | Average loans remained flat with prior quarter; deposits declined by $99 million. |

# NET INTEREST INCOME: YTD – March 31, 2018




- Excluding tax adjustments, net interest income increased $2.9 million over prior quarter due to higher loan yields and continued low funding costs.
- Inflation income on TIPs was $2.0 million this quarter vs. $3.2 million in the prior quarter.
- The effect of lower tax rates reduces the tax equivalent yield on tax-free loans and municipal investments.

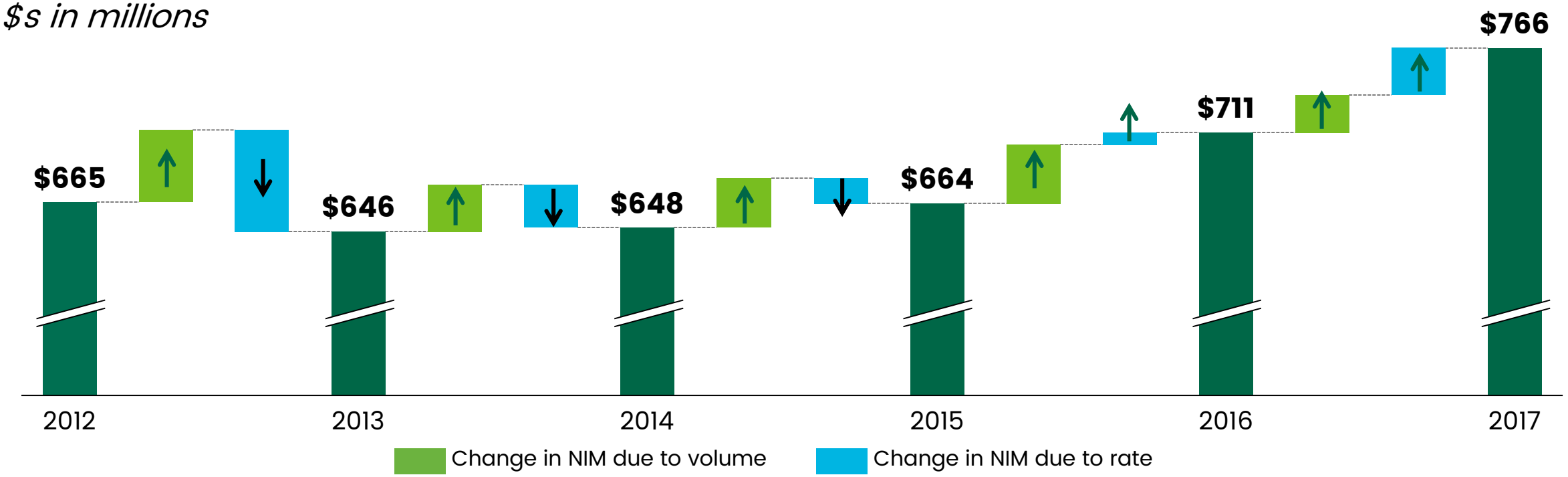



| Tax equivalent - YTD | 2017 | 2018 | Change |
|---|---|---|---|
| Rates earned - assets | 3.29 % | 3.59 % | 0.30 % |
| Rates paid - liabilities | 0.26 % | 0.36 % | 0.10 % |
| **Net yield - earning assets** | **3.13 %** | **3.37 %** | **0.24 %** |

* Excludes inflation income on TIPs

# GROWTH IN VOLUME AND RISING RATES DRIVING $54 million INCREASE IN NIM

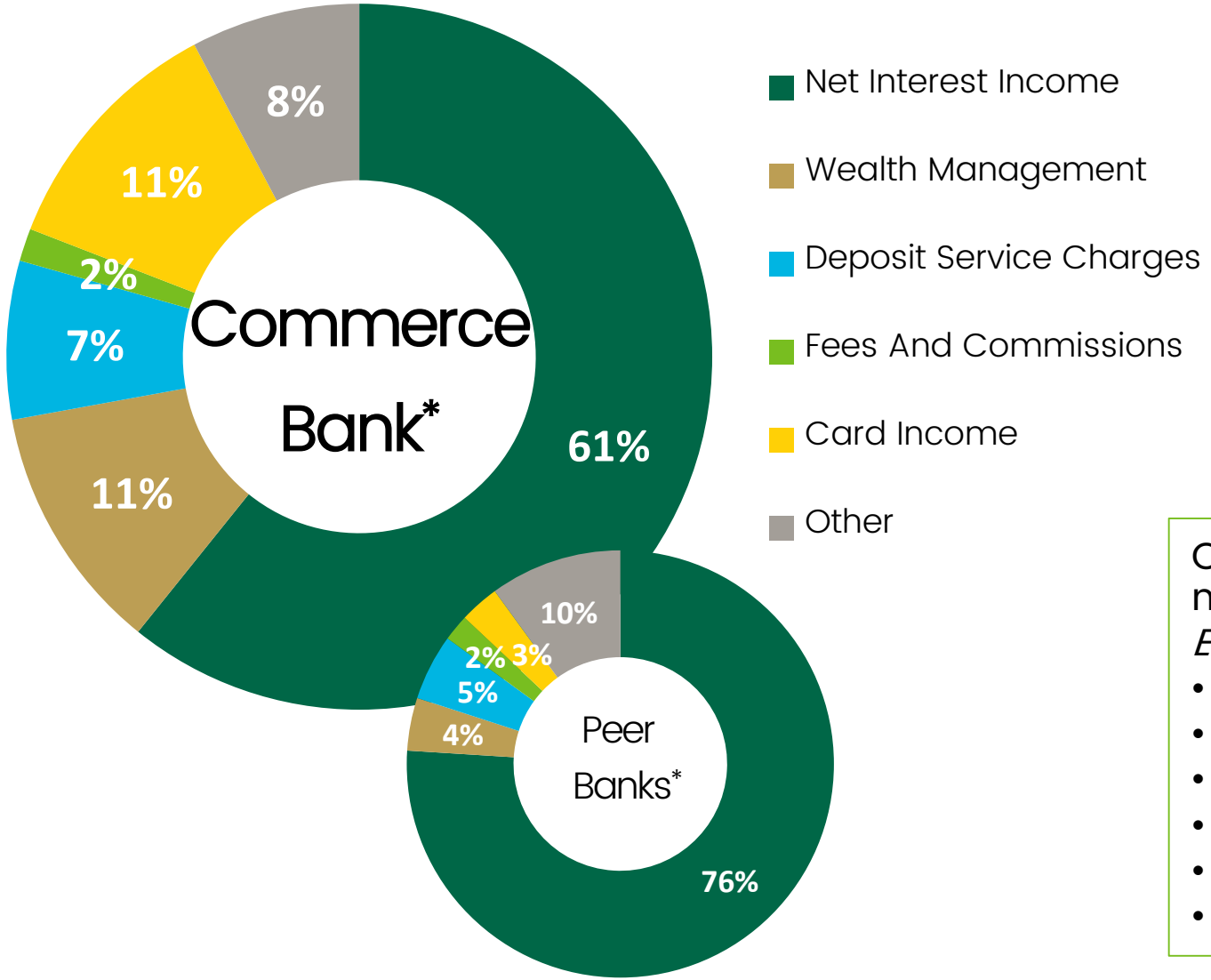
Tax Equivalent Net Interest Income: 2012 – 2017
*$s in millions*

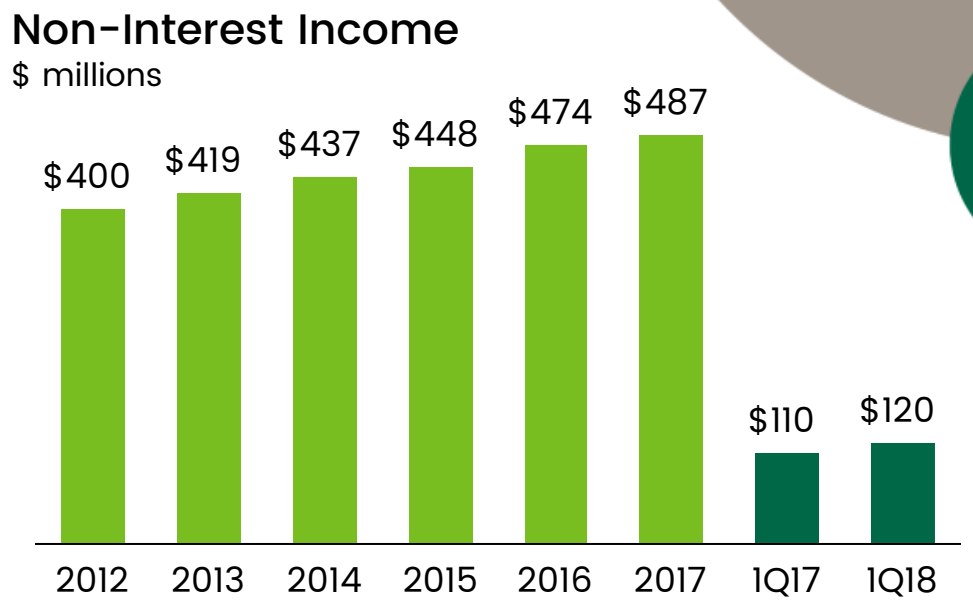



- Lower rates had been pushing the net interest margin lower since 2008 but a larger balance sheet mitigated lower rate pressures
- Growth in loans and higher rates on all earning assets now work together to provide strong growth in net interest income.

# FEE INCOME AT 40% OF TOTAL REVENUE

*Balanced mix of interest and non-interest income*




Continued focus on growing fee income through new and existing product and services offerings

*Examples:*

- Toggle™
- Remitconnect™
- Supply chain finance
- Insurance claims payment processing
- Accounts Payable automation
- Swaps

*Peer Banks include: ASB, BKU, CFR, FHN, FINN, FULT, HBHC, IBKC, ISBC, MBFI, OZRK, PB, PNFP, TCF, UMBF, UMPQ, VLY, WBS, WTFC*

**Source: S&P Global Market Intelligence & FIS as of 3/31/2018*

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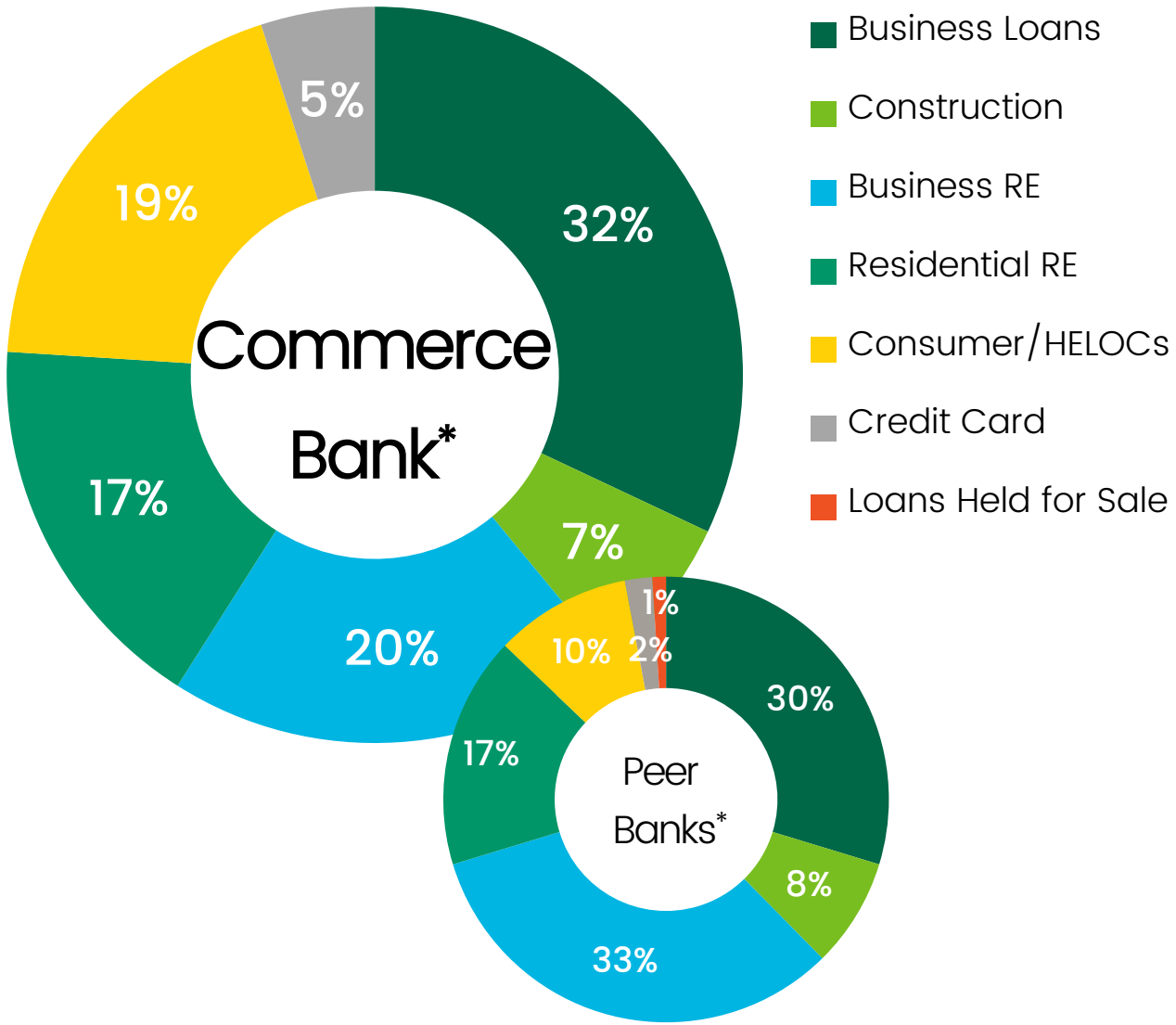
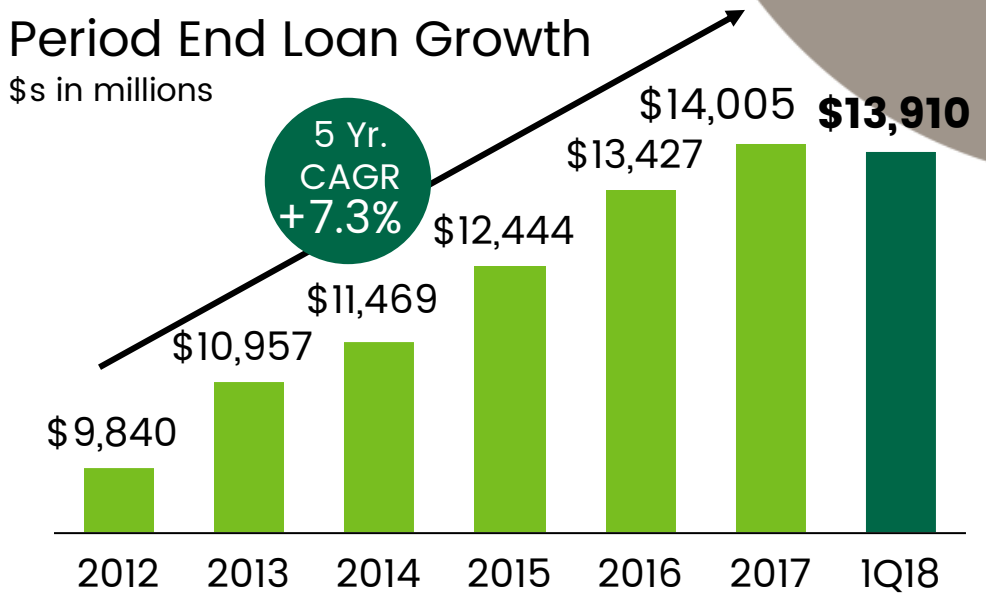
# WELL-DIVERSIFIED LOAN PORTFOLIO




## Loan growth in 1Q2018

| | | |
|---|---|---|
| Business/ lease/ tax-free | ↑ | **$116 million** |
| Personal RE | ↑ | **$17 million** |
| Business RE | ↑ | **$13 million** |
| Auto/ motorcycle/ other | ↓ | **$19 million** |

*Peer Banks include: ASB, BKU, CFR, FHN, FINN, FULT, HBHC, IBKC, ISBC, MBFI, OZRK, PB, PNFP, TCF, UMBF, UMPQ, VLY, WBS, WTFC*

**Source: S&P Global Market Intelligence & FIS as of 03/31/2018*

Commerce Bancshares, Inc.

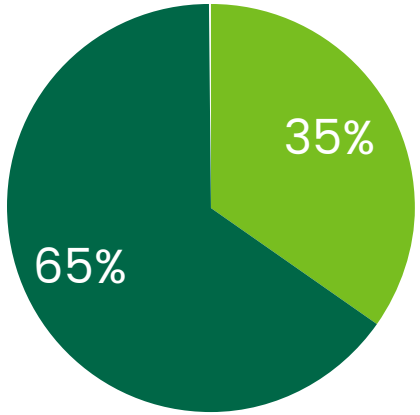
# SUMMARY OF FIXED & FLOATING LOANS

*56% of total loans are variable; 52% of floating rate commercial loans are tied to LIBOR*

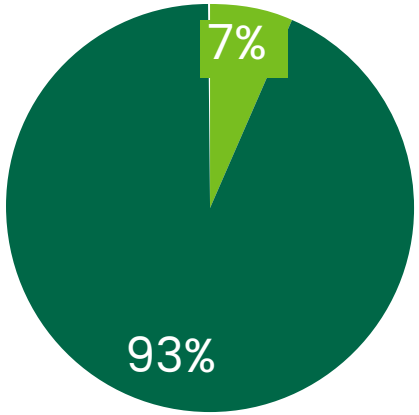



## Commercial

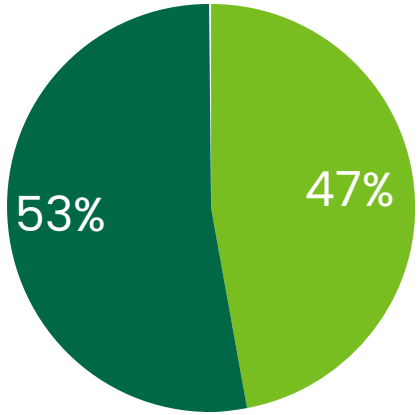
### Business
Total Loans: $5.0B




### Construction
Total Loans: $1.0B

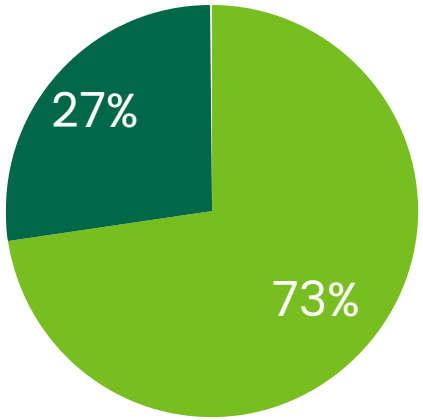



### Business RE
Total Loans: $2.7B

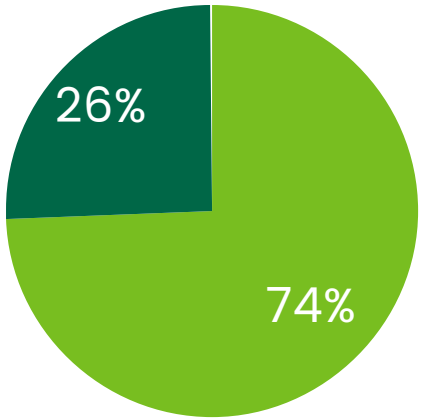



## Consumer

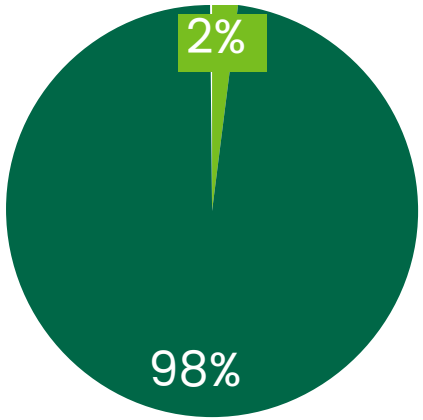
### Personal RE
Total Loans: $2.1B



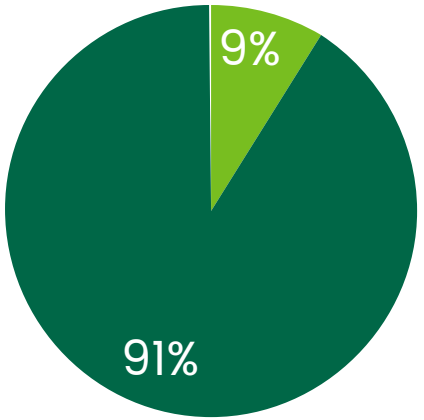

### Consumer
Total Loans: $2.1B




### HELOC
Total Loans: $0.4B




### Consumer Card
Total Loans: $0.8B

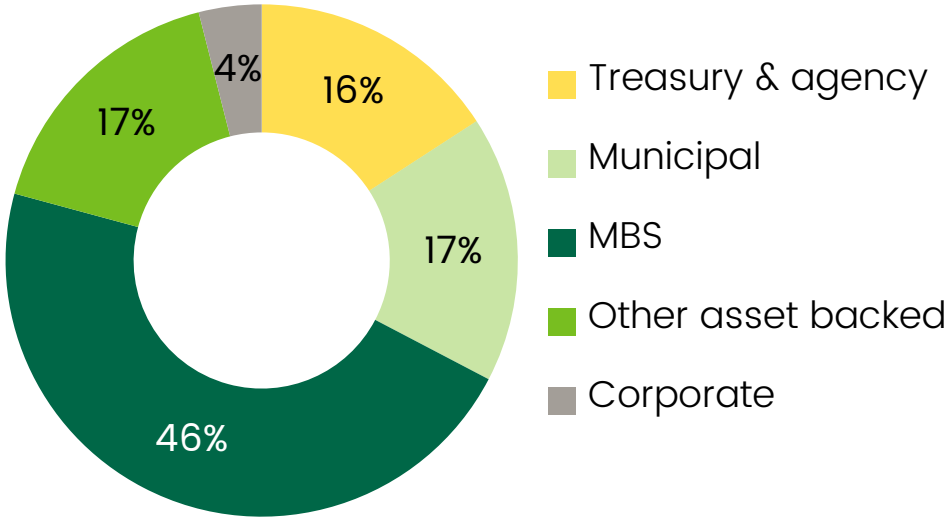



As of 12/31/2017

# INVESTMENT PORTFOLIO:

## *HIGH QUALITY, DIVERSE, SHORT DURATION*

Composition of AFS Portfolio




| March 31, 2018 | Weighted Avg rate | Weighted Life (years) |
|---|---|---|
| Treasury & agency* | 1.4% | 3.9 |
| Municipal - TE | 3.1% | 5.0 |
| MBS | 2.7% | 4.0 |
| Other asset-backed | 2.2% | 2.5 |
| Corporate | 2.7% | 4.0 |

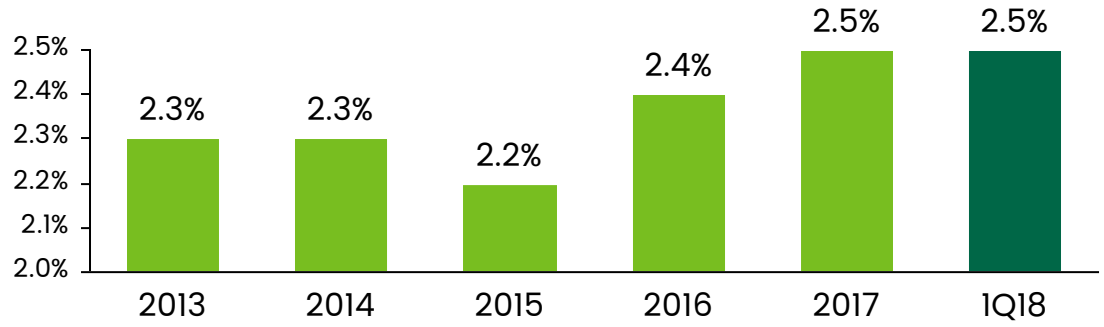
**AFS Portfolio as of 3/31/18**

| | |
|---|---|
| Total investments | $8.4 billion |
| Unrealized gain | $88 million |
| 12 month maturities / pay-downs | $1.3 billion |

**Duration**

| | |
|---|---|
| December 2015 | 2.9 years |
| December 2016 | 2.9 years |
| December 2017 | 3.0 years |
| March 31, 2018 | 3.1 years |

YTD TE Rate - Investments




*Excludes inflation effect on TIPs
Source: Internal Reports

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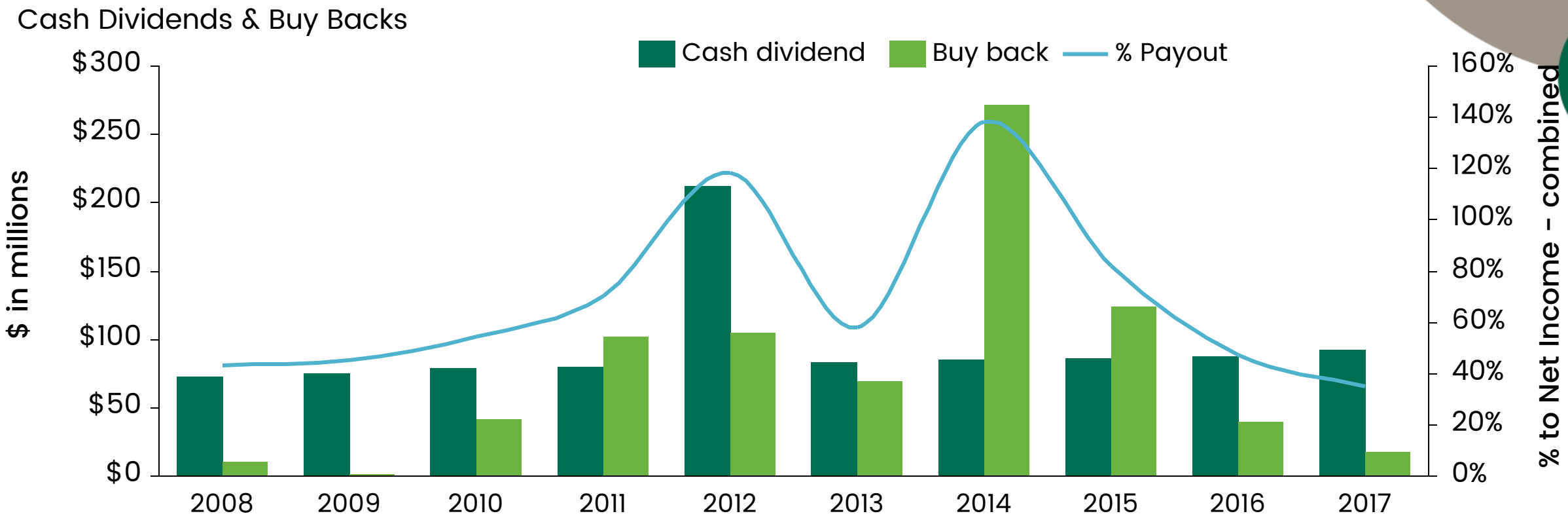
# STRONG CAPITAL POSITION

## *FLEXIBILITY IN CAPITAL PLANNING*



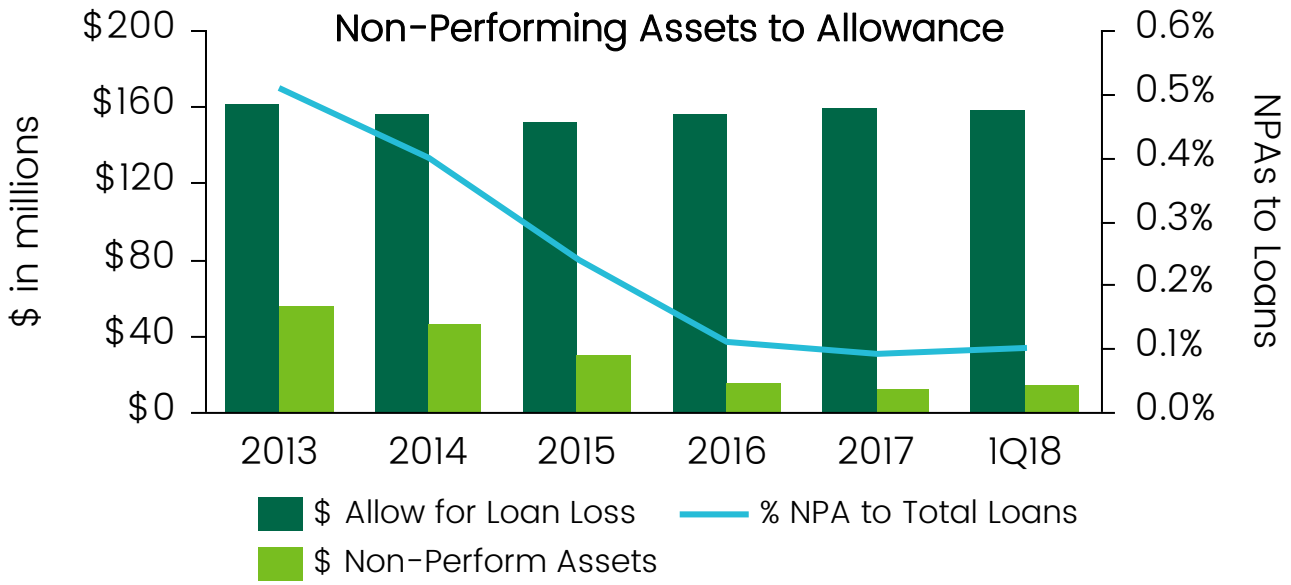

| Year-end capital ratios | |
|---|---|
| Tier 1 common risk-based capital | 12.7% |
| Tier 1 risk-based capital | 13.4% |
| Total risk-based capital | 14.4% |
| Leverage ratio | 10.4% |

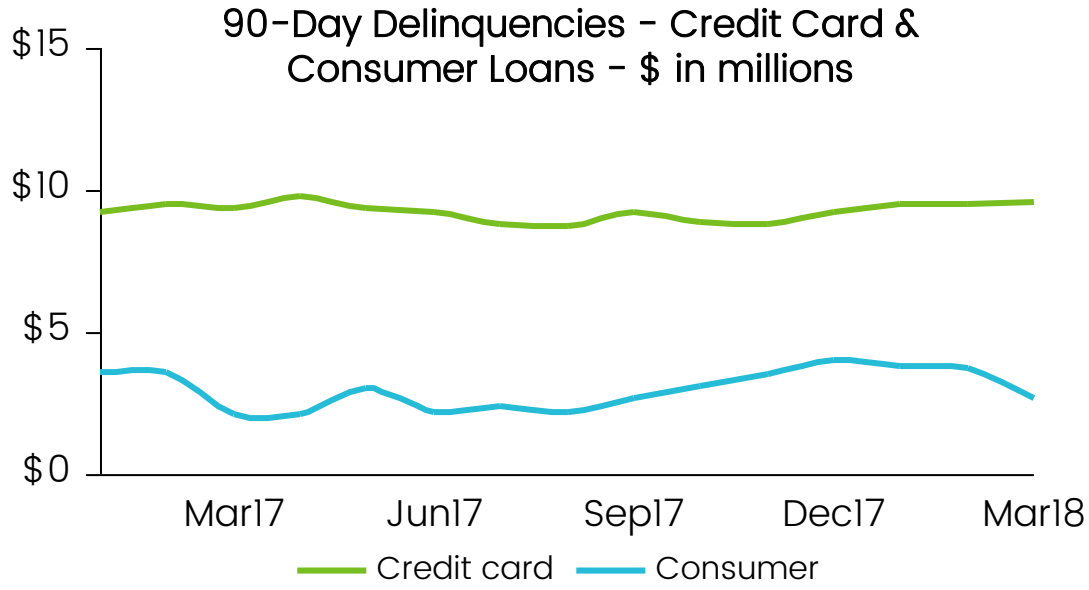
- ASR transactions totaled $200 million in 2014 and $100 million in 2015; also special dividend of $212 million in 2012
- 49 consecutive years of common dividend increases
- Announced 10% cash dividend increase on common shares for 2018.

# NET LOAN CHARGE-OFFS: YTD – March 31, 2018

| $ in 000s | YTD 2017 | YTD 2018 | Actual $ Chge | '18 Loss Rate |
|---|---|---|---|---|
| Business | $ 97 | $ (14) | $ (111) | (0.00)% |
| Overdraft | 435 | 444 | 9 | 38.91 % |
| Construction | (535) | (36) | 499 | (0.02)% |
| Business R/E | (39) | (205) | (166) | (0.03)% |
| Personal R/E | 19 | 57 | 38 | 0.01 % |
| Consumer | 2,096 | 2,528 | 432 | 0.49 % |
| HELOC | 7 | 56 | 49 | 0.06 % |
| Credit card | 7,148 | 7,566 | 418 | 4.05 % |
| **Total** | **$ 9,228** | **$ 10,396** | **$ 1,168** | **0.30 %** |

- Recorded net recoveries of $255k on commercial loans.
- Consumer losses up $528k while credit card losses increased $418k.
- 90 day delinquencies for consumer loans declined $1.1 million this quarter.



# MAINTAINING THE BALANCE

**STRONG PERFORMANCE** with ongoing refinement of the "Core Bank"

- Super-Community Bank platform
- Relationship-based banking
- High-touch customer service
- Full suite of product and service offerings
- Disciplined attention to risk return
- Divest in businesses & activities that no longer provide acceptable returns
- A highly engaged workforce
- Focus on profitability and shareholder return




**Challenge Accepted.™**

Disciplined focus on **PRIORITY BLUE CHIP** investments

- Funding Future Growth
- Expansion Market Growth
- Transform the Retail Model
- Enhance Private Client Model
- Health Services Financing
- Claims Payments
- Commerce Bank Mortgage
- Enterprise CRM
- Succession Planning

# CONSUMER BANKING

**$10.3 BILLION**
Consumer Deposits
2016 $10.2 BILLION

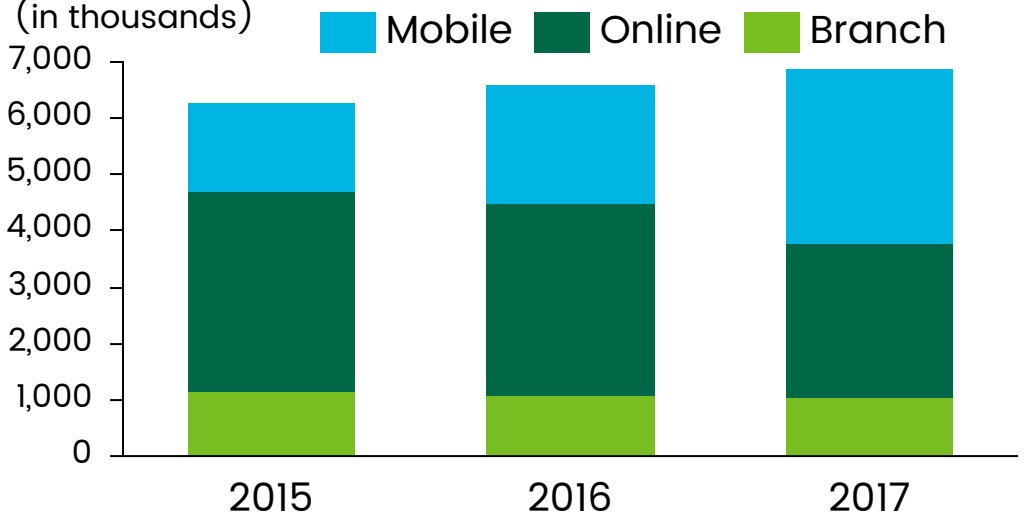
**$2.5 BILLION**
Consumer Loans
2016 $2.5 BILLION

**$1.0 BILLION**
Consumer Auto Loans
Average FICO 750

2009 $113.5 MILLION
**$15 MILLION**
Branch Expense Reduction since 2009

## Banking Channel Preferences

Monthly Banking Sessions (in thousands)




## Continue Expanding Digital Capabilities

**Mobile Penetration**
2016: 49.4% | 2017: 54.7%

**Mobile Deposit Use**
2016: 3.3% | 2017: 7.6%

**App Store Rating**
2016: ★★ | 2017: ★★
4.6 ★★★★★ 32.8K ratings as of 5/31/18

**Digital Loan Sales (000s)**
2016: $19,157 | 2017: $25,500

*Period end balances, Information as of December 31, 2017*

# RETAIL PRIORITIES

| Grow Revenue<br>Optimize Cost to Serve | Maintain/Leverage High<br>Customer Satisfaction | Maintain/Leverage<br>Employee Engagement |
|---|---|---|

**Core Transformation**

**Talent Management**

**Cost Effectively Retain the Deposit Portfolio**

**Attract NTB Priority Households**




**Expand Digital Capabilities**

**Efficiently Deliver New Products and Programs**

**Deliver the Customer Experience**

**Elevate the Branch Experience Model**

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# EXPAND DIGITAL CAPABILITIES

### Deliver Strategic Differentiators

- Align digital strategies and priorities across the Consumer Bank – Retail, Wealth, Small Business, Card and Mortgage
- Support priority customer segments with additional features and improved user-interface development
- Deliver Small Business and Health Servicing Financing enhancements

### Deliver Solutions to Enhance the Experience

- Increase cadence of digital delivery to every 6 weeks or better
- Deliver P2P solutions and cardless ATM withdrawals
- Tailor mobile deposit eligibility and limits to customer risk profile

### Drive Digital Engagement

- Monitor and continue to improve engagement metrics
- Increase awareness of digital capabilities, and eliminate barriers to drive adoption and usage
- Develop digital onboarding program to help customers establish services
- Maintain App Store rating at four stars or above

# Commerce Trust Company

Wealth | Investments | Planning

For high net worth individuals who are looking to simplify their complex financial life, The Commerce Trust Company provides a full-service approach to wealth management.

**$48.7 BILLION**
Total Client Assets[1]

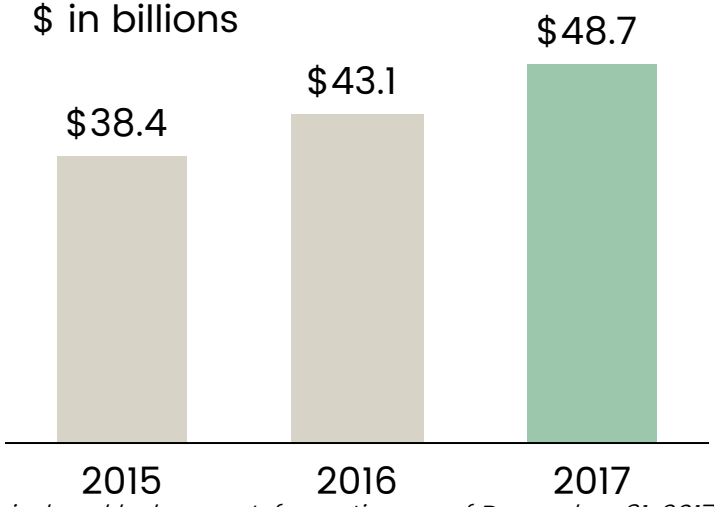
**20TH**
Largest Among Bank-Owned Trust Company[2]

**$30.0 BILLION**
Assets Under Management

**↑13%**
Record Asset Management Sales

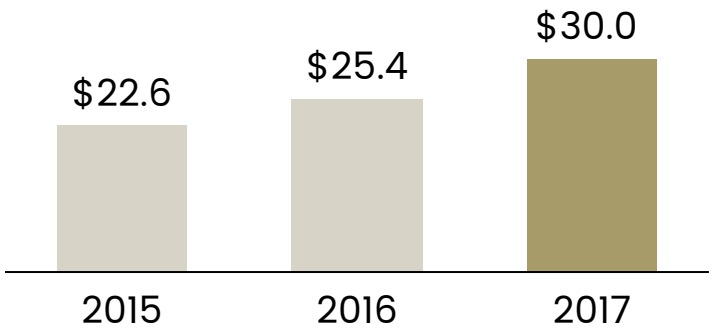
## Total Client Assets

$ in billions

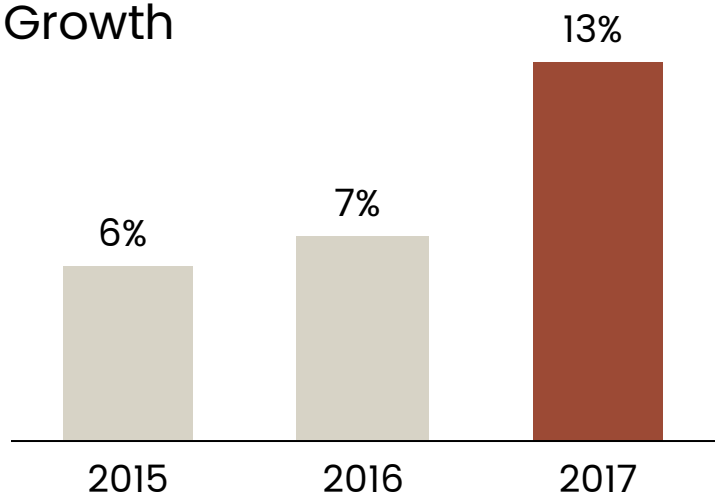



## Assets Under Management

$ in billions




## Asset Management Sales Growth




*Period end balances, Information as of December 31, 2017*
*[1]Assets under Administration*
*[2]S&P Global Market Intelligence ranking as of 12/31/2017, based on assets under management*

# KEY PRIORITIES:

- Enhanced Private Client Model
  - Scenario Plans
  - Modular Solutions
  - Topical Tools and Information
- Asset Management Sales Growth
- Institutional Trust Asset Management Sales Growth
- Long Term Marketing Strategies
- Enhanced Sales Partnerships from Commercial and Retail Channels



Commerce Trust Company
Wealth | Investments | Planning

# WHY CHOOSE COMMERCE TRUST?



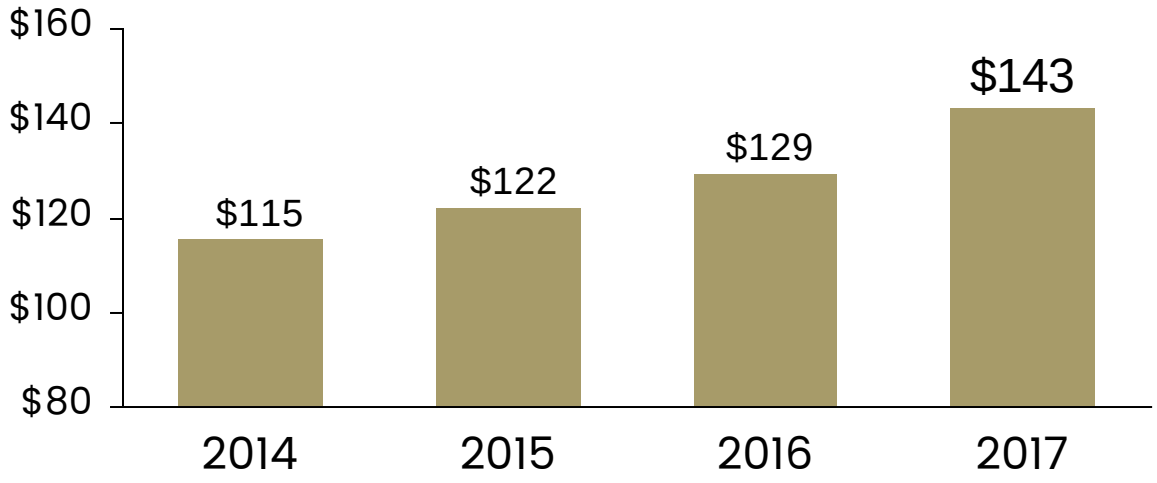

- Highly personalized approach getting to know our clients and helping define their long-term goals.
- Comprehensive range of investment and wealth management services to help our clients create and grow their wealth as well as preserve it for future generations.
- Experienced team in our Family Office to serve as stewards for family wealth.
- Dedicated team of in-house professionals who provide our clients with objective advice in all areas of wealth management.

Commerce Bancshares, Inc.

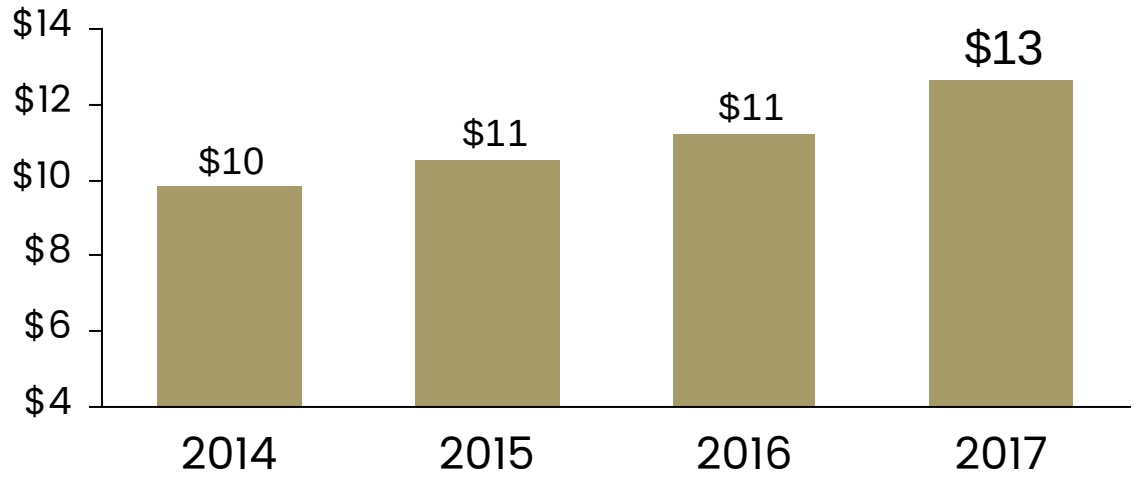
Commerce Trust Company
Wealth | Investments | Planning

# TRENDS IN TRUST REVENUE AND SALES

## Asset Management Revenues
(In Millions)




## Asset Management Sales
(In Millions)




- Solid growth in fee continues; profit margins reach 43% in 2017 up from 38% in 2013
- Attrition rates remain below industry results
- Demand continues for asset management services
- Record sales of $12.6 million achieved in 2017

# COMMERCIAL BANKING

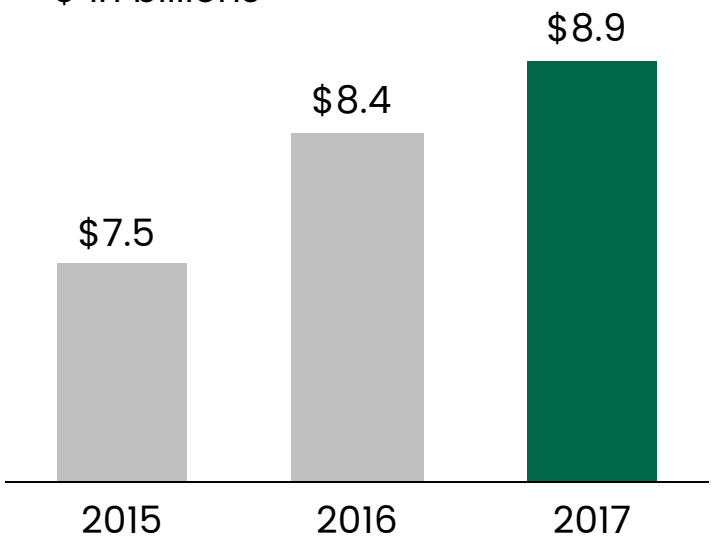
*Revenue growth opportunities*

**$8.9 BILLION**
Commercial Loans
5 Yr. CAGR +9.3%

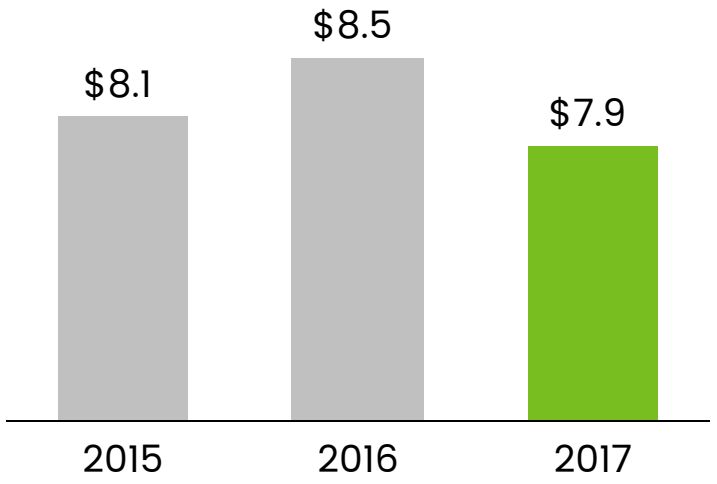
**$7.9 BILLION**
Commercial Deposits
5 Yr. CAGR +3.0%

**$523 MILLION**
Commercial Revenue
5 Yr. CAGR +2.1%

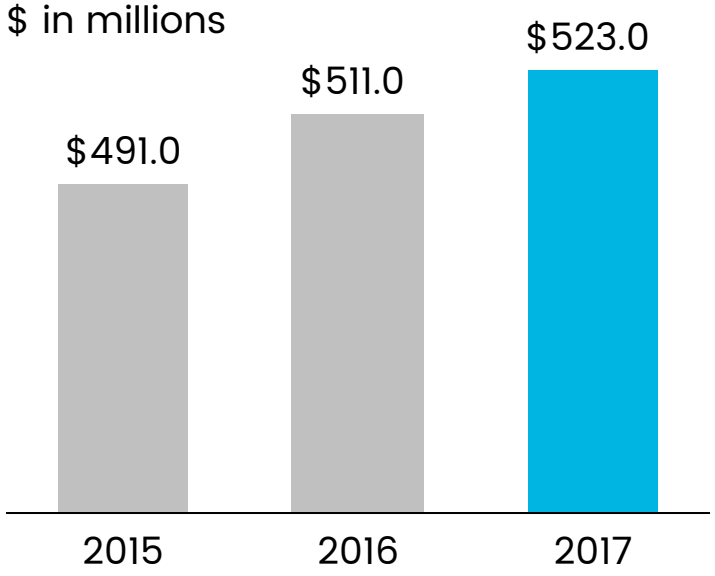
## Commercial Loans
$ in billions




## Commercial Deposits
$ in billions




## Commercial Revenue
$ in millions




*Period end balances, Information as of December 31, 2017*

# ADDING VALUE THROUGH SPECIALIZED PRODUCTS & SERVICES

Key Priorities:

- Build out capabilities in Expansion Markets
- Refine Healthcare Banking strategy
- Embrace innovation in the Payments Systems
- Execute deposit retention strategies

## PRODUCT

Healthcare Suite
Tax-Exempt Finance
Equipment Finance
Treasury Services
Commercial Card
Merchant Services
International
Franchise Finance
Floor Plan Lending
ESOPs
SBA
Swaps

## INDUSTRY

Healthcare
Senior Living
Energy
Construction
Agribusiness
Food Processing
Not-for-Profit
Aviation
Beverage Distribution
Municipalities
Manufacturing
Education



## COMPETITION

Product Deficiency
RM Issues
Deterioration in Service
Other Issues

## TERRITORY

Expansion Markets
Core Markets
Counties
Cities

Commerce Bancshares, Inc.

# COMMERCIAL PAYMENTS

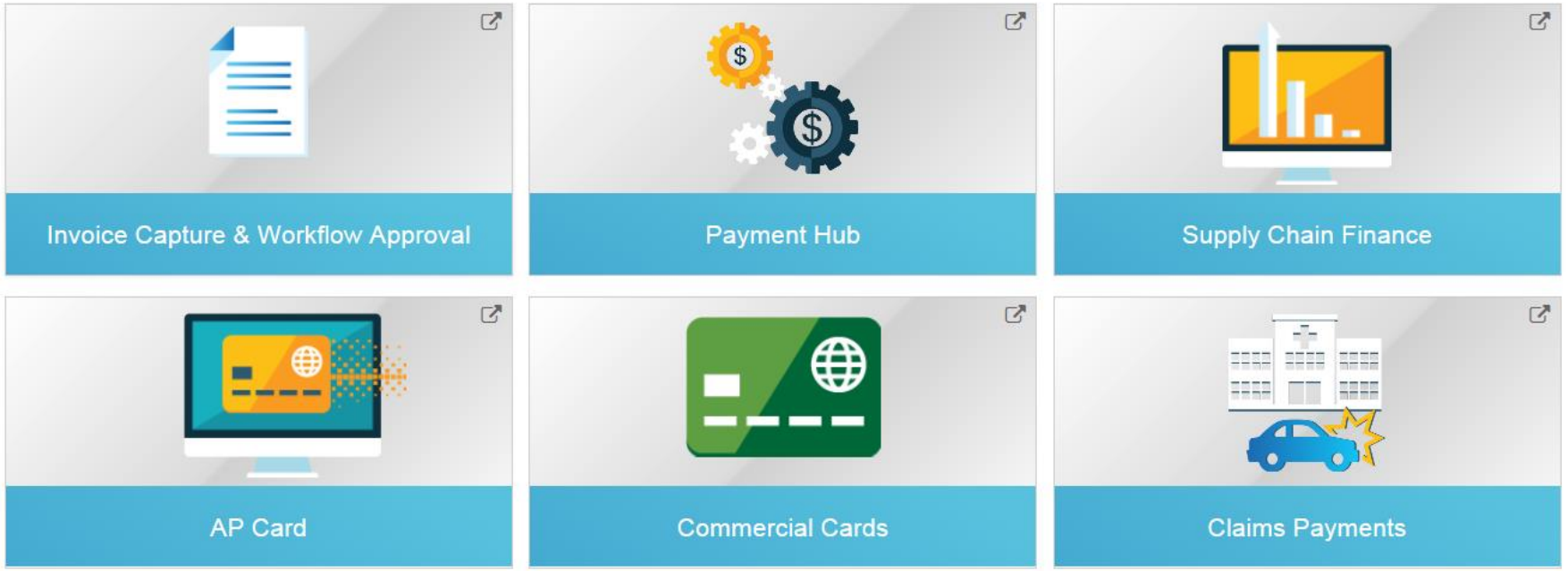
**$194 MILLION**
Payments Revenue

**$7.9 BILLION**
Commercial Card Volume

**$145 MILLION**
Health Services Financing Loans

## EMBRACING INNOVATION IN THE PAYMENTS SYSTEMS

*Our full suite of products and services brings real value to client relationships*

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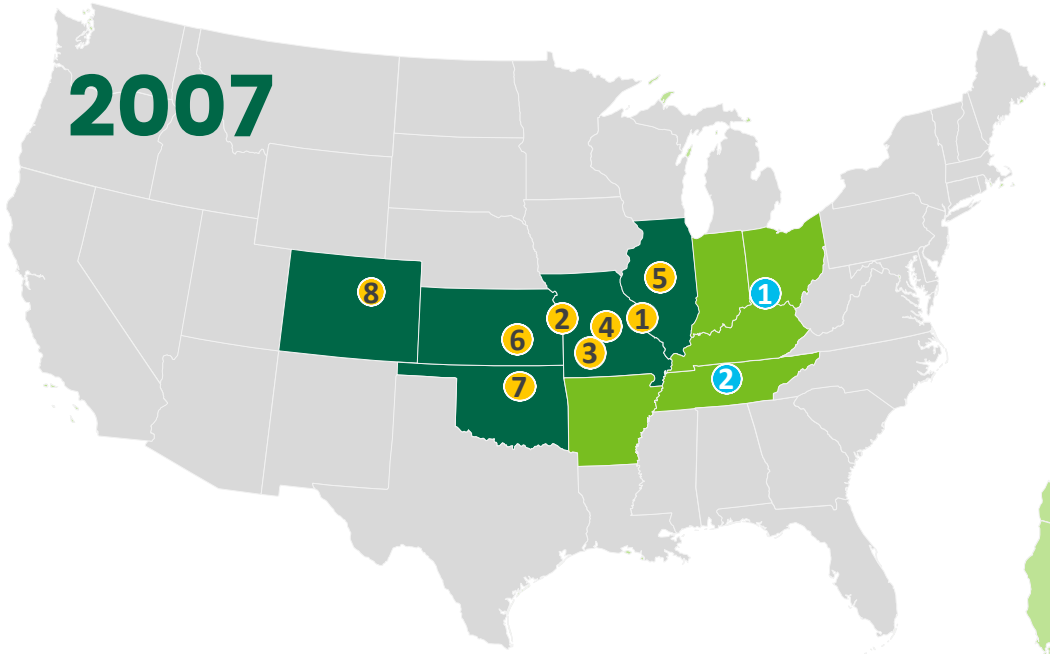
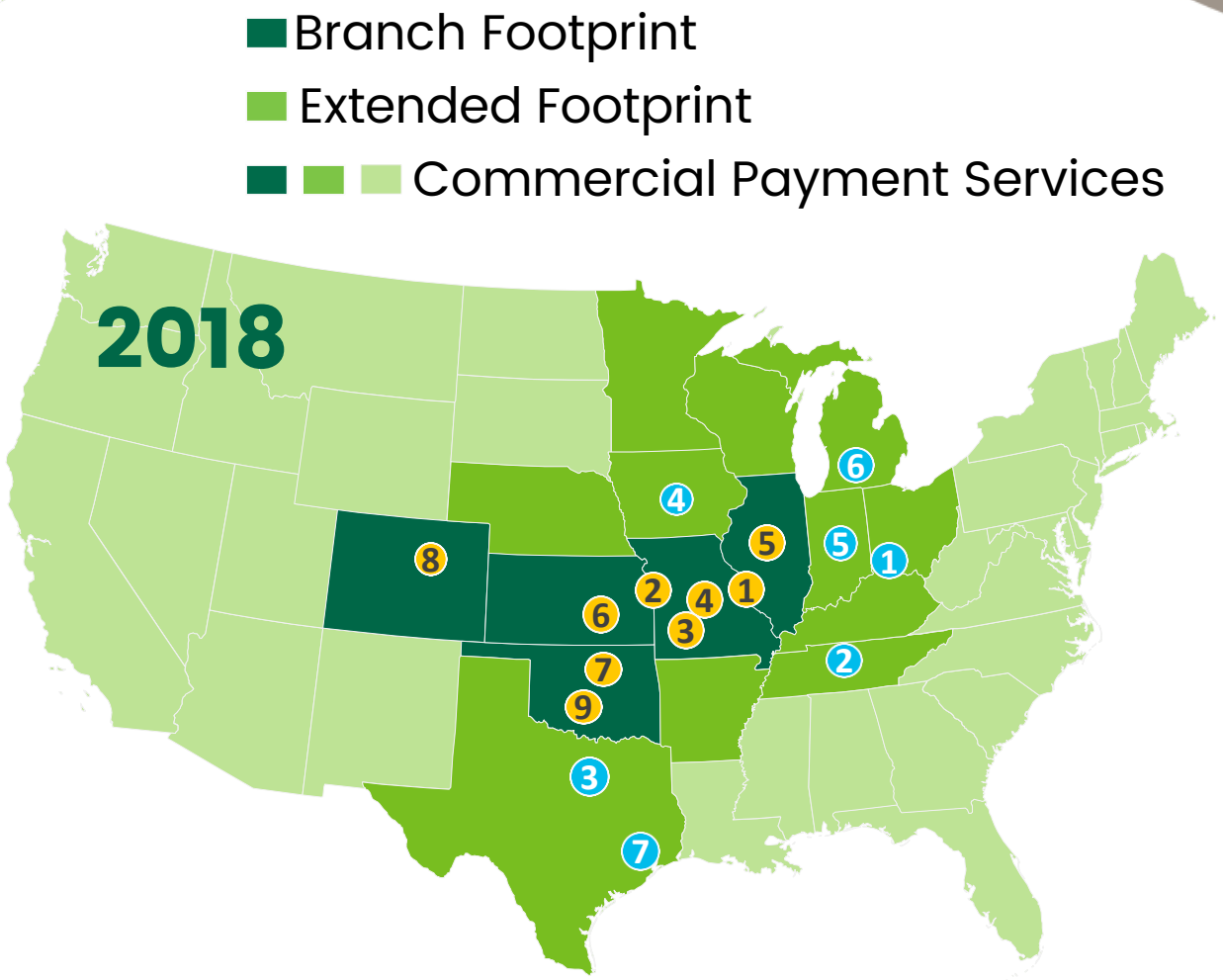
*Information as of December 31, 2017*

# GROWTH IN THE COMMERCIAL FOOTPRINT




- Significant Markets
  1. St. Louis
  2. Kansas City
  3. Springfield
  4. Central Missouri
  5. Central Illinois
  6. Wichita
  7. Tulsa
  8. Denver
  9. Oklahoma City

- Commercial Offices
  1. Cincinnati
  2. Nashville
  3. Dallas
  4. Des Moines
  5. Indianapolis
  6. Grand Rapids
  7. Houston

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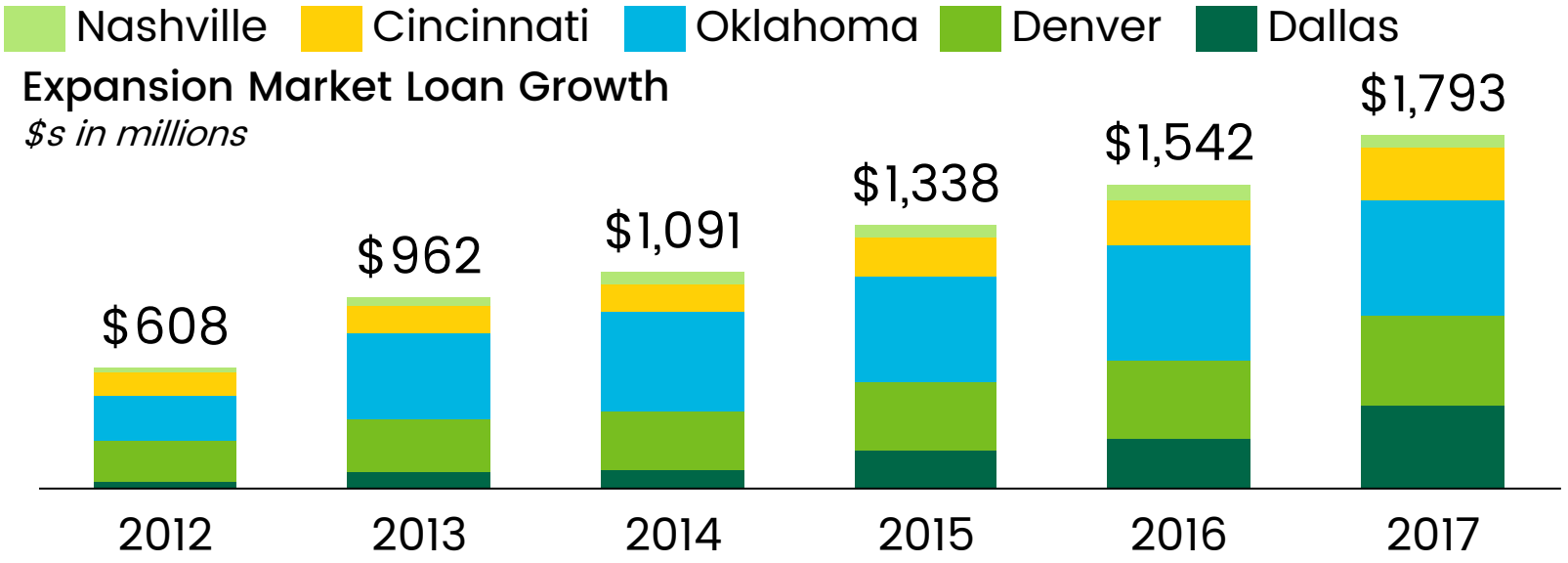
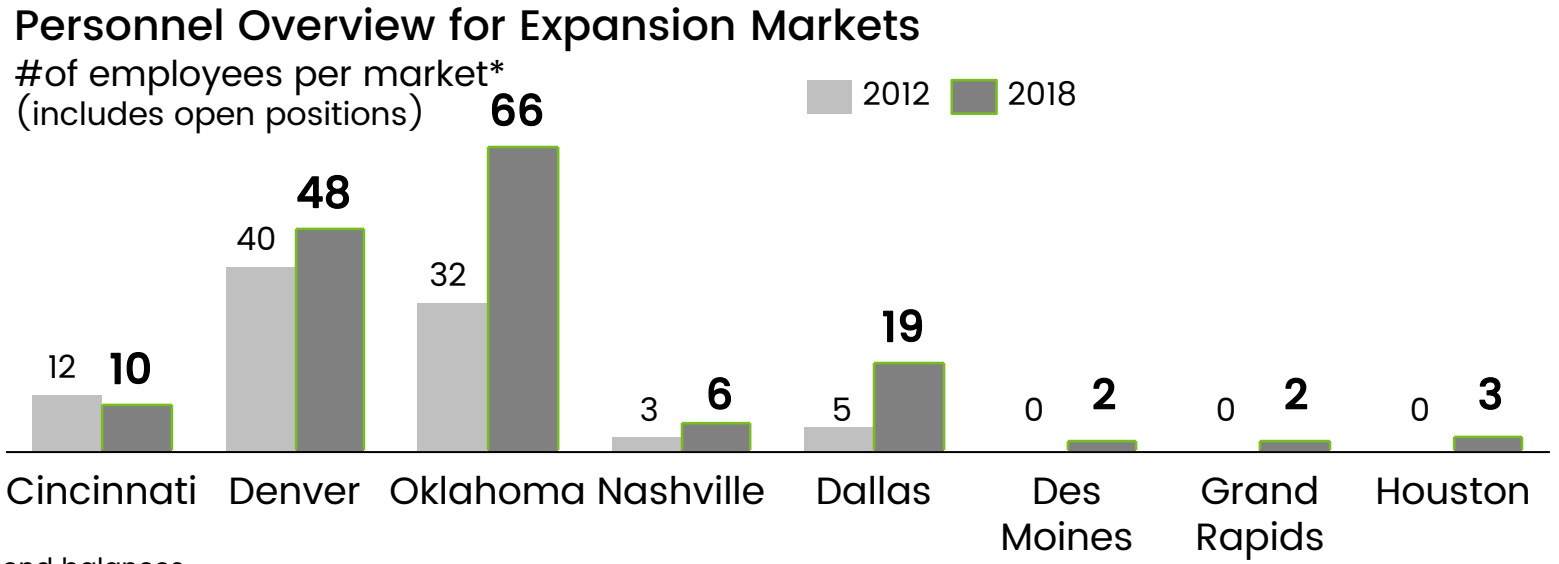
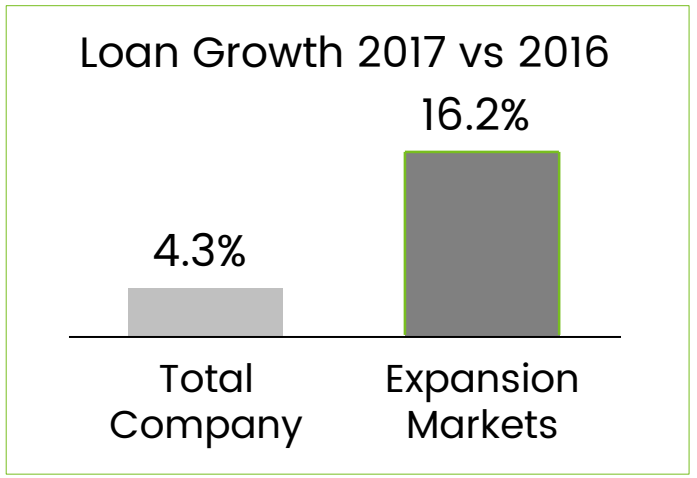
# COMMERCIAL BANKING – EXPANSION MARKETS OFFERING GROWTH OPPORTUNITIES




Expansion Market Growth **195%** since 2012




Period end balances
* As of May 2018

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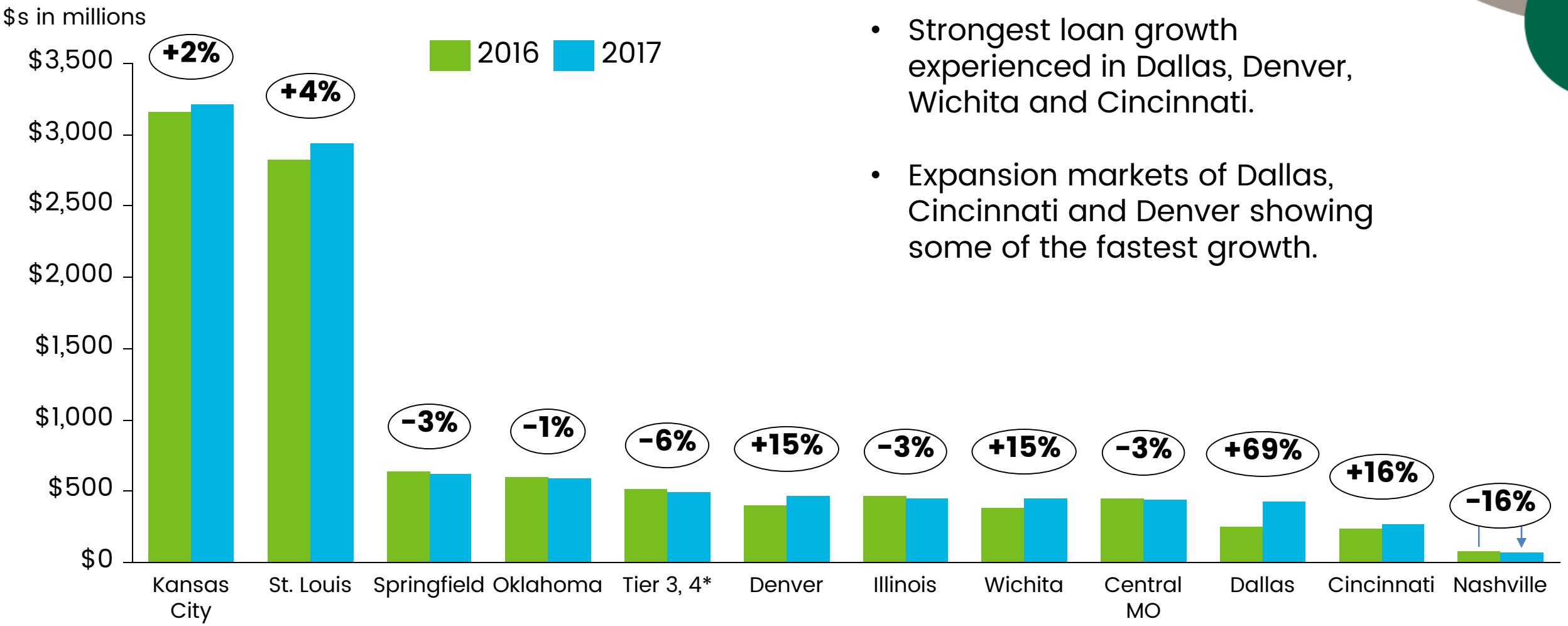
# LOAN GROWTH REMAINS STRONG IN EXPANSION MARKETS




- Strongest loan growth experienced in Dallas, Denver, Wichita and Cincinnati.
- Expansion markets of Dallas, Cincinnati and Denver showing some of the fastest growth.

*Includes MOKAN, Garden City, SEMO, Manhattan and Hays

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# CARD PRODUCTS – A LEADER AMONGST TOP 50 U.S. BANKS

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

- **#12** Commercial Card Issuer
- **#7** Purchasing Card Issuer
- **#11** Bank Acquirer
- **#14** Consumer Card
- **#20** Debit Card
- **#16** Prepaid Card

*A full suite of innovative card and payment product offerings*

| | | | | | | |
|---|---|---|---|---|---|---|
| *Supply Chain Finance* | *Health Services Financing* | *Claims Payments* | *Multi Account Chip* | *Co-Brand* | *toggle®* | *Prepaid Expense* |











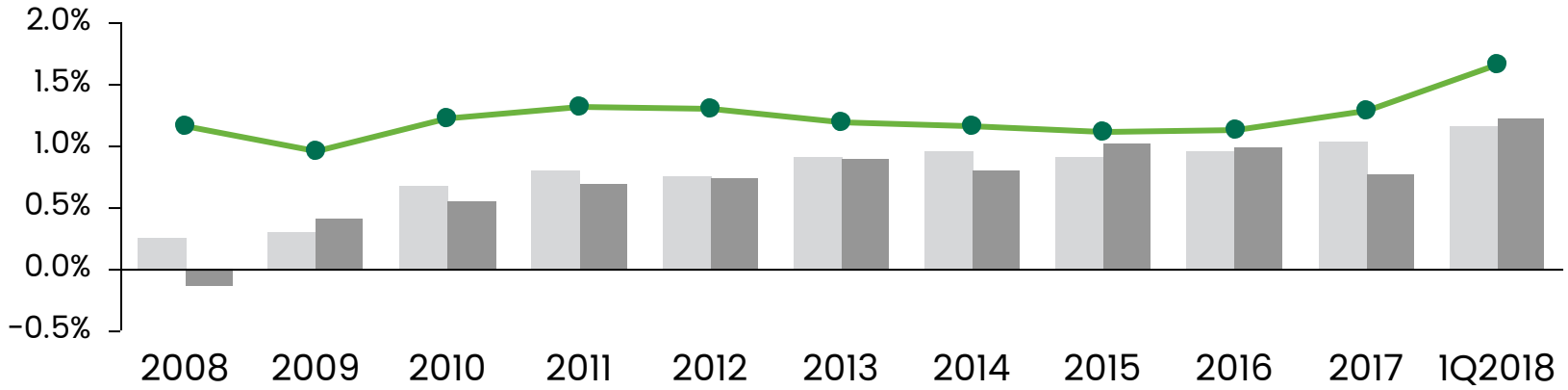

Source: Nilson Reports (Debit: April 2017; Consumer Card: February 2017; Prepaid: July 2017; Merchant: March 2017; Purchasing: June 2017; Commercial Card June 2017), based on the top 50 U.S. banks ranked by total assets as of 12/31/2016, S&P Global Market Intelligence

Commerce Bancshares, Inc.

# COMMERCE BANK MAINTAINS SOLID PERFORMANCE OVER TIME

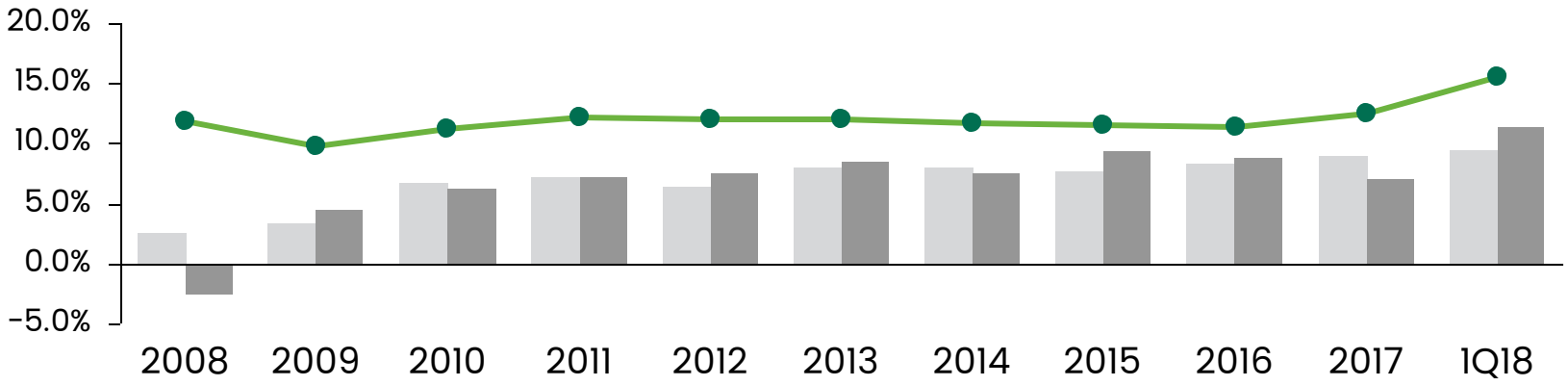
**Commerce Bank** Peer Banks Large Banks

## Return on Assets




ROA 10-yr average
**CBSH: 1.18%**
Peers: 0.75%

## Return on Average Common Equity




ROACE 10-yr average
**CBSH: 11.57%**
Peers: 6.69%

Peer Banks include ASB, BKU, CFR, FHN, FINN, FULT, HBHC, IBKC, ISBC, MBFI, OZRK, PB, PNFP, TCF, UMBF, UMPQ, VLY, WBS, WTFC; Large Banks include: JPM, BAC, C, WFC USB, PNC, FITH, RF

*Source: S&P Global Market Intelligence; data as of 03/31/2018; CBI numbers via internal reporting*

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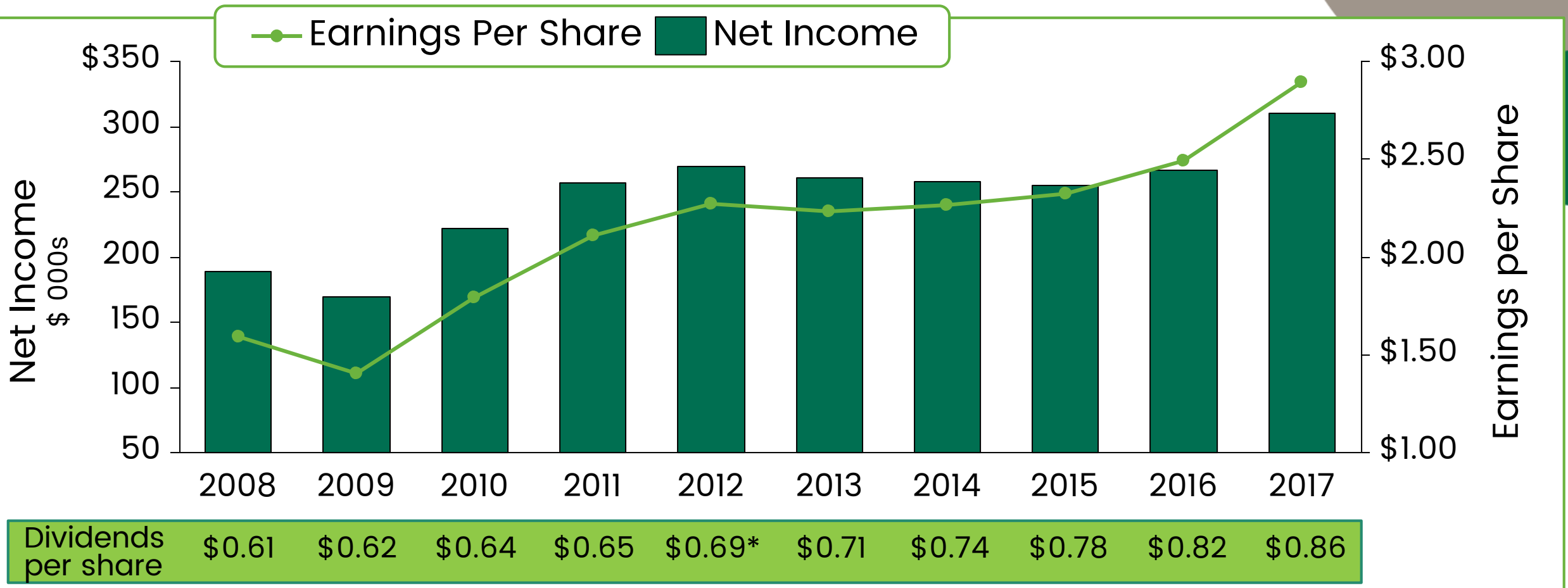
# LONG TERM VIEW: NET INCOME AND EARNINGS PER SHARE




*EPS REMAINS STRONG*

*2018 MARKS THE 50TH CONSECUTIVE YEAR OF DIVIDEND GROWTH*

*Including 2012 special dividend = $1.806
All data has been restated for 5% stock dividend distributed in December 2017
Net Income in the chart represents Net Income Available to Common Shareholders
*Source: Corporate Finance*

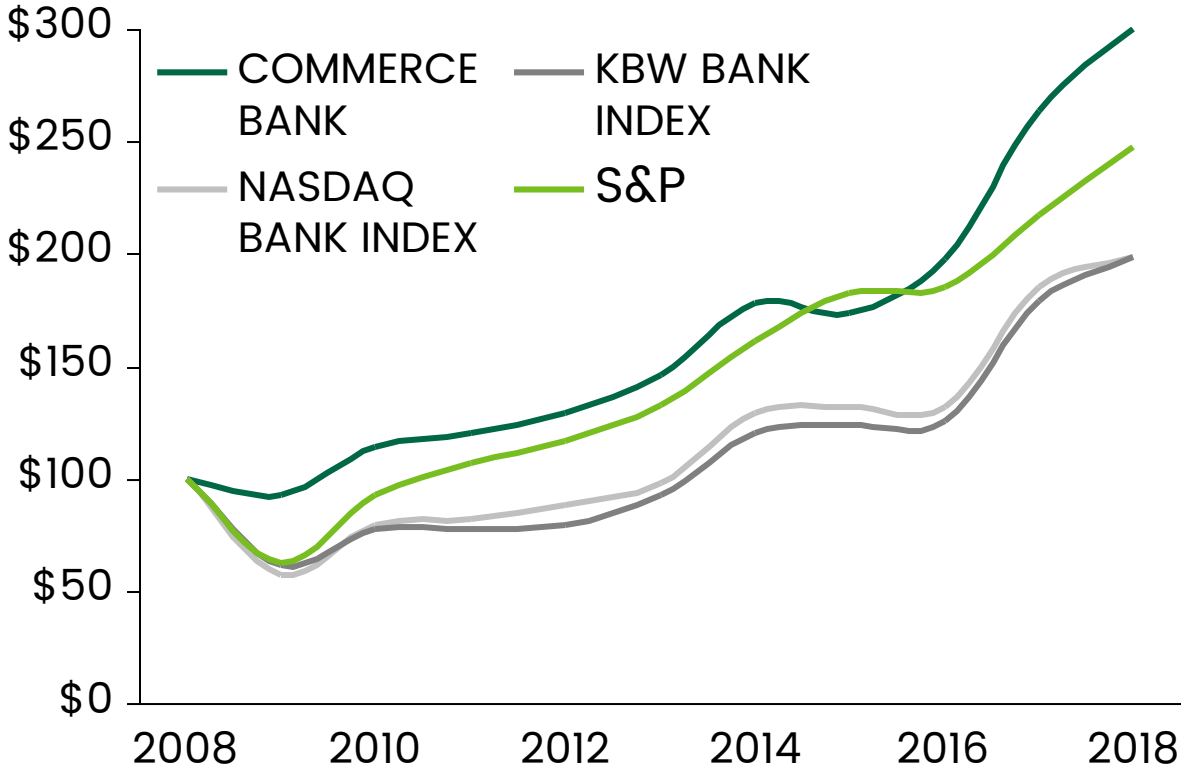
Commerce Bancshares, Inc.

# STEADY SHAREHOLDER RETURNS

as of March 31, 2018

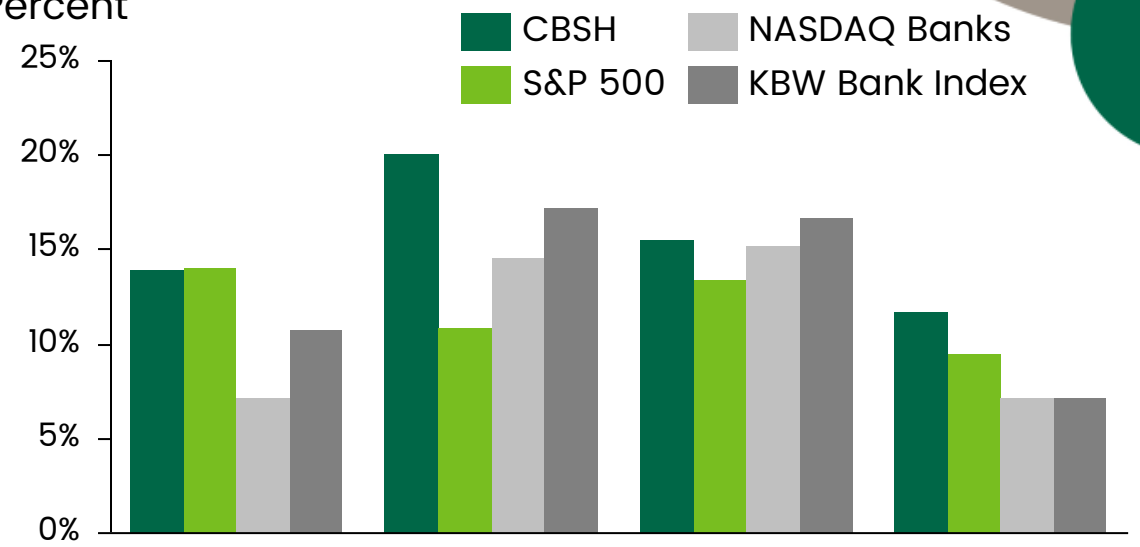
## Total Shareholder Returns

Indexed, 03/31/2008 = $100




## Annualized Comparison Total Shareholder Returns

Percent




| | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| CBSH | 13.83% | 19.98% | 15.50% | 11.61% |
| S&P 500 | 13.68% | 10.77% | 13.30% | 9.48% |
| NASDAQ Banks | 7.11% | 14.47% | 15.13% | 7.08% |
| KBW Bank Index | 10.67% | 17.13% | 16.59% | 7.10% |

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

Commerce Bancshares, Inc.

*Source: Bloomberg; data as of 3/31/2018*

Challenge Accepted.™

Commerce Bancshares, Inc.