# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2000

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

**Commission File No. 0-2989**

# Commerce Bancshares, Inc.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Missouri** | **43-0889454** |
| **(State of Incorporation)** | **(IRS Employer Identification No.)** |

**1000 Walnut, Kansas City, MO 64106**
**(Address of principal executive offices and Zip Code)**

**(816) 234-2000**
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes ☒ No ☐

As of May 5, 2000, the registrant had outstanding 61,187,923 shares of its $5 par value common stock, registrant's only class of common stock.

## Part I: FINANCIAL INFORMATION

In the opinion of management, the consolidated financial statements of Commerce Bancshares, Inc. and Subsidiaries as of March 31, 2000 and December 31, 1999 and the related notes include all material adjustments which were regularly recurring in nature and necessary for fair presentation of the financial condition and the results of operations for the periods shown.

The consolidated financial statements of Commerce Bancshares, Inc. and Subsidiaries and management's discussion and analysis of financial condition and results of operations are presented in the schedules as follows:

Schedule 1: Consolidated Balance Sheets
Schedule 2: Consolidated Statements of Income
Schedule 3: Statements of Changes in Stockholders' Equity
Schedule 4: Consolidated Statements of Cash Flows
Schedule 5: Notes to Consolidated Financial Statements
Schedule 6: Management's Discussion and Analysis of Financial Condition and Results of Operations, including Quantitative and Qualitative Disclosures about Market Risk

## Part II: OTHER INFORMATION

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

(27) Financial Data Schedule

(b) No reports on Form 8-K were filed during the quarter ended March 31, 2000.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMERCE BANCSHARES, INC.

Date: May 11, 2000

By /s/ J. Daniel Stinnett

J. Daniel Stinnett
*Vice President & Secretary*

Date: May 11, 2000

By /s/ Jeffery D. Aberdeen

Jeffery D. Aberdeen
*Controller*
*(Chief Accounting Officer)*

**Schedule 1**

## COMMERCE BANCSHARES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| | March 31 2000 (Unaudited) | December 31 1999 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Loans, net of unearned income | **$ 7,777,279** | $ 7,576,892 |
| Allowance for loan losses | **(124,803)** | (123,042) |
| **Net loans** | **7,652,476** | 7,453,850 |
| Investment securities: | | |
| Available for sale | **2,268,918** | 2,451,785 |
| Trading account | **12,456** | 23,639 |
| Other non-marketable | **39,194** | 32,991 |
| **Total investment securities** | **2,320,568** | 2,508,415 |
| Federal funds sold and securities purchased under agreements to resell | **221,206** | 238,602 |
| Cash and due from banks | **568,358** | 685,157 |
| Land, buildings and equipment, net | **239,273** | 235,163 |
| Goodwill and core deposit premium, net | **66,154** | 68,209 |
| Other assets | **138,685** | 211,540 |
| **Total assets** | **$11,206,720** | $11,400,936 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Deposits: | | |
| Non-interest bearing demand | **$ 1,504,780** | $ 1,584,333 |
| Savings and interest bearing demand | **5,210,129** | 5,154,506 |
| Time open and C.D.'s of less than $100,000 | **2,087,927** | 2,114,443 |
| Time open and C.D.'s of $100,000 and over | **310,443** | 310,841 |
| **Total deposits** | **9,113,279** | 9,164,123 |
| Federal funds purchased and securities sold under agreements to repurchase | **892,516** | 1,042,429 |
| Long-term debt and other borrowings | **25,372** | 25,735 |
| Accrued interest, taxes and other liabilities | **86,875** | 88,817 |
| **Total liabilities** | **10,118,042** | 10,321,104 |
| Stockholders' equity: | | |
| Preferred stock, $1 par value. Authorized and unissued 2,000,000 shares | **—** | — |
| Common stock, $5 par value. Authorized 100,000,000 shares; issued 62,428,078 shares | **312,140** | 312,140 |
| Capital surplus | **128,941** | 129,173 |
| Retained earnings | **674,412** | 642,746 |
| Treasury stock of 765,672 shares in 2000 and 53,829 shares in 1999, at cost | **(23,267)** | (2,089) |
| Other | **(1,435)** | (916) |
| Accumulated other comprehensive income | **(2,113)** | (1,222) |
| **Total stockholders' equity** | **1,088,678** | 1,079,832 |
| **Total liabilities and stockholders' equity** | **$11,206,720** | $11,400,936 |

See accompanying notes to financial statements.

## COMMERCE BANCSHARES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

| | For the Three Months Ended March 31 | |
|---|---|---|
| | 2000 | 1999 |
| | (Unaudited) (In thousands, except per share data) | |
| **INTEREST INCOME** | | |
| Interest and fees on loans | **$156,718** | $137,740 |
| Interest on investment securities | **37,002** | 40,715 |
| Interest on federal funds sold and securities purchased under agreements to resell | **3,110** | 6,043 |
| **Total interest income** | **196,830** | 184,498 |
| **INTEREST EXPENSE** | | |
| Interest on deposits: | | |
| Savings and interest bearing demand | **35,501** | 33,083 |
| Time open and C.D.'s of less than $100,000 | **26,575** | 28,929 |
| Time open and C.D.'s of $100,000 and over | **3,862** | 3,782 |
| Interest on other borrowings | **11,699** | 6,538 |
| **Total interest expense** | **77,637** | 72,332 |
| **Net interest income** | **119,193** | 112,166 |
| Provision for loan losses | **8,665** | 8,550 |
| **Net interest income after provision for loan losses** | **110,528** | 103,616 |
| **NON-INTEREST INCOME** | | |
| Trust fees | **14,234** | 13,912 |
| Deposit account charges and other fees | **16,582** | 16,241 |
| Credit card transaction fees | **11,192** | 8,900 |
| Trading account profits and commissions | **2,385** | 2,785 |
| Net gains (losses) on securities transactions | **(1)** | 636 |
| Other | **12,404** | 14,982 |
| **Total non-interest income** | **56,796** | 57,456 |
| **NON-INTEREST EXPENSE** | | |
| Salaries and employee benefits | **54,863** | 54,025 |
| Net occupancy | **7,477** | 6,659 |
| Equipment | **5,139** | 4,875 |
| Supplies and communication | **8,597** | 8,160 |
| Data processing | **8,712** | 8,211 |
| Marketing | **3,150** | 3,251 |
| Goodwill and core deposit | **2,055** | 2,133 |
| Other | **14,967** | 15,387 |
| **Total non-interest expense** | **104,960** | 102,701 |
| Income before income taxes | **62,364** | 58,371 |
| Less income taxes | **21,109** | 19,686 |
| **Net income** | **$ 41,255** | $ 38,685 |
| Net income per share—basic | **$ .66** | $ .60 |
| Net income per share—diluted | **$ .66** | $ .59 |
| Cash dividends per common share | **$ .155** | $ .143 |

See accompanying notes to financial statements.

Schedule 3

## COMMERCE BANCSHARES, INC. AND SUBSIDIARIES

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)
(Dollars in thousands)

| | Number of Shares Issued | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Other | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance January 1, 2000** | **62,428,078** | **$312,140** | **$129,173** | **$642,746** | **$ (2,089)** | **$ (916)** | **$ (1,222)** | **$1,079,832** |
| Net income | | | | **41,255** | | | | **41,255** |
| Change in unrealized gain (loss) on available for sale securities | | | | | | | **(891)** | **(891)** |
| Total comprehensive income | | | | | | | | **40,364** |
| Purchase of treasury stock | | | | | **(22,438)** | | | **(22,438)** |
| Issuance of stock under purchase, option and benefit plans | | | **(200)** | | **600** | | | **400** |
| Issuance of stock under restricted stock award plan | | | **(32)** | | **660** | **(628)** | | **—** |
| Restricted stock award amortization | | | | | | **109** | | **109** |
| Cash dividends paid ($.155 per share) | | | | **(9,589)** | | | | **(9,589)** |
| **Balance March 31, 2000** | **62,428,078** | **$312,140** | **$128,941** | **$674,412** | **$(23,267)** | **$(1,435)** | **$ (2,113)** | **$1,088,678** |
| Balance January 1, 1999 | 61,352,684 | $306,763 | $106,159 | $624,256 | $ (8,561) | $ (904) | $53,072 | $1,080,785 |
| Net income | | | | 38,685 | | | | 38,685 |
| Change in unrealized gain (loss) on available for sale securities | | | | | | | (16,696) | (16,696) |
| Total comprehensive income | | | | | | | | 21,989 |
| Purchase of treasury stock | | | | | (21,185) | | | (21,185) |
| Issuance of stock under purchase, option and benefit plans | | | (2,499) | | 5,282 | | | 2,783 |
| Issuance of stock under restricted stock award plan | | | (19) | | 289 | (270) | | — |
| Restricted stock award amortization | | | | | | 89 | | 89 |
| Cash dividends paid ($.143 per share) | | | | (9,119) | | | | (9,119) |
| Balance March 31, 1999 | 61,352,684 | $306,763 | $103,641 | $653,822 | $(24,175) | $(1,085) | $36,376 | $1,075,342 |

See accompanying notes to financial statements.

Schedule 4

## COMMERCE BANCSHARES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Three Months Ended March 31 | |
|---|---|---|
| | **2000** | 1999 |
| | (Unaudited) (In thousands) | |
| **OPERATING ACTIVITIES:** | | |
| Net income | **$ 41,255** | $ 38,685 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | **8,665** | 8,550 |
| Provision for depreciation and amortization | **8,975** | 8,370 |
| Accretion of investment security discounts | **(589)** | (824) |
| Amortization of investment security premiums | **2,591** | 2,805 |
| Net (gains) losses on sales of investment securities (A) | **1** | (636) |
| Net decrease in trading account securities | **10,700** | 4,568 |
| (Increase) decrease in interest receivable | **(2,570)** | 1,055 |
| Increase (decrease) in interest payable | **769** | (1,745) |
| Other changes, net | **12,792** | 56,867 |
| Net cash provided by operating activities | **82,589** | 117,695 |
| **INVESTING ACTIVITIES:** | | |
| Proceeds from sales of investment securities (A) | **218** | 75,217 |
| Proceeds from maturities of investment securities (A) | **389,306** | 623,095 |
| Purchases of investment securities (A) | **(220,666)** | (532,982) |
| Net (increase) decrease in federal funds sold and securities purchased under agreements to resell | **17,396** | (105,005) |
| Net (increase) decrease in loans | **(206,988)** | 96,254 |
| Purchases of premises and equipment | **(10,751)** | (7,689) |
| Sales of premises and equipment | **1,335** | 768 |
| Net cash provided (used) by investing activities | **(30,150)** | 149,658 |
| **FINANCING ACTIVITIES:** | | |
| Net increase (decrease) in non-interest bearing demand, savings, and interest bearing demand deposits | **39,568** | (159,510) |
| Net decrease in time open and C.D.'s | **(26,954)** | (49,142) |
| Net decrease in federal funds purchased and securities sold under agreements to repurchase | **(149,913)** | (111,953) |
| Repayment of long-term debt | **(309)** | (272) |
| Purchases of treasury stock | **(22,438)** | (20,191) |
| Issuance of stock under purchase, option and benefit plans | **397** | 1,006 |
| Cash dividends paid on common stock | **(9,589)** | (9,119) |
| Net cash used by financing activities | **(169,238)** | (349,181) |
| Decrease in cash and cash equivalents | **(116,799)** | (81,828) |
| Cash and cash equivalents at beginning of year | **685,157** | 738,672 |
| Cash and cash equivalents at March 31 | **$ 568,358** | $ 656,844 |

(A) Available for sale and other non-marketable securities, excluding trading account securities.

During the three month period, income tax net receipts were $60,000 in 2000 and income tax net payments were $15,815,000 in 1999. Interest paid on deposits and borrowings for the three month period was $77,637,000 in 2000 and $74,037,000 in 1999.

See accompanying notes to financial statements.

**COMMERCE BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**March 31, 2000**
**(Unaudited)**

## 1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 1999 data to conform to current year presentation. Results of operations for the three month period ended March 31, 2000 are not necessarily indicative of results to be attained for any other period.

The significant accounting policies followed in the preparation of the quarterly financial statements are the same as those disclosed in the 1999 Annual Report to stockholders to which reference is made.

## 2. Allowance for Loan Losses

The following is a summary of the allowance for loan losses for the three months ended March 31, 2000 and 1999.

| (In thousands) | 2000 | 1999 |
|---|---|---|
| Balance, January 1 | **$123,042** | $117,092 |
| Additions: | | |
| Provision for loan losses | **8,665** | 8,550 |
| Deductions: | | |
| Loan losses | **9,752** | 9,039 |
| Less recoveries on loans | **2,848** | 2,954 |
| Net loan losses | **6,904** | 6,085 |
| Balance, March 31 | **$124,803** | $119,557 |

At March 31, 2000, non-performing assets were $36,259,000, which was .47% of total loans and .32% of total assets. This balance consisted of $17,573,000 in loans not accruing interest, $17,396,000 in loans past due 90 days and still accruing interest, and $1,290,000 in foreclosed real estate.

## 3. Investment Securities

Investment securities, at fair value, consist of the following at March 31, 2000 and December 31, 1999.

| (In thousands) | March 31 2000 | December 31 1999 |
|---|---|---|
| Available for sale: | | |
| U.S. government and federal agency obligations | **$ 999,975** | $1,136,332 |
| State and municipal obligations | **74,992** | 80,263 |
| CMO's and asset-backed securities | **1,067,294** | 1,106,975 |
| Other debt securities | **77,452** | 82,262 |
| Equity securities | **49,205** | 45,953 |
| Trading account securities | **12,456** | 23,639 |
| Other non-marketable securities | **39,194** | 32,991 |
| Total investment securities | **$2,320,568** | $2,508,415 |

### 4. Common Stock

The shares used in the calculation of basic and diluted income per share for the three months ended March 31, 2000 and 1999 are shown below.

| (In thousands) | 2000 | 1999 |
|---|---|---|
| Weighted average common shares outstanding | **62,055** | 64,098 |
| Stock options | **577** | 915 |
| | **62,632** | 65,013 |

### 5. Comprehensive Income

Comprehensive income is defined as the change in equity from transactions and other events and circumstances from non-owner sources, and excludes investments by and distributions to owners. Comprehensive income includes net income and other items of comprehensive income meeting the above criteria. The Company's only component of other comprehensive income is the unrealized holding gains and losses on available for sale securities.

| (In thousands) | For the Three Months Ended March 31 2000 | 1999 |
|---|---|---|
| Unrealized holding gains (losses) | **$(1,419)** | $(26,323) |
| Less: reclassification adjustment for gains included in net income | **—** | 636 |
| Net unrealized gains (losses) on securities | **(1,419)** | (26,959) |
| Income tax expense (benefit) | **(528)** | (10,263) |
| Other comprehensive income (loss) | **$ (891)** | $(16,696) |

### 6. Segments

Management has established three operating segments within the Company. The Consumer segment includes the retail branch network, consumer finance, bankcard, student loans and discount brokerage services. The Commercial segment provides corporate lending, leasing, and international services, as well as business, government deposit and cash management services. The Money Management segment provides traditional trust and estate tax planning services, and advisory and discretionary investment management services.

The following table presents selected financial information by segment and reconciliations of combined segment totals to consolidated totals. There were no material intersegment revenues between the three segments.

| (In thousands) | Consumer | Commercial | Money Management | Segment Totals | Other/ Elimination | Consolidated Totals |
|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2000** | | | | | | |
| Net interest income after loan loss expense | **$ 5,616** | **$78,424** | **$ (3,133)** | **$ 80,907** | **$29,621** | **$110,528** |
| Cost of funds allocation | **56,657** | **(36,053)** | **4,684** | **25,288** | **(25,288)** | **—** |
| Non-interest income | **29,526** | **6,873** | **18,117** | **54,516** | **2,280** | **56,796** |
| Total net revenue | **91,799** | **49,244** | **19,668** | **160,711** | **6,613** | **167,324** |
| Non-interest expense | **62,331** | **20,924** | **13,896** | **97,151** | **7,809** | **104,960** |
| Income before income taxes | **$29,468** | **$28,320** | **$ 5,772** | **$ 63,560** | **$ (1,196)** | **$ 62,364** |
| Three Months Ended March 31, 1999 | | | | | | |
| Net interest income after loan loss expense | $ 6,216 | $60,163 | $ (4,709) | $ 61,670 | $41,946 | $103,616 |
| Cost of funds allocation | 50,621 | (22,937) | 6,152 | 33,836 | (33,836) | — |
| Non-interest income | 30,805 | 6,932 | 18,453 | 56,190 | 1,266 | 57,456 |
| Total net revenue | 87,642 | 44,158 | 19,896 | 151,696 | 9,376 | 161,072 |
| Non-interest expense | 64,568 | 19,356 | 12,728 | 96,652 | 6,049 | 102,701 |
| Income before income taxes | $23,074 | $24,802 | $ 7,168 | $ 55,044 | $ 3,327 | $ 58,371 |

The segment activity, as shown above, includes both direct and allocated items. Amounts in the "Other/Elimination" column include activity not related to the segments, such as that relating to administrative functions, and the effect of certain expense allocations to the segments.

**Schedule 6**

## COMMERCE BANCSHARES, INC. AND SUBSIDIARIES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
**March 31, 2000**
**(Unaudited)**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as the Company's 1999 Annual Report on Form 10-K. Results of operations for the three month period ended March 31, 2000 are not necessarily indicative of results to be attained for any other period.

| | Three Months Ended March 31 | |
|---|---|---|
| | **2000** | 1999 |
| **Per Share Data** | | |
| Net income—basic | **$ .66** | $ .60 |
| Net income—diluted | **.66** | .59 |
| Cash dividends | **.155** | .143 |
| Book value | **17.67** | 16.85 |
| Market price | **31.19** | 36.67 |
| **Selected Ratios** | | |
| (Based on average balance sheets) | | |
| Loans to deposits | **84.56%** | 75.04% |
| Non-interest bearing deposits to total deposits | **15.19** | 14.87 |
| Equity to loans | **14.11** | 15.43 |
| Equity to deposits | **11.93** | 11.58 |
| Equity to total assets | **9.71** | 9.66 |
| Return on total assets | **1.49** | 1.40 |
| Return on realized stockholders' equity | **15.25** | 15.17 |
| Return on total stockholders' equity | **15.33** | 14.53 |
| (Based on end-of-period data) | | |
| Efficiency ratio | **58.47** | 59.51 |
| Tier I capital ratio | **11.65** | 11.95 |
| Total capital ratio | **12.97** | 13.08 |
| Leverage ratio | **9.25** | 8.75 |

### Summary

Consolidated net income for the first three months of 2000 was $41.3 million; a $2.6 million, or 6.6%, increase over the first three months of 1999. Diluted earnings per share increased 11.9% to $.66 compared to $.59 for the same period in the prior year. The first quarter of 2000 was the Company's sixteenth consecutive quarter of double digit percentage growth in earnings per share. The return on assets for the first quarter of 2000 was 1.49% versus 1.40% last year. The return on realized equity increased to 15.25% compared to 15.17% in 1999.

Net interest income increased $7.0 million, or 6.3%, over the first three months of 1999, mainly due to 9.6% growth in average loans. Non-interest income decreased $660 thousand, or 1.1% from 1999. This decrease was mainly due to gains on the sales of student loans recorded in 1999, partially offset by 7.1% growth in core fee revenue during 2000. Non-interest expense increased $2.3 million, or 2.2%, which included increases of $838 thousand in salaries and benefits and $818 thousand in occupancy expense.

## Net Interest Income

The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates. Changes not solely due to volume or rate changes are allocated to rate. Management believes this allocation method, applied on a consistent basis, provides meaningful comparisons between the respective periods.

### Analysis of Changes in Net Interest Income

| | Three Months Ended March 31, 2000 vs. 1999 | | |
|---|---|---|---|
| | Change due to | | |
| | Average Volume | Average Rate | Total |
| | (In thousands) | | |
| **Interest income, fully taxable equivalent basis:** | | | |
| Loans | $12,940 | $6,023 | $18,963 |
| Investment securities: | | | |
| U.S. government and federal agency securities | (4,026) | 379 | (3,647) |
| State and municipal obligations | (358) | (16) | (374) |
| CMO's and asset-backed securities | 1,519 | (3) | 1,516 |
| Other securities | (1,613) | 248 | (1,365) |
| Federal funds sold and securities purchased under agreements to resell | (3,508) | 575 | (2,933) |
| Total interest income | 4,954 | 7,206 | 12,160 |
| **Interest expense:** | | | |
| Deposits: | | | |
| Savings | (65) | (195) | (260) |
| Interest bearing demand | 33 | 2,645 | 2,678 |
| Time open & C.D.'s of less than $100,000 | (2,329) | (25) | (2,354) |
| Time open & C.D.'s of $100,000 and over | 31 | 49 | 80 |
| Federal funds purchased and securities sold under agreements to repurchase | 2,955 | 2,430 | 5,385 |
| Long-term debt and other borrowings | (12) | (9) | (21) |
| Total interest expense | 613 | 4,895 | 5,508 |
| **Net interest income, fully taxable equivalent basis** | $ 4,341 | $2,311 | $ 6,652 |

Net interest income for the first quarter of 2000 was $119.2 million, a 6.3% increase over the first quarter of 1999. For the quarter, the net interest rate margin was 4.68% compared with 4.49% in the first quarter of 1999 and 4.68% in the fourth quarter of 1999.

Total interest income increased $12.3 million, or 6.7%, over the first quarter of 1999, mainly due to an increase of $668.8 million in average loan balances and an increase of 24 basis points in loan yields. This growth was partly reflective of the effects of a strong economy in many of the Company's markets. Also contributing to this growth was an increase of $97.4 million in average balances invested in CMO's and asset-backed securities. These increases were partially offset by decreases of $399.0 million in the remaining portfolio and $292.0 million in average balances invested in federal funds sold and resell agreements. The average tax equivalent yield on interest earning assets was 7.71% in the first quarter of 2000 compared to 7.35% in the first quarter of 1999.

Total interest expense (net of capitalized interest) increased $5.3 million, or 7.3%, compared to the first quarter of 1999 due mainly to higher average borrowings and rates paid on federal funds purchased. In addition, rates paid on the Company's Premium Money Market deposit accounts increased 54 basis points. These increases to interest expense were partially offset by lower average C.D.'s of less than $100,000. Average rates paid on all interest bearing liabilities increased from 3.42% in the first quarter of 1999 to 3.64% in the first quarter of 2000. Interest capitalized on construction projects, which was deducted from interest expense on borrowings, amounted to $203 thousand in 2000.

Summaries of average assets and liabilities and the corresponding average rates earned/paid appear on page 16.

**Risk Elements of Loan Portfolio**

Non-performing assets include impaired loans (non-accrual loans and loans 90 days delinquent and still accruing interest) and foreclosed real estate. Loans are placed on non-accrual status when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment (generally, loans that are 90 days past due as to principal and/or interest payments). These loans were made primarily to borrowers in Missouri, Kansas and Illinois. The following table presents non-performing assets.

| | **March 31 2000** | December 31 1999 |
|---|---|---|
| | **(In thousands)** | |
| Non-accrual loans | **$17,573** | $12,979 |
| Past due 90 days and still accruing interest | **17,396** | 21,317 |
| Total impaired loans | **34,969** | 34,296 |
| Foreclosed real estate | **1,290** | 1,347 |
| Total non-performing assets | **$36,259** | $35,643 |
| Non-performing assets to total loans | **.47%** | .47% |
| Non-performing assets to total assets | **.32%** | .31% |

The level of non-performing assets increased 1.7% from year end 1999 totals. Non-accrual loans at March 31, 2000 consisted mainly of business loans ($9.4 million), business real estate loans ($5.1 million) and construction and land development loans ($2.6 million). Loans which were 90 or more days past due included credit card loans of $6.5 million and personal real estate loans of $3.8 million.

A subsidiary bank issues Visa and MasterCard credit cards, and credit card loans outstanding amounted to $493.1 million at March 31, 2000. Because credit card loans traditionally have a higher than average ratio of net charge-offs to loans outstanding when compared to other portfolio segments, management evaluates the credit card allowance as a separate component to ensure its adequacy. The risk presented by the above loans and foreclosed real estate is not considered by management to be materially adverse in relation to normal credit risks generally taken by lenders.

**Provision/Allowance for Loan Losses**

| | **Three Months Ended** | | |
|---|---|---|---|
| | Dec. 31 1999 | **Mar. 31 2000** | Mar. 31 1999 |
| | **(Dollars in thousands)** | | |
| Provision for loan losses | $9,751 | **$8,665** | $8,550 |
| Net charge-offs | 7,948 | **6,904** | 6,085 |
| Net annualized charge-offs as a percentage of average loans | .42% | **.36%** | .35% |

Management records the provision for loan losses, on an individual bank basis, in amounts that result in an allowance for loan losses sufficient to cover current net charge-offs and risks believed to be inherent in the loan portfolio of each bank. Management's evaluation includes such factors as past loan loss experience, current loan portfolio mix, evaluation of actual and potential losses in the loan portfolio, prevailing regional and national economic conditions that might have an impact on the portfolio, regular reviews and examinations of the loan portfolio conducted by internal loan reviewers supervised by Commerce Bancshares, Inc. (the Parent), and reviews and examinations by bank regulatory authorities. As a result of these factors, the provision for loan losses increased $115 thousand compared to the first quarter of 1999 and decreased $1.1 million compared to the fourth quarter of 1999. The allowance for loan losses as a percentage of loans outstanding was 1.60% at March 31, 2000, compared to 1.62% at year-end 1999 and 1.72% at March 31, 1999. The allowance at March 31, 2000 was 344% of non-performing assets. Management believes that the allowance for loan losses, which is a general reserve, is adequate to cover actual and potential losses in the loan portfolio under current conditions. Other than as previously noted, management is not aware of any significant risks in the current loan portfolio due to concentrations of loans within any particular industry, nor of any separate types of loans within a particular category of non-performing loans that are unusually significant as to possible loan losses when compared to the entire loan portfolio.

**Non-Interest Income**

| | Three Months Ended March 31 | | Increase (decrease) | |
|---|---|---|---|---|
| | **2000** | 1999 | Amount | Percent |
| | (Dollars in thousands) | | | |
| Trust fees | **$14,234** | $13,912 | $ 322 | 2.3% |
| Deposit account charges and other fees | **16,582** | 16,241 | 341 | 2.1 |
| Credit card transaction fees | **11,192** | 8,900 | 2,292 | 25.8 |
| Trading account profits and commissions | **2,385** | 2,785 | (400) | (14.4) |
| Net gains (losses) on securities transactions | **(1)** | 636 | (637) | (100.2) |
| Other | **12,404** | 14,982 | (2,578) | (17.2) |
| **Total non-interest income** | **$56,796** | $57,456 | $ (660) | (1.1) |
| As a % of operating income (net interest income plus non-interest income) | **32.3%** | 33.9% | | |

Non-interest income declined 1.1% in the first quarter of 2000 compared to the first quarter of 1999. The decrease occurred mainly in the other income category, which declined $2.6 million. The decrease was due to $3.2 million in gains on student loan sales recorded in 1999, partially offset by increases in cash management fees, brokerage-related fees, and gains on real estate sales. Gains on investment security transactions decreased $637 thousand because of bank portfolio sales in 1999. Trading account profits and commissions decreased $400 thousand because of market conditions and cash liquidity positions at community banks. These decreases were partially offset by the following increases in other fee revenues. Trust fees increased $322 thousand, mainly due to account growth and increases in the value of assets managed. Deposit account fees grew $341 thousand mainly due to higher overdraft and return item fees collected. Credit card fees rose $2.3 million because of increased transaction volumes in both the cardholder and merchant areas, and growth in the Company's debit card product.

**Non-Interest Expense**

| | Three Months Ended March 31 | | Increase (decrease) | |
|---|---|---|---|---|
| | **2000** | 1999 | Amount | Percent |
| | (Dollars in thousands) | | | |
| Salaries and employee benefits | **$ 54,863** | $ 54,025 | $ 838 | 1.6% |
| Net occupancy | **7,477** | 6,659 | 818 | 12.3 |
| Equipment | **5,139** | 4,875 | 264 | 5.4 |
| Supplies and communication | **8,597** | 8,160 | 437 | 5.4 |
| Data processing | **8,712** | 8,211 | 501 | 6.1 |
| Marketing | **3,150** | 3,251 | (101) | (3.1) |
| Goodwill and core deposit | **2,055** | 2,133 | (78) | (3.7) |
| Other | **14,967** | 15,387 | (420) | (2.7) |
| **Total non-interest expense** | **$104,960** | $102,701 | $2,259 | 2.2 |

Non-interest expense rose 2.2% compared to the first quarter of 1999. Salaries and employee benefits increased $838 thousand over the first quarter of 1999. Higher incentive compensation payments contributed to salary growth, which was partially offset by lower medical benefits costs. Occupancy costs increased $818 thousand over the first quarter of 1999 due partly to lower outside tenant rent income and higher building services expense. Supplies and communication expense increased $437 thousand due to higher telephone-related expense. Data processing expense increased $501 thousand, due in part to account growth and higher charges by information service providers. The efficiency ratio was 58.47% in the first quarter of 2000 compared to 59.51% in the first quarter of 1999 and 58.13% in the fourth quarter of 1999.

## Operating Segments

The Company segregates financial information for use in assessing its performance and allocating resources among three operating segments. The results are determined based on the Company's management accounting process, which assigns balance sheet and income statement items to each responsible segment. These segments are defined by customer base and product type. The management process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. Each segment is managed by executives who, in conjunction with the Chief Executive Officer, make strategic business decisions regarding that segment. The three reportable operating segments are Consumer, Commercial and Money Management.

*Consumer*

The Consumer segment includes the retail branch network, consumer finance, bankcard, student loans and discount brokerage. For the three months ended March 31, 2000, pre-tax earnings amounted to $29.5 million, up $6.4 million, or 27.7%, over the previous year. Funding credits allocated to the segment increased $6.0 million. Direct net interest income increased slightly, which was offset by a 17.7% increase in net loan charge-offs. Non-interest income declined 4.2% compared to the first three months in 1999, mainly due to gains on student loan sales recorded in 1999. The decrease was partially offset by increases in bankcard and deposit fee revenue. Non-interest expense decreased 3.5% from 1999 mainly due to lower salaries and benefits and assigned management costs, as a result of reorganization and consolidation within the loan operations support functions. This decline was partly offset by an increase in data processing expense.

*Commercial*

The Commercial segment provides corporate lending, leasing, international services, and corporate cash management services. Pre-tax earnings for the first three months of 2000 were $28.3 million, an increase of $3.5 million, or 14.2%, over 1999. Direct net interest income rose $18.0 million over 1999 and was partly offset by a $13.1 million increase in assigned funds costs. Non-interest income was stable, and non-interest expense increased 8.1% mainly as a result of higher costs for check processing, loan servicing and salaries expense.

*Money Management*

The Money Management segment consists of the Investment Management Group (IMG) and the Capital Markets Group (CMG). IMG provides trust and estate planning services, and advisory and discretionary investment management services. CMG sells fixed-income securities for personal and commercial customers. Pre-tax earnings were $5.8 million for the first three months in 2000, a decrease of $1.4 million from 1999. Non-interest income decreased 1.8%, which included a decline in bond trading profits and commissions, partly offset by an increase in trust fees. Non-interest expense grew 9.2% over 1999 with higher costs for salaries and data processing expense

## Liquidity and Capital Resources

The liquid assets of the Parent consist primarily of commercial paper, overnight repurchase agreements and equity securities, most of which are readily marketable. The fair value of these investments was $111.5 million at March 31, 2000 compared to $113.3 million at December 31, 1999. Included in the fair values were unrealized net gains of $26.2 million at March 31, 2000 and $25.1 million at December 31, 1999. The Parent's liabilities totaled $37.9 million at March 31, 2000, compared to $14.2 million at December 31, 1999. Liabilities at March 31, 2000 included $27.0 million advanced mainly from subsidiary bank holding companies in order to combine resources for short-term investment in liquid assets. The Parent had no short-term borrowings from affiliate banks or long-term debt during 2000. The Parent's commercial paper, which management believes is readily marketable, has a P1 rating from Moody's and an A1 rating from Standard & Poor's. The Company is also rated A by Thomson BankWatch with a corresponding short-term rating of TBW-1. This credit availability should provide adequate funds to meet any outstanding or future commitments of the Parent.

The liquid assets held by bank subsidiaries include federal funds sold and securities purchased under agreements to resell and available for sale investment securities. These liquid assets had a fair value of $2.36 billion at March 31, 2000 and $2.56 billion at December 31, 1999. The available for sale bank portfolio included an unrealized net loss in fair value of $33.4 million at March 31, 2000 compared to an unrealized net loss of $29.7 million at December 31, 1999. U.S. government and federal agency securities comprised 46% and CMO's and asset-backed securities comprised 50% of the banking subsidiaries' available for sale portfolio at March 31, 2000. The estimated average maturity of the available for sale investment portfolio was 2.9 years at March 31, 2000 and December 31, 1999.

In February 2000, the Board of Directors announced the approval of additional purchases of the Company's common stock, bringing the total purchase authorization to 3,000,000 shares. At March 31, 2000, the Company had acquired 436,265 shares under this authorization. The Company has routinely used these reacquired shares to fund annual stock dividends and employee benefit programs.

The Company had an equity to asset ratio of 9.71% based on 2000 average balances. As shown in the following table, the Company's capital exceeded the minimum risk-based capital and leverage requirements of the regulatory agencies.

| | **March 31 2000** | December 31 1999 | **Min. Ratios for Well-Capitalized Banks** |
|---|---|---|---|
| | **(Dollars in thousands)** | | |
| Risk-Adjusted Assets | **$8,802,595** | $8,678,987 | |
| Tier I Capital | **1,025,867** | 1,014,071 | |
| Total Capital | **1,141,990** | 1,127,005 | |
| Tier I Capital Ratio | **11.65%** | 11.68% | 6.00% |
| Total Capital Ratio | **12.97%** | 12.99% | 10.00% |
| Leverage Ratio | **9.25%** | 9.17% | 5.00% |

The Company's cash and cash equivalents (defined as ''Cash and due from banks'') were $568.4 million at March 31, 2000, a decrease of $116.8 million from December 31, 1999. Contributing to the net cash outflow were a net decrease of $149.9 million in short-term borrowings and a net increase of $207.0 million in loans. These outflows were partially offset by a $168.9 million increase in proceeds from sales and maturities of investment securities, net of purchases, and $82.6 million generated from operating activities. Total assets decreased 1.7% from year end 1999.

The Company has various commitments and contingent liabilities which are properly not reflected on the balance sheet. Loan commitments (excluding lines of credit related to credit card loan agreements) totaled approximately $2.96 billion, standby letters of credit totaled $262.3 million, and commercial letters of credit totaled $35.0 million at March 31, 2000. The Company has little risk exposure in off-balance-sheet derivative contracts. The notional value of these contracts (interest rate and foreign exchange rate contracts) was $137.8 million at March 31, 2000. The current credit exposure (or replacement cost) across all off-balance-sheet derivative contracts covered by the risk-based capital standards was $1.9 million at March 31, 2000. Management does not anticipate any material losses to arise from these contingent items and believes there are no material commitments to extend credit that represent risks of an unusual nature.

## Quantitative and Qualitative Disclosures about Market Risk

The Company's assets and liabilities are principally financial in nature and the resulting net interest income thereon is subject to changes in market interest rates and the mix of various assets and liabilities. Interest rates in the financial markets affect the Company's decisions on pricing its assets and liabilities which impacts net interest income, a significant cash flow source for the Company. As a result, a substantial portion of the Company's risk management activities relates to managing interest rate risk.

The Company's Asset/Liability Management Committee monitors on a monthly basis the interest rate sensitivity of the Company's balance sheet using earnings simulation models and interest sensitivity GAP analysis. Using these tools, management attempts to optimize the asset/liability mix to minimize the impacts of significant rate movements within a broad range of interest rate scenarios.

One set of simulation models is prepared to determine the impact on net interest income for the coming twelve months under several interest rate scenarios. One such scenario uses rates and volumes at March 31, 2000 for the twelve month projection. When this position is subjected to a graduated shift in interest rates of 100 basis points rising and 100 basis points falling, the annual impact to the Company's net interest income is as follows:

| Scenario | $ in millions | % of Net Int. Income |
|---|---|---|
| 100 basis points rising | $ 4.1 | .8% |
| 100 basis points falling | (2.4) | (.5) |

Currently, the Company does not have significant risks related to foreign exchange, commodities or equity risk exposures.

## Impact of Accounting Standards

Statement of Financial Accounting Standards (SFAS) No. 133, ''Accounting for Derivative Instruments and Hedging Activities'', will be adopted by the Company on January 1, 2001. SFAS No. 137, an amendment of SFAS No. 133, deferred its effective date for one year. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. All derivatives must be recognized on the balance sheet at fair value, with special accounting requirements for designated hedging activities. Certain changes in fair value must be adjusted through income. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of the new Statement will have a significant effect on earnings or the financial position of the Company.

## Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

This report contains ''forward-looking statements'' within the meaning of the federal securities laws. Such statements are subject to certain risks and uncertainties, including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

## AVERAGE BALANCE SHEETS—AVERAGE RATES AND YIELDS

### Three Months Ended March 31, 2000 and 1999

| | First Quarter 2000 | | | First Quarter 1999 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Avg. Rates Earned/ Paid | Average Balance | Interest Income/ Expense | Avg. Rates Earned/ Paid |
| | | | (Unaudited) (Dollars in thousands) | | | |
| **ASSETS:** | | | | | | |
| Loans: | | | | | | |
| Business (A) | $ 2,574,238 | $ 49,938 | 7.80% | $ 2,366,020 | $ 41,842 | 7.17% |
| Construction and development | 367,326 | 7,575 | 8.29 | 350,312 | 6,690 | 7.75 |
| Real estate—business | 1,266,517 | 25,316 | 8.04 | 1,000,229 | 19,623 | 7.96 |
| Real estate—personal | 1,393,480 | 25,238 | 7.28 | 1,330,328 | 24,256 | 7.39 |
| Personal banking | 1,565,617 | 31,873 | 8.19 | 1,443,552 | 29,262 | 8.22 |
| Credit card | 500,967 | 17,067 | 13.70 | 508,943 | 16,371 | 13.05 |
| Total loans | 7,668,145 | 157,007 | 8.24 | 6,999,384 | 138,044 | 8.00 |
| Investment securities: | | | | | | |
| U.S. government & federal agency | 1,103,863 | 16,854 | 6.14 | 1,370,597 | 20,501 | 6.07 |
| State & municipal obligations (A) | 76,782 | 1,515 | 7.94 | 94,516 | 1,889 | 8.11 |
| CMO's and asset-backed securities | 1,109,351 | 17,162 | 6.22 | 1,011,920 | 15,646 | 6.27 |
| Trading account securities | 11,909 | 186 | 6.30 | 17,812 | 263 | 6.00 |
| Other marketable securities (A) | 88,711 | 1,485 | 6.73 | 198,359 | 2,754 | 5.63 |
| Other non-marketable securities | 33,679 | 408 | 4.87 | 32,614 | 427 | 5.31 |
| Total investment securities | 2,424,295 | 37,610 | 6.24 | 2,725,818 | 41,480 | 6.17 |
| Federal funds sold and securities purchased under agreement to resell | 217,678 | 3,110 | 5.75 | 509,698 | 6,043 | 4.81 |
| Total interest earning assets | 10,310,118 | 197,727 | 7.71 | 10,234,900 | 185,567 | 7.35 |
| Less allowance for loan losses | (123,428) | | | (117,492) | | |
| Unrealized gain (loss) on investment securities | (10,017) | | | 74,289 | | |
| Cash and due from banks | 555,633 | | | 578,656 | | |
| Land, buildings and equipment, net | 237,839 | | | 222,344 | | |
| Other assets | 171,465 | | | 190,136 | | |
| Total assets | $11,141,610 | | | $11,182,833 | | |
| **LIABILITIES AND EQUITY:** | | | | | | |
| Interest bearing deposits: | | | | | | |
| Savings | $ 322,079 | 1,384 | 1.73 | $ 335,252 | 1,644 | 1.99 |
| Interest bearing demand | 4,964,506 | 34,117 | 2.76 | 5,050,704 | 31,439 | 2.52 |
| Time open & C.D.'s of less than $100,000 | 2,096,323 | 26,575 | 5.10 | 2,253,202 | 28,929 | 5.21 |
| Time open & C.D.'s of $100,000 and over | 308,331 | 3,862 | 5.04 | 301,188 | 3,782 | 5.09 |
| Total interest bearing deposits | 7,691,239 | 65,938 | 3.45 | 7,940,346 | 65,794 | 3.36 |
| Borrowings: | | | | | | |
| Federal funds purchased and securities sold under agreements to purchase | 879,122 | 11,695 | 5.35 | 606,832 | 6,310 | 4.22 |
| Long-term debt and other borrowings (B) | 25,529 | 207 | 3.26 | 26,991 | 228 | 3.42 |
| Total borrowings | 904,651 | 11,902 | 5.29 | 633,823 | 6,538 | 4.18 |
| Total interest bearing liabilities | 8,595,890 | 77,840 | 3.64% | 8,574,169 | 72,332 | 3.42% |
| Non-interest bearing demand deposits | 1,377,067 | | | 1,386,708 | | |
| Other liabilities | 86,419 | | | 141,918 | | |
| Stockholders' equity | 1,082,234 | | | 1,080,038 | | |
| Total liabilities and equity | $11,141,610 | | | $11,182,833 | | |
| Net interest margin (T/E) | | $119,887 | | | $113,235 | |
| Net yield on interest earning assets | | 4.68% | | | 4.49% | |

(A) Stated on a tax equivalent basis using a federal income tax rate of 35%.

(B) Interest expense capitalized on construction projects is not deducted from the interest expense shown above.