COMMERCE BANCSHARES INC /MO/
Form 10-K
February 26, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007 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)	(Zip Code)

(816) 234-2000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of class	**Name of exchange on which registered**
$5 Par Value Common Stock	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of June 30, 2007, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $2,542,000,000.

As of February 8, 2008, there were 71,840,379 shares of Registrant s $5 Par Value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for its 2008 annual meeting of shareholders, which will be filed within 120 days of December 31, 2007, are incorporated by reference into Part III of this Report.

Commerce Bancshares, Inc.

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PART I

Item 1. BUSINESS

General

Commerce Bancshares, Inc. (the Company), a bank holding company as defined in the Bank Holding Company Act of 1956, as amended, was incorporated under the laws of Missouri on August 4, 1966. The Company presently owns all of the outstanding capital stock of three national banking associations, which are headquartered in Missouri (the Missouri bank), Kansas (the Kansas bank), and Nebraska (the Nebraska bank). The Nebraska bank is limited in its activities to the issuance of credit cards. The remaining two banking subsidiaries engage in general banking business, providing a broad range of retail, corporate, investment, trust, and asset management products and services to individuals and businesses. The Company also owns, directly or through its banking subsidiaries, various non-banking subsidiaries. Their activities include underwriting credit life and credit accident and health insurance, selling property and casualty insurance (relating to consumer loans made by the banking subsidiaries), venture capital investment, securities brokerage, mortgage banking, and leasing activities. The Company owns a second tier holding company that is the direct owner of both the Missouri and Kansas banks. A list of the Company s subsidiaries is included as Exhibit 21.

The Company is one of the nation s top 50 domestic bank holding companies, based on asset size. At December 31, 2007, the Company had consolidated assets of $16.2 billion, loans of $10.8 billion, deposits of $12.6 billion, and stockholders equity of $1.5 billion. All of the Company s operations conducted by subsidiaries are consolidated for purposes of preparing the Company s consolidated financial statements. The Company does not utilize unconsolidated subsidiaries or special purpose entities to provide off-balance sheet borrowings or securitizations.

The Company s goal is to be the preferred provider of targeted financial services in its communities, based on strong customer relationships. It believes in building long-term relationships based on top quality service, high ethical standards and safe, sound assets. The Company operates under a super-community banking format with a local orientation, augmented by experienced, centralized support in select critical areas. The Company s local market orientation is reflected in its financial centers and regional advisory boards, which are comprised of local business persons, professionals and other community representatives, that assist the Company in responding to local banking needs. In addition to this local market, community-based focus, the Company offers sophisticated financial products available at much larger financial institutions.

The Missouri bank is the Company s largest, with total assets of $14.7 billion and comprising approximately 92% of the Company s total banking assets. The bank s facilities are located throughout Missouri, eastern Kansas, and central Illinois, with new locations in Tulsa, Oklahoma and Denver, Colorado. Its two largest markets include St. Louis and Kansas City, which serve as the central hubs for the entire company. The Kansas bank has total assets of $1.3 billion. It has significant operations and banking facilities in the areas of Wichita, Hays, Hutchinson, and Garden City, Kansas.

The markets these banks serve, being located in the lower Midwest, provide natural sites for production and distribution facilities and also serve as transportation hubs. The economy has been well-diversified in these markets with many major industries represented, including telecommunications, automobile, aircraft and general manufacturing, health care, numerous service industries, food production, and agricultural production and related industries. In addition, several of the Illinois markets are located in areas with some of the most productive farmland in the world. The banks operate in real estate markets that tend to be less volatile than in other parts of the country.

The Company regularly evaluates the potential acquisition of, and holds discussions with, various financial institutions eligible for bank holding company ownership or control. In addition, the Company regularly considers the potential disposition of certain of its assets and branches. The Company seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. During 2007 the Company completed two acquisitions; acquiring the outstanding stock of South Tulsa Financial Corporation, located in Tulsa, Oklahoma, and Commerce Bank, located in Denver, Colorado. The Company also completed two acquisitions in 2006; a purchase and assumption transaction with Boone National Savings and Loan Association in Columbia, Missouri, and the acquisition of the outstanding stock of West Pointe Bancorp, Inc. in Belleville, Illinois. For additional information on acquisition and branch disposition activity, refer to pages 16 and 66.

Operating Segments

The Company is managed in three operating segments. The Consumer segment includes the retail branch network, consumer installment lending, personal mortgage banking, bank card activities, student lending, and discount brokerage services. It provides services through a network of 210 full-service branches, a widespread ATM network of 392 machines, and the use of alternative delivery channels such as extensive online banking and telephone banking services. In 2007 this retail segment contributed 57% of total segment pre-tax income. The Commercial segment provides a full array of corporate lending, leasing, and international services, as well as business and government deposit and cash management services. In 2007 it contributed 34% of total segment pre-tax income. The Money Management segment provides traditional trust and estate tax planning services, and advisory and discretionary investment portfolio management services to both personal and institutional corporate customers. This segment also manages the Company s family of proprietary mutual funds, which are available for sale to both trust and general retail customers. Fixed income investments are sold to individuals and institutional investors through the Capital Markets group, which is also included in this segment. At December 31, 2007 the Money Management segment managed investments with a market value of $12.5 billion and administered an additional $10.2 billion in non-managed assets. Additional information relating to operating segments can be found on pages 44 and 85.

Supervision and Regulation

General

The Company, as a bank holding company, is primarily regulated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 (BHC Act). Under the BHC Act, the Federal Reserve Board s prior approval is required in any case in which the Company proposes to acquire all or substantially all of the assets of any bank, acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank, or merge or consolidate with any other bank holding company. The BHC Act also prohibits, with certain exceptions, the Company from acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any non-banking company. Under the BHC Act, the Company may not engage in any business other than managing and controlling banks or furnishing certain specified services to subsidiaries and may not acquire voting control of non-banking companies unless the Federal Reserve Board determines such businesses and services to be closely related to banking. When reviewing bank acquisition applications for approval, the Federal Reserve Board considers, among other things, each subsidiary bank s record in meeting the credit needs of the communities it serves in accordance with the Community Reinvestment Act of 1977, as amended (CRA). The Missouri, Kansas and Nebraska bank charters have current CRA ratings of outstanding .

The Company is required to file with the Federal Reserve Board various reports and such additional information as the Federal Reserve Board may require. The Federal Reserve Board also makes regular examinations of the Company and its subsidiaries. The Company s three banking subsidiaries are organized as national banking associations and are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC). All banks are also subject to regulation by the Federal Deposit Insurance Corporation (FDIC). In addition, there are numerous other federal and state laws and regulations which control the activities of the Company and its banking subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with affiliates, loan limits, mergers and acquisitions, issuance of securities, dividend payments, and extensions of credit. If the Company fails to comply with these or other applicable laws and regulations, it may be subject to civil monetary penalties, imposition of cease and desist orders or other written directives, removal of management and, in certain circumstances, criminal penalties. This regulatory framework is intended primarily for the protection of depositors and the preservation of the federal deposit insurance funds, and not for the protection of security holders. Statutory and regulatory controls increase a bank holding company s cost of doing business and limit the options of its management to employ assets and maximize income.

In addition to its regulatory powers, the Federal Reserve impacts the conditions under which the Company operates by its influence over the national supply of bank credit. The Federal Reserve Board employs open market operations in U.S. government securities, changes in the discount rate on bank borrowings, changes in the federal funds rate on overnight inter-bank borrowings, and changes in reserve requirements on bank deposits in implementing its monetary policy objectives. These instruments are used in varying combinations to influence the overall level of the interest rates charged on loans and paid for deposits, the price of the dollar in foreign exchange markets and the level of inflation. The monetary policies of the Federal Reserve have a significant effect on the operating results of financial institutions, most notably on the interest rate environment. In view of changing conditions in the national economy and in the money markets, as well as the effect of credit policies of monetary and fiscal authorities, no prediction can be made as to possible future changes in interest rates, deposit levels or loan demand, or their effect on the financial statements of the Company.

Subsidiary Banks

Under Federal Reserve policy, the Company is expected to act as a source of financial strength to each of its bank subsidiaries and to commit resources to support each bank subsidiary in circumstances when it might not otherwise do so. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Substantially all of the deposits of the Company s subsidiary banks are insured up to the applicable limits by the Bank Insurance Fund of the FDIC, generally up to $100,000 per insured depositor and up to $250,000 for retirement accounts. The banks pay deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC for Bank Insurance Fund member institutions. The FDIC has established a risk-based assessment system under which institutions are classified and pay premiums according to their perceived risk to the federal deposit insurance funds. The FDIC is not required to charge deposit insurance premiums when the ratio of deposit insurance reserves to insured deposits is maintained above specified levels. For several years, the ratio was above the minimum level and, accordingly, the Company was not required to pay premiums. However, in 2006, legislation was passed reforming the bank deposit insurance system. The reform act allowed the FDIC to raise the minimum reserve ratio and allowed eligible insured institutions an initial one-time credit to be used against premiums due. As a result, in subsequent years the Company will be assessed insurance premiums, which in years 2007 and 2008 may be partly or totally offset by the one-time credit. The Company s one-time credit is approximately $12 million. During 2007, approximately $6 million of that credit was used, leaving a balance remaining of approximately $6 million.

Payment of Dividends

The principal source of the Company s cash revenues is dividends from the subsidiary banks. The Federal Reserve Board may prohibit the payment of dividends by bank holding companies if their actions constitute unsafe or unsound practices. The OCC limits the payment of dividends by bank subsidiaries in any calendar year to the net profit of the current year combined with the retained net profits of the preceding two years. Permission must be obtained from the OCC for dividends exceeding these amounts. The payment of dividends by the bank subsidiaries may also be affected by factors such as the maintenance of adequate capital.

Capital Adequacy

The Company is required to comply with the capital adequacy standards established by the Federal Reserve. These capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8% of total risk-adjusted assets and off-balance sheet items (the Total Risk-Based Capital Ratio), with at least one-half of that amount consisting of Tier I, or core capital, and the remaining amount consisting of Tier II, or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common shareholders equity, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Tier II capital generally consists of hybrid capital instruments, term subordinated debt and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics.

In addition, the Federal Reserve also requires bank holding companies to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization s Tier I capital to its total consolidated quarterly average assets (as defined for regulatory purposes), net of the allowance for loan losses, goodwill and certain other intangible assets. The minimum leverage ratio for bank holding companies is 4%. At December 31, 2007 all of the subsidiary banks were well-capitalized under regulatory capital adequacy standards, as further discussed on page 89.

Legislation

These laws and regulations are under constant review by various agencies and legislatures, and are subject to sweeping change. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act) contained major changes in laws that previously kept the banking industry largely separate from the securities and insurance industries. The GLB Act authorized the creation of a new kind of financial institution, known as a financial holding company and a new kind of bank subsidiary called a financial subsidiary , which may engage in a broader range of investment banking, insurance agency, brokerage, and underwriting activities. The GLB Act also included privacy provisions that limit banks abilities to disclose non-public information about customers to non-affiliated entities. Banking organizations are not required to become financial holding companies, but instead may continue to operate as bank holding companies, providing the same services they were authorized to provide prior to the enactment of the GLB Act.

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (The USA Patriot Act) was signed into law. The USA Patriot Act substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions such as the Company s broker-dealer subsidiary. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Competition

The Company s locations in regional markets throughout Missouri, Kansas and central Illinois face intense competition from hundreds of financial service providers. The Company competes with national and state banks for deposits, loans and trust accounts, and with savings and loan associations and credit unions for deposits and consumer lending products. In addition, the Company competes with other financial intermediaries such as securities brokers and dealers, personal loan companies, insurance companies, finance companies, and certain governmental agencies. The passage of the GLB Act, which removed barriers between banking and the securities and insurance industries, has resulted in greater competition among these industries. The Company generally competes on the basis of customer services and responsiveness to customer needs, interest rates on loans and deposits, lending limits and customer convenience, such as location of offices.

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Employees

The Company and its subsidiaries employed 4,520 persons on a full-time basis and 670 persons on a part-time basis at December 31, 2007. The Company provides a variety of benefit programs including a 401K plan as well as group life, health, accident, and other insurance. The Company also maintains training and educational programs designed to prepare employees for positions of increasing responsibility.

Available Information

The Company s principal offices are located at 1000 Walnut, Kansas City, Missouri (telephone number 816-234-2000). The Company makes available free of charge, through its web site at www.commercebank.com, reports filed with the Securities and Exchange Commission as soon as reasonably practicable after the electronic filing. These filings include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports.

Statistical Disclosure

The information required by Securities Act Guide 3 Statistical Disclosure by Bank Holding Companies is located on the pages noted below.

Item 1a. RISK FACTORS

Making or continuing an investment in securities issued by Commerce Bancshares, Inc., including our common stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on the Company. Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause the Company s actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Commerce Bancshares, Inc.

The performance of the Company is dependent on the economic conditions of the markets in which the Company operates.

The Company s success is heavily influenced by the general economic conditions of the states of Missouri, Kansas and central Illinois and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers in such metropolitan areas as Kansas City, St. Louis, and Springfield in

Missouri, Peoria and Bloomington in Illinois, and Wichita, Kansas. Since the Company does not have significant presence in other parts of the country, a prolonged economic downturn in these markets could have a material adverse effect on the Company s financial condition and results of operations.

The Company is subject to Interest Rate Risk.

The Company s net interest income is the largest source of overall revenue to the Company, representing 59% of total revenue. Interest rates are beyond the Company s control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company s results of operations. However, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company s financial condition and results of operations.

The Company operates in a highly competitive industry and market area.

The Company operates in the financial services industry, a rapidly changing environment having numerous competitors including other banks and insurance companies, securities dealers, brokers, trust and investment companies and mortgage bankers. The pace of consolidation among financial service providers is accelerating and there are many new changes in technology, product offerings and regulation. New entrants offering competitive products continually penetrate our markets. The Company must continue to make investments in its products and delivery systems to stay competitive with the industry as a whole or its financial performance may suffer.

Potential future loan losses could increase.

The Company maintains an allowance for loan losses that represents management s best estimate of probable losses that have been incurred at the balance sheet date within the existing portfolio of loans. The level of the allowance reflects management s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Over the past few years, historical losses have been low and the Company s credit loss ratios have been below industry averages, in part due to the low level of commercial loan losses. Also, while the industry has experienced low levels of loan losses for several years, loan losses on residential construction and consumer loans have risen, especially in the second half of 2007. Much of this relates to the effects of the subprime lending issues and a general housing slowdown creating an uncertain economic outlook. If the recent trend is prolonged and losses continue to increase, the Company s results of operations could be negatively impacted by higher loan losses in the future. See the section captioned Allowance for Loan Losses in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this report for further discussion related to the Company s process for determining the appropriate level of the allowance for possible loan loss.

The Company s reputation and future growth prospects could be impaired if events occurred which breached our customers privacy.

The Company relies heavily on communications and information systems to conduct its business, and as part of our business we maintain significant amounts of data about our customers and the products they use. While the Company has policies and procedures designed to prevent or limit the effect of failure, interruption or security breach of its information systems, there can be no assurances that any such failures, interruptions or security breaches will not occur, or if they do occur, that they will be adequately addressed. Should any of these systems become compromised, the reputation of the Company could be damaged, relationships with existing customers impaired and result in lost business and incur significant expenses trying to remedy the compromise.

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The Company may not attract and retain skilled employees.

The Company s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Company can be intense, and the Company spends considerable time and resources attracting and hiring qualified people for its various business lines and support units. The unexpected loss of the services of one or more the Company s key personnel could have a material adverse impact on the Company s business because of their skills, knowledge of the Company s market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Item 1b. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

The bank subsidiaries maintain their main offices in various multi-story office buildings. The Missouri bank owns its main offices and leases unoccupied premises to the public. The larger offices include:

Building	Net rentable square footage	% occupied in total	% occupied by bank
922 Walnut Kansas City, MO	256,000	95%	93%
1000 Walnut Kansas City, MO	403,000	84	34
811 Main Kansas City, MO	237,000	100	100
8000 Forsyth Clayton, MO	178,000	95	92
1551 N. Waterfront Pkwy Wichita, KS	120,000	98	32

The Nebraska credit card bank leases its offices in Omaha, Nebraska. Additionally, certain other installment loan, trust and safe deposit functions operate out of leased offices in downtown Kansas City. The Company has an additional 204 branch locations in Missouri, Illinois, Kansas, Oklahoma and Colorado which are owned or leased, and 144 off-site ATM locations.

Item 3. LEGAL PROCEEDINGS

The information required by this item is set forth in Item 8 under Note 18, Commitments, Contingencies and Guarantees on page 93.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 2007 to a vote of security holders through the solicitation of proxies or otherwise.

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Executive Officers of the Registrant

The following are the executive officers of the Company, each of whom is designated annually, and there are no arrangements or understandings between any of the persons so named and any other person pursuant to which such person was designated an executive officer.

Name and Age	Positions with Registrant
Jeffery D. Aberdeen, 54	Controller of the Company since December 1995. Prior thereto he was Assistant Controller of the Company. He is Controller of the Company s subsidiary banks, Commerce Bank, N.A. (Missouri, Kansas and Omaha).
Kevin G. Barth, 47	Executive Vice President of the Company since April 2005 and Executive Vice President of Commerce Bank, N.A. (Missouri), since October 1998. Senior Vice President of the Company and Officer of Commerce Bank, N.A. (Missouri) prior thereto.
A. Bayard Clark, 62	Chief Financial Officer and Executive Vice President of the Company since December 1995. Executive Vice President of the Company prior thereto. Treasurer of the Company from December 1995 until February 2007.
Sara E. Foster, 47	Senior Vice President of the Company since February 1998 and Vice President of the Company prior thereto.
David W. Kemper, 57	Chairman of the Board of Directors of the Company since November 1991, Chief Executive Officer of the Company since June 1986, and President of the Company since April 1982. He is Chairman of the Board, President and Chief Executive Officer of Commerce Bank, N.A. (Missouri). He is the son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company) and the brother of Jonathan M. Kemper, Vice Chairman of the Company.
Jonathan M. Kemper, 54	Vice Chairman of the Company since November 1991 and Vice Chairman of Commerce Bank, N.A. (Missouri) since December 1997. Prior thereto, he was Chairman of the Board, Chief Executive Officer, and President of Commerce Bank, N.A. (Missouri). He is the son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company) and the brother of David W. Kemper, Chairman, President, and Chief Executive Officer of the Company.
Charles G. Kim, 47	Executive Vice President of the Company since April 1995 and Executive Vice President of Commerce Bank, N.A. (Missouri) since January 2004. Prior thereto, he was Senior Vice President of Commerce Bank, N.A. (Clayton, MO), a former subsidiary of the Company.
Seth M. Leadbeater, 57	Vice Chairman of the Company since January 2004. Prior thereto he was Executive Vice President of the Company. He has been Vice Chairman of Commerce Bank, N.A. (Missouri) since September 2004. Prior thereto he

was Executive Vice President of Commerce Bank, N.A. (Missouri) and President of Commerce Bank, N.A. (Clayton, MO).

Name and Age	Positions with Registrant
Robert C. Matthews, Jr., 60	Executive Vice President of the Company since December 1989. Executive Vice President of Commerce Bank, N.A. (Missouri) since December 1997.
Michael J. Petrie, 51	Senior Vice President of the Company since April 1995. Prior thereto, he was Vice President of the Company.
Robert J. Rauscher, 50	Senior Vice President of the Company since October 1997. Senior Vice President of Commerce Bank, N.A. (Missouri) prior thereto.
V. Raymond Stranghoener, 56	Executive Vice President of the Company since July 2005 and Senior Vice President of the Company prior thereto. Prior to his employment with the Company in October 1999, he was employed at BankAmerica Corp. as National Executive of the Bank of America Private Bank Wealth Strategies Group. He joined Boatmen s Trust Company in 1993, which subsequently merged with BankAmerica Corp.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Commerce Bancshares, Inc.
Common Stock Data

The following table sets forth the high and low prices of actual transactions for the Company s common stock (CBSH) and cash dividends paid for the periods indicated (restated for the 5% stock dividend distributed in December 2007).

	Quarter	High	Low	Cash Dividends
2007	**First**	**$ 48.35**	**$ 44.37**	**$ .238**
	Second	**46.59**	**42.53**	**.238**
	Third	**46.10**	**41.22**	**.238**
	Fourth	**46.32**	**41.96**	**.238**
2006	First	$ 47.65	$ 44.57	$ .222
	Second	48.25	44.75	.222
	Third	46.49	44.09	.222
	Fourth	48.19	43.43	.222
2005	First	$ 43.19	$ 40.01	$ .207

Second	44.00	39.86	.207
Third	47.27	42.83	.207
Fourth	48.64	43.15	.207

Commerce Bancshares, Inc. common shares are listed on The Nasdaq Stock Market LLC (NASDAQ), a national securities exchange and highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and order execution systems. The Company had 4,581 shareholders of record as of December 31, 2007.

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Performance Graph

The following graph presents a comparison of Company (CBSH) performance to the indices named below. It assumes $100 invested on 12/31/2002 with dividends invested on a Total Return basis.

The following table sets forth information about the Company s purchases of its $5 par value common stock, its only class of stock registered pursuant to Section 12 of the Exchange Act, during the fourth quarter of 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number that May Yet Be Purchased Under the Program
October 1 31, 2007		$		1,695,284
November 1 30, 2007	165,513	$ 44.85	165,513	1,529,771
December 1 31, 2007	768	$ 45.09	768	1,529,003
Total	**166,281**	**$ 44.85**	**166,281**	**1,529,003**

The Company s stock purchases shown above were made under a 4,000,000 share authorization by the Board of Directors on February 2, 2007. Under this authorization, 1,529,003 shares remained available for purchase at December 31, 2007. On February 1, 2008, the Company s Board of Directors approved a new authorization for the purchase of up to 3,000,000 shares of Company common stock.

Item 6. SELECTED FINANCIAL DATA

The required information is set forth below in Item 7.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Commerce Bancshares, Inc. (the Company) operates as a super-community bank offering an array of sophisticated financial products delivered with high-quality, personal customer service. It is the largest bank holding company headquartered in Missouri, with its principal offices in Kansas City and St. Louis, Missouri. Customers are served from approximately 350 locations in Missouri, Kansas, Illinois, Oklahoma and Colorado using delivery platforms which include an extensive network of branches and ATM machines, full-featured online banking, and a central contact center.

The core of the Company s competitive advantage is its focus on the local markets it services and its concentration on relationship banking, with high service levels and competitive products. In order to enhance shareholder value, the Company grows its core revenue by expanding new and existing customer relationships, utilizing improved technology, and enhancing customer satisfaction.

Various indicators are used by management in evaluating the Company s financial condition and operating performance. Among these indicators are the following:

Growth in earnings per share Diluted earnings per share declined 4.1% in 2007 compared to 2006; however, 2007 earnings included a special indemnification charge related to certain estimated litigation expenses of Visa, Inc., which is discussed further below. Excluding this charge, diluted earnings per share rose 2.0% over 2006, and has risen 6.1% and 8.3%, compounded annually, over the last 5 and 10 years, respectively.

Growth in total revenue Total revenue is comprised of net interest income and non-interest income. Total revenue in 2007 grew 5.1% over 2006, which resulted from growth of $24.9 million, or 4.8%, in net interest income coupled with growth of $19.0 million, or 5.4%, in non-interest income. Total revenue has risen 3.2%, compounded annually, over the last five years.

Expense control Excluding the Visa indemnification charge and the effects of recent bank acquisitions, non-interest expense grew by 3.4% this year due to prudent management oversight and expanded use of technology, and salaries and employee benefits, the largest expense component, grew by 5.3%. The operating efficiency ratio was 60.42% in 2007 compared to 60.55% in 2006.

Asset quality Net loan charge-offs in 2007 increased $16.7 million over those recorded in 2006, and averaged .42% of loans compared to .29% in the previous year. While non-performing assets at year end 2007 increased to $33.4 million, this balance comprised only .32% of loans at year end 2007.

Shareholder return Total shareholder return, including the change in stock price and dividend reinvestment, was 9.9% over the past 5 years and 6.8% over the past 10 years.

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The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. The historical trends reflected in the financial information presented below are not necessarily reflective of anticipated future results.

Key Ratios

(Based on average balance sheets):	**2007**	2006	2005	2004	2003
Return on total assets	**1.33%**	1.54%	1.60%	1.56%	1.52%
Return on stockholders equity	**14.00**	15.96	16.19	15.19	14.27
Tier I capital ratio	**10.31**	11.25	12.21	12.21	12.31
Total capital ratio	**11.49**	12.56	13.63	13.57	13.70
Leverage ratio	**8.76**	9.05	9.43	9.60	9.71
Equity to total assets	**9.54**	9.68	9.87	10.25	10.68
Non-interest income to revenue*	**40.85**	40.72	40.03	38.84	37.16
Efficiency ratio**	**62.72**	60.55	59.30	59.16	58.83
Loans to deposits***	**88.49**	84.73	81.34	78.71	79.96
Net yield on interest earning assets (tax equivalent basis)	**3.80**	3.92	3.89	3.81	4.04
Non-interest bearing deposits to total deposits	**5.45**	5.78	6.23	12.47	10.81
Cash dividend payout ratio	**33.76**	30.19	28.92	28.26	25.19

* *Revenue includes net interest income and non-interest income.*

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

*** *Includes loans held for sale.*

Selected Financial Data

(In thousands, except per share data)	**2007**	2006	2005	2004	2003
Net interest income	**$ 538,072**	$ 513,199	$ 501,702	$ 497,331	$ 502,392
Provision for loan losses	**42,732**	25,649	28,785	30,351	40,676
Non-interest income	**371,581**	352,586	334,837	315,839	297,107
Investment securities gains, net	**8,234**	9,035	6,362	11,092	4,560
Non-interest expense	**574,758**	525,425	496,522	482,769	472,144
Net income	**206,660**	219,842	223,247	220,341	206,524
Net income per share-basic*	**2.86**	2.98	2.91	2.72	2.45
Net income per share-diluted*	**2.82**	2.94	2.87	2.68	2.42

Cash dividends	**68,915**	65,758	63,421	61,135	51,266
Cash dividends per share*	**.952**	.889	.829	.757	.611
Market price per share*	**44.86**	46.10	47.27	43.36	40.33
Book value per share*	**21.28**	19.63	17.95	18.06	17.58
Common shares outstanding*	**71,796**	73,450	74,539	79,017	82,522
Total assets	**16,204,831**	15,230,349	13,885,545	14,250,368	14,287,164
Loans, including held for sale	**10,841,264**	9,960,118	8,899,183	8,305,359	8,142,679
Investment securities	**3,297,015**	3,496,323	3,770,181	4,837,368	5,039,194
Deposits	**12,551,552**	11,744,854	10,851,813	10,434,309	10,206,208
Long-term debt	**1,083,636**	553,934	269,390	389,542	300,977
Stockholders equity	**1,527,686**	1,442,114	1,337,838	1,426,880	1,450,954
Non-performing assets	**33,417**	18,223	11,713	18,775	33,685

* *Restated for the 5% stock dividend distributed in December 2007.*

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Results of Operations

(Dollars in thousands)	**2007**	2006	2005	**$ Change 07- 06**	$ Change 06- 05	**% Change 07- 06**	% Change 06- 05
Net interest income	**$ 538,072**	$ 513,199	$ 501,702	**$ 24,873**	$ 11,497	**4.8%**	2.3%
Provision for loan losses	**(42,732)**	(25,649)	(28,785)	**17,083**	(3,136)	**66.6**	(10.9)
Non-interest income	**371,581**	352,586	334,837	**18,995**	17,749	**5.4**	5.3
Investment securities gains, net	**8,234**	9,035	6,362	**(801)**	2,673	**(8.9)**	42.0
Non-interest expense	**(574,758)**	(525,425)	(496,522)	**49,333**	28,903	**9.4**	5.8
Income taxes	**(93,737)**	(103,904)	(94,347)	**(10,167)**	9,557	**(9.8)**	10.1
Net income	**$ 206,660**	$ 219,842	$ 223,247	**$ (13,182)**	$ (3,405)	**(6.0)%**	(1.5)%

As a supplement to its GAAP (generally accepted accounting principles) financial results, the Company has provided non-GAAP operating results for the year ended December 31, 2007. The Company believes that these non-GAAP financial measures are useful because they allow investors to assess, on a consistent basis, the Company s operating performance exclusive of items management believes are not indicative of the operations of the Company. Management uses such non-GAAP financial measures to evaluate financial results and to establish operational goals. These non-GAAP financial measures should be considered a supplement to, and not a substitute for, financial measures determined in accordance with GAAP. The non-GAAP measures presented below exclude a $21.0 million pre-tax indemnification charge recorded by the Company in the fourth quarter of 2007. This charge relates to the Company s share of certain estimated Visa litigation costs, which are explained in more detail in the Non-Interest Expense section of this discussion.

Comparison of GAAP and Non-GAAP Information

(Dollars in thousands)	**2007**	2006	2005	**$ Change 07- 06**	$ Change 06- 05	**% Change 07- 06**	% Change 06- 05
Non-interest expense (GAAP)	**$ 574,758**	$ 525,425	$ 496,522	**$ 49,333**	$ 28,903	**9.4%**	5.8%
Indemnification obligation	**(20,951)**			**(20,951)**	-	**N.M.**	N.M.
Operating non-interest expense (non-GAAP)	**$ 553,807**	$ 525,425	$ 496,522	**$ 28,382**	$ 28,903	**5.4%**	5.8%

Net income (GAAP)	**$ 206,660**	$ 219,842	$ 223,247	**$ (13,182)**	$ (3,405)	**(6.0)%**	(1.5)%
Indemnification obligation, net of tax	**13,199**			**13,199**		**N.M.**	N.M.
Operating net income (non-GAAP)	**$ 219,859**	$ 219,842	$ 223,247	**$ 17**	$ (3,405)	**%**	(1.5)%
GAAP basis:							
Basic earnings per share	**$ 2.86**	$ 2.98	$ 2.91				
Diluted earnings per share	**2.82**	2.94	2.87				
Return on average assets	**1.33%**	1.54%	1.60%				
Return on average equity	**14.00%**	15.96%	16.19%				
Efficiency ratio	**62.72%**	60.55%	59.30%				
Non-GAAP basis:							
Basic earnings per share	**$ 3.04**	$ 2.98	$ 2.91				
Diluted earnings per share	**3.00**	2.94	2.87				
Return on average assets	**1.42%**	1.54%	1.60%				
Return on average equity	**14.89%**	15.96%	16.19%				
Efficiency ratio	**60.42%**	60.55%	59.30%				

The Company s diluted earnings per share, based on operating results as shown in the table above, amounted to $3.00 in 2007 compared to $2.94 in 2006, an increase of 2.0%. Operating net income for 2007 was

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$219.9 million, relatively unchanged from 2006. The operating return on average assets amounted to 1.42% compared to 1.54% last year, and the operating return on average equity totaled 14.89% compared to 15.96% last year. The operating efficiency ratio was 60.42% in 2007 compared with 60.55% in 2006.

Financial results for 2007 compared to 2006 included growth in net interest income and non-interest income. These increases to net income were offset by a higher provision for loan loss and an increase in non-interest expense. Net interest income increased $24.9 million, or 4.8%, reflecting growth in average loan balances and higher average overall rates earned on loans and investment securities, partly offset by declining average balances in investment securities. Countering these effects was a rise in interest expense on deposit accounts and short-term borrowings, resulting from increases in interest rates on virtually all deposit accounts, coupled with growth in certificate of deposit balances and higher average short-term borrowings. Non-interest income rose $19.0 million, or 5.4%, largely due to increases of 9.1% in bank card fees, 1.6% in deposit account fees, and 9.2% in trust revenues. Operating non-interest expense grew $28.4 million, or 5.4%, which was mainly the result of a 7.1% increase in salaries and benefits. Additional smaller increases occurred in occupancy, supplies and communication expense, and marketing expense. The provision for loan losses increased $17.1 million to $42.7 million, reflecting higher incurred losses in nearly all loan categories, with the largest increases in business, consumer credit card and personal banking loans. Income tax expense declined 9.8% in 2007 and resulted in an effective tax rate of 31.2%, compared to an effective tax rate of 32.1% in the prior year. The decrease in income tax expense in 2007 occurred mainly due to the change in the mix of taxable and nontaxable income.

The decline in net income in 2006 compared to 2005 was due to higher non-interest expense and income tax expense, partly offset by an increase in net interest income, growth in non-interest income, and a lower loan loss provision. Net interest income increased $11.5 million, or 2.3%, reflecting the effects of higher average overall rates earned on loans and growth in average loan balances, partly offset by declining average balances in investment securities. Also, interest expense on deposit accounts and short-term borrowings rose, mainly related to increases in interest rates on deposit accounts and borrowings, coupled with growth in certificate of deposit balances. Non-interest income rose $17.7 million, or 5.3%, largely due to increases of 10.0% in bank card fees, 2.2% in deposit account fees, and 5.7% in trust revenues. Non-interest expense grew 5.8%, mainly the result of higher salaries and benefits (up 5.5%), with additional increases of 6.5% in occupancy, 10.6% in equipment, and 5.7% in data processing and software costs. The provision for loan losses decreased $3.1 million to $25.6 million, reflecting lower incurred losses, especially in credit card and personal banking loans. Income tax expense increased 10.1% in 2006 and resulted in an effective tax rate of 32.1%, which increased from a tax rate of 29.7% in the prior year. The increase in income tax expense in 2006 occurred largely because tax benefits of $13.7 million, representing the effects of certain corporate restructuring initiatives, were recognized in 2005 and these benefits did not recur in 2006.

The Company completed two bank acquisitions during 2007. On April 1, 2007, the Company acquired South Tulsa Financial Corporation (South Tulsa). In this transaction, the Company acquired the outstanding stock of South Tulsa and issued shares of Company stock valued at $27.6 million. The Company s acquisition of South Tulsa added two branch locations in Tulsa, Oklahoma. On July 1, 2007, the Company acquired Commerce Bank in Denver, Colorado. In this transaction, the Company acquired all of the outstanding stock of Commerce Bank for $29.5 million in cash. The acquisition added the Company s first location in Colorado.

During 2006, the Company also acquired two banks. The first acquisition was in July 2006, when the Company, through a bank subsidiary, acquired certain assets and assumed certain liabilities of Boone National Savings and Loan Association (Boone) in a purchase and assumption agreement for cash of $19.1 million. Boone operated four branches in central Missouri. In September 2006, the Company acquired the outstanding stock of West Pointe Bancorp, Inc. (West Pointe) in Belleville, Illinois, which operated five branch locations in the greater St. Louis area. The total purchase price of $80.5 million consisted of cash of $13.1 million and shares of Company stock valued at $67.5 million.

The transactions discussed above are collectively referred to as bank acquisitions throughout the remainder of this report. Additional information about acquired balances and intangible assets recognized is presented below.

	2007		2006	
(In millions)	Denver	South Tulsa	Boone	West Pointe
Purchase price	$ 29.5	$ 27.6	$ 19.1	$ 80.5
Acquired balances:				
Total assets, including intangible assets recognized	123.9	142.4	147.2	508.8
Loans	74.5	114.7	126.4	255.0
Deposits	72.2	103.9	100.9	381.8
Intangible assets recognized:				
Goodwill	15.1	10.6	15.6	38.3
Core deposit premium	4.9	3.4	2.6	14.9
Mortgage servicing rights			.3	.5

The Company continually evaluates the profitability of its network of bank branches throughout its markets. As a result of this evaluation process, the Company may periodically sell the assets and liabilities of certain branches, or may sell the premises of specific banking facilities. During the last three years, the Company has sold three or four bank facilities each year, realizing pre-tax gains on these sales of $1.6 million, $579 thousand and $802 thousand during 2007, 2006 and 2005, respectively. In January 2008, the Company agreed to sell its branch in Independence, Kansas, with loans of $29 million and deposits of $83 million. The transaction is expected to close in the second quarter of 2008, at which time the Company expects to receive a purchase premium of $7.2 million in cash.

The Company distributed a 5% stock dividend for the fourteenth consecutive year on December 13, 2007. All per share and average share data in this report has been restated to reflect the 2007 stock dividend.

Critical Accounting Policies

The Company s consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 to the consolidated financial statements. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or be subject to variations which may significantly affect the Company s reported results and financial position for the period or in future periods. The use of estimates, assumptions, and judgments are necessary most often when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets and liabilities carried at fair value inherently result in more financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments primarily by using internal cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company s future financial condition and results of operations.

The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan losses, the valuation of certain non-marketable investments, and accounting for income taxes.

The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects the Company s estimate of the losses inherent in the loan portfolio at any point in time. While these estimates are based on substantive methods for determining allowance requirements, actual outcomes may differ significantly from estimated results, especially when determining allowances for business, lease, construction and business real estate loans. These loans are normally larger and more complex, and their collection rates are harder to predict. Personal loans, including personal mortgage, consumer credit card and other consumer loans, are individually smaller and perform in a more homogenous manner, making loss estimates more predictable. Further explanation of the methodologies used in establishing the allowance is provided in the Allowance for Loan Losses section of this discussion.

The Company, through its direct holdings and its Small Business Investment subsidiaries, has numerous private equity and venture capital investments, which totaled $45.3 million at December 31, 2007. These private equity and venture capital securities are reported at fair value. The values assigned to these securities where no market quotations exist are based upon available information and management s judgment. Although management believes its estimates of fair value reasonably reflect the fair value of these securities, key assumptions regarding the projected financial performance of these companies, the evaluation of the investee company s management team, and other economic and market factors may affect the amounts that will ultimately be realized from these investments.

As more fully discussed in Notes 1 and 9 of the consolidated financial statements, the Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes . Accrued income taxes represent the net amount of current income taxes which are expected to be paid attributable to operations as of the balance sheet date. Deferred income taxes represent the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. Current and deferred income taxes are reported as either a component of other assets or other liabilities in the consolidated balance sheets, depending on whether the balances are assets or liabilities. Judgment is required in applying the principles of SFAS No. 109. The Company regularly monitors taxing authorities for changes in laws and regulations and their interpretations by the judicial systems. The aforementioned changes, and changes that may result from the resolution of income tax examinations by federal and state taxing authorities, may impact the estimate of accrued income taxes and could materially impact the Company s financial position and results of operations.

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Net Interest Income

Net interest income, the largest source of revenue, results from the Company s lending, investing, borrowing, and deposit gathering activities. It is affected by both changes in the level of interest rates and changes in the amounts and mix of interest earning assets and interest bearing liabilities. 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.

	2007			2006		
	Change due to			Change due to		
(In thousands)	**Average Volume**	**Average Rate**	**Total**	Average Volume	Average Rate	Total
Interest income, fully taxable equivalent basis						
Loans	**$ 77,356**	**$ 14,896**	**$ 92,252**	$ 35,616	$ 87,585	$ 123,201
Loans held for sale	**412**	**(260)**	**152**	16,783	4,348	21,131
Investment securities:						
U.S. government and federal agency obligations	**(8,190)**	**1,878**	**(6,312)**	(15,977)	(1,174)	(17,151)
State and municipal obligations	**8,058**	**251**	**8,309**	11,923	713	12,636
Mortgage and asset-backed securities	**(3,547)**	**9,520**	**5,973**	(24,993)	6,285	(18,708)
Other securities	**(3,126)**	**(2,090)**	**(5,216)**	(75)	5,205	5,130
Federal funds sold and securities purchased under agreements to resell	**11,852**	**(1,608)**	**10,244**	5,965	5,570	11,535
Total interest income	**82,815**	**22,587**	**105,402**	29,242	108,532	137,774
Interest expense						
Interest bearing deposits:						
Savings	**(5)**	**(132)**	**(137)**	(29)	974	945
Interest checking and money market	**8,541**	**11,248**	**19,789**	321	41,805	42,126
Time open and C.D. s of less than $100,000	**11,563**	**13,970**	**25,533**	10,150	24,677	34,827
Time open and C.D. s of $100,000 and over	**9,001**	**6,357**	**15,358**	9,579	18,023	27,602
Federal funds purchased and securities sold under agreements to repurchase	**10,826**	**2,484**	**13,310**	(7,785)	29,163	21,378
Other borrowings	**5,346**	**(315)**	**5,031**	(5,819)	2,099	(3,720)

Total interest expense	**45,272**	**33,612**	**78,884**	6,417	116,741	123,158
Net interest income, fully taxable equivalent basis	**$ 37,543**	**$ (11,025)**	**$ 26,518**	$ 22,825	$ (8,209)	$ 14,616

Net interest income was $538.1 million in 2007, representing an increase of $24.9 million, or 4.8%, compared to $513.2 million in 2006. Net interest income increased $11.5 million, or 2.3%, in 2006 compared to $501.7 million in 2005. The increase in net interest income in 2007 resulted mainly from growth of $92.3 million in tax equivalent loan interest income, due mainly to higher average balances and yields, and an increase in tax equivalent interest on investment securities of $2.8 million, mainly due to higher yields. Also, interest earned on federal funds sold and securities purchased under agreements to resell (resale agreements) increased $10.2 million, due mainly to higher balances. Offsetting these increases in interest income were higher deposit interest costs of $60.5 million as a result of higher balances and rates paid, coupled with increased interest expense on borrowings, which grew by $18.4 million. The increase in rates on both interest earning assets and interest bearing liabilities was the result of increases in the federal funds rate initiated by the Federal Reserve throughout 2005 and 2006 which impacted average balances and rates for the full year in 2007. The tax equivalent net yield on earning assets decreased 12 basis points to 3.80% in 2007 compared to 3.92% in 2006.

During 2006, net interest income increased $11.5 million compared to 2005. The increase was largely the result of growth in loan interest income due to higher yields and average balances, but was partly offset by an increase in interest expense due to higher deposit rates and balances, in addition to higher rates paid on federal funds purchased and securities sold under agreements to repurchase (repurchase agreements).

Total interest income in 2007 was $936.1 million, compared to $832.3 million in 2006 and $697.6 million in 2005. On a tax equivalent basis, interest income increased $105.4 million in 2007, or 12.6%, as a result of growth in interest on loans ($92.3 million tax equivalent), investment securities ($2.8 million tax equivalent) and federal funds sold and resale agreements ($10.2 million). The growth in interest on loans resulted from higher average balances in commercial loans of $703.7 million (consisting of business, construction and business real estate loans) and in personal loans of $381.1 million (consisting of personal real estate, home equity, consumer and consumer credit card loans). This growth in average balances also resulted from four bank acquisitions occurring in 2006 and 2007, which increased average loan balances by $337.8 million in 2007. As a result of the increases in the federal funds rate in previous years as mentioned above, rates on most lending products increased, contributing approximately $14.9 million (tax equivalent) to the growth in loan interest income. The overall tax equivalent rate earned on loans, excluding loans held for sale, was 7.23% in 2007 compared to 7.08% in 2006, or an increase of 15 basis points.

The $2.8 million increase in tax equivalent interest income on investment securities was mainly the result of higher rates earned on mortgage and other asset-backed securities and U.S. government and agency securities, which contributed $11.4 million to interest income. In addition, higher average balances of municipal investment securities and mortgage-backed securities contributed to the increase. Offsetting these increases, however, were the effects of lower average balances in U.S. government and agency securities, other asset-backed securities, and short-term money market investments. The increase in interest on federal funds sold and resale agreements was mainly due to higher average balances of overnight resell agreements, which are used for funding and pledging purposes.

The overall tax equivalent rate earned on total interest earning assets amounted to 6.56% in 2007 compared to 6.32% in 2006, or an increase of 24 basis points.

Interest expense increased $78.9 million, or 24.7%, in 2007 compared to 2006 primarily as a result of higher interest expense on both deposit accounts and other borrowings. Interest expense on deposits increased $60.5 million as a result of higher rates on virtually all deposit products, coupled with growth in average balances of money market accounts and short-term certificates of deposit. The higher average balances occurred notably in the Company s premium money market product, which requires higher customer balances but also pays higher rates, due to the general rate environment and promotions during the year. Average short-term certificate of deposit balances grew by $751.2 million partly due to customer preference, but also due to efforts by the Company to attract jumbo certificates of deposit from commercial sources in an effort to diversify funding sources. Also, the four bank acquisitions completed in 2006 and 2007, noted above, contributed to the growth in average deposits by $362.8 million.

Interest expense on other borrowings increased $18.4 million, mainly due to higher average balances in repurchase agreements and higher rates on these balances, but offset by lower average balances of federal funds purchased. The increase in the average balances of repurchase agreements was mainly due to the acquisition in August 2006 of $500.0 million in term structured repurchase agreements, which were acquired to mitigate the risk of falling interest rates. In addition, average advances from the Federal Home Loan Bank grew $103.8 million as the Company further diversified its funding sources.

The overall rate paid on interest-bearing liabilities increased from 2.63% in 2006 to 3.01% in 2007, or an increase of 38 basis points.

Interest income increased in 2006 by $134.7 million, or 19.3%, as a result of a $144.3 million increase in tax equivalent loan interest income, offset slightly by an $18.1 million decrease in interest income from investment securities. The tax equivalent average yield on interest earning assets was 6.32% in 2006 compared to 5.40% in 2005, representing a 92 basis point increase. Interest income on loans increased in 2006 over 2005 as a result of a 98 basis point increase in the average yield, coupled with an $859.9 million, or 10.0%, increase in average balances. Approximately $137.1 million of the increase in average loan balances was the result of bank acquisitions in 2006, which contributed $10.2 million to interest income earned on loans in 2006. Excluding the impact of the acquisitions, the increase in average loan balances compared to 2005 was $722.8 million, or 8.4%. The average yield on investment securities increased 36 basis points, which was offset by a $763.5 million, or 17.7%, decrease in investment securities average balances, resulting in an overall decrease of $18.1 million in interest income earned on the investment portfolio in 2006 compared to 2005. The Company funded its loan growth principally by reducing its investment securities portfolio, in addition to growth in its overall deposit base.

Interest expense increased $123.2 million, or 62.9%, in 2006 compared to 2005 as a result of the rising interest rate environment and increases in average deposit balances. Interest expense on deposits increased $105.5 million, or 78.3%, in 2006 over the previous year as a result of a 92 basis point average rate increase, coupled with growth of $607.9 million, or 6.2%, in average interest bearing deposit balances. Approximately $147.8 million of the increase in average interest bearing deposit balances was a result of bank acquisitions in 2006. Bank acquisitions incurred $5.1 million of deposit interest expense in 2006. Excluding the impact of bank acquisitions, the increase in average interest bearing deposits compared to 2005 was $460.1 million, or 4.7%. Additionally, interest expense on federal funds purchased and repurchase agreements increased $21.4 million, or 43.8%, resulting primarily from an increase of 179 basis points in rates paid. Average borrowings of federal funds purchased and repurchase agreements declined 9.6% primarily due to a decrease in federal funds purchased as a result of lower liquidity needs, offset by growth in average repurchase agreement balances. Contributing to the increase in repurchase agreements was the addition of $500.0 million in structured repurchase agreements, mentioned above.

Provision for Loan Losses

The provision for loan losses was $42.7 million in 2007, compared with $25.6 million in 2006 and $28.8 million in 2005. The $17.1 million, or 66.6%, increase in the 2007 provision for loan losses reflected higher incurred losses in almost all loan categories. The provision for loan losses is recorded to bring the allowance for loan losses to a level deemed adequate by management based on the factors mentioned in the following Allowance for Loan Losses section of this discussion.

Non-Interest Income

				% Change	
(Dollars in thousands)	**2007**	2006	2005	**07- 06**	06- 05
Deposit account charges and other fees	**$ 117,350**	$ 115,453	$ 112,979	**1.6%**	2.2%
Bank card transaction fees	**103,613**	94,928	86,310	**9.1**	10.0
Trust fees	**78,840**	72,180	68,316	**9.2**	5.7
Consumer brokerage services	**12,445**	9,954	9,909	**25.0**	.5
Trading account profits and commissions	**8,647**	8,132	9,650	**6.3**	(15.7)
Loan fees and sales	**8,835**	10,503	12,838	**(15.9)**	(18.2)
Other	**41,851**	41,436	34,835	**1.0**	18.9
Total non-interest income	**$ 371,581**	$ 352,586	$ 334,837	**5.4%**	5.3%

Non-interest income as a % of total revenue*	**40.8%**	40.7%	40.0%
Total revenue per full-time equivalent employee	**$ 179.0**	$ 175.5	$ 172.9

* *Total revenue is calculated as net interest income plus non-interest income.*

Non-interest income was $371.6 million in 2007, which was a $19.0 million, or 5.4%, increase over 2006. In 2007, deposit account fees rose $1.9 million, or 1.6%, as a result of higher corporate cash management fees, which grew by $2.8 million, or 12.2%. The growth in cash management fees was mainly due to increased sales of products, coupled with increased usage. It was partly offset by a slight decline in deposit account overdraft fees. Bank card fees increased $8.7 million, or 9.1%, over the prior year, primarily due to higher fees earned on debit and corporate card transaction fees, which grew by 12.2% and 30.0%, respectively. The growth in debit card transaction fees resulted from greater utilization by consumers and acceptance by retail businesses,

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which increased volumes. The growth in corporate card fees was attributable to transaction fees from commercial businesses and non-profit enterprises that are utilizing these electronic transactions in greater proportion, in addition to increased sales efforts to build business in areas outside the Company s retail footprint. These increases were partly offset by a decline in merchant fees of 6.8%, mainly due to the loss of a large merchant customer at the end of last year. Trust fees rose $6.7 million, or 9.2%, mainly due to an 8.3% increase in private client account fees and a 14.7% increase in corporate and institutional trust account fees. Sales efforts in 2007 resulted in new annualized fees of $5.0 million, an increase of 11.5%, for private client accounts and $1.1 million for corporate and institutional trust accounts. Total trust assets, upon which fees are charged, grew to $22.7 billion, an increase of 7.2%. Consumer brokerage services revenue rose $2.5 million, or 25.0%, mainly due to growth in annuity commissions and mutual fund fees. In addition, due to recent Company initiatives, fees resulting from account management and sales of various insurance products have also increased. Bond trading income increased $515 thousand, mainly due to an increase in underwriting fees on customer debt issues, in addition to higher corporate and correspondent bank sales. Loan fees and sales decreased $1.7 million as gains on student loan sales declined from $6.3 million in 2006 to $4.5 million in 2007, which resulted from narrowing profit margins on loans sold to various servicing institutions. Other non-interest income rose $415 thousand over the prior year, largely due to increases of $1.1 million in cash sweep commission income and $1.0 million in gains on sales of various bank facilities. Additional increases occurred in fees on tax credit sales and international transaction fee income. These increases were partly offset by impairment losses of $1.3 million recorded on several properties and the receipt in 2006 of $1.2 million in non-recurring income from an equity investment held by Commerce Bancshares, Inc., the parent holding company (the Parent).

In 2006, non-interest income increased $17.7 million, or 5.3%, to $352.6 million. Compared to 2005, deposit account fees increased $2.5 million, or 2.2%, as a result of higher deposit account overdraft fees, which grew $3.7 million, or 4.7%. This growth was partly offset by lower cash management fee income and lower deposit account service charges. The growth in overdraft fees was mainly due to higher unit prices, partly offset by lower transaction volumes. The decline in corporate cash management fees continued to be affected by the higher interest rate environment in 2006, which tended to reduce cash fees paid by corporate customers. Bank card fees rose $8.6 million, or 10.0% overall, primarily due to solid growth in corporate card and debit card fee income, which grew by 21.8% and 17.5%, respectively. Trust fees increased $3.9 million, or 5.7%, due to a 5.2% increase in private client account fees and a 6.4% increase in corporate and institutional trust account fees. Bond trading income fell $1.5 million due to lower sales of fixed income securities to bank and corporate customers, while consumer brokerage income was relatively flat. Loan fees and sales decreased by $2.3 million as gains on sales of student loans declined from $8.0 million in 2005 to $6.3 million in 2006, and fewer transactions occurred. Other non-interest income rose $6.6 million, which included growth of $2.2 million in operating lease-related income, in addition to the non-recurring income from a Parent company equity investment. Higher sweep fees and check sales income were also recorded.

Investment Securities Gains, Net

Net gains and losses on investment securities during 2007, 2006 and 2005 are shown in the table below. Included in these amounts are gains and losses arising from sales of bonds from the banks available for sale portfolio, in addition to sales of publicly traded equity securities held by the Parent. Also shown are gains and losses relating to non-marketable private equity and venture capital investments, which are primarily held by the Parent s majority-owned venture capital subsidiaries. These include fair value adjustments, in addition to gains and losses realized upon disposition. Minority interest expense pertaining to these net gains is reported in other non-interest expense, and totaled $389 thousand, $2.2 million and $383 thousand in 2007, 2006 and 2005, respectively. In 2006 the Company sold its shares of MasterCard Inc., which it had acquired through MasterCard s reorganization and initial public offering in the same year.

(Dollars in thousands)	**2007**	2006	2005
Available for sale:			
Bonds	**$ 1,069**	$ (2,083)	$ 5,080
Equity securities	**1,858**		
Non-marketable:			
Private equity and venture investments	**5,307**	8,278	1,282
MasterCard restricted stock		2,840	
Total investment securities gains, net	**$ 8,234**	$ 9,035	$ 6,362

Non-Interest Expense

				% Change	
(Dollars in thousands)	**2007**	2006	2005	**07- 06**	06- 05
Salaries	**$ 265,378**	$ 244,887	$ 234,440	**8.4%**	4.5%
Employee benefits	**43,390**	43,386	38,737		12.0
Net occupancy	**45,789**	43,276	40,621	**5.8**	6.5
Equipment	**24,121**	25,665	23,201	**(6.0)**	10.6
Supplies and communication	**34,162**	32,670	33,342	**4.6**	(2.0)
Data processing and software	**49,081**	50,982	48,244	**(3.7)**	5.7
Marketing	**18,199**	17,317	17,294	**5.1**	.1
Indemnification obligation	**20,951**			**N.M.**	N.M.
Other	**73,687**	67,242	60,643	**9.6**	10.9
Total non-interest expense	**$ 574,758**	$ 525,425	$ 496,522	**9.4%**	5.8%
Efficiency ratio	**62.7%**	60.6%	59.3%		
Salaries and benefits as a% of total non-interest expense	**53.7%**	54.9%	55.0%		
Number of full-time equivalent employees	**5,083**	4,932	4,839		

Non-interest expense was $574.8 million in 2007, which included a non-cash expense charge of $21.0 million related to the Company s indemnification obligation to share certain estimated litigation costs of Visa, Inc. (Visa). The expense charge was the result of revisions in October 2007 to Visa s by-laws affecting all member banks, as part of an overall reorganization in which the member banks indemnified Visa on certain covered litigation. The expense charge relates to Visa s American Express litigation, which was settled by Visa in November 2007, and other Visa litigation, including the Discover and other interchange litigation, which has not yet been settled. As part of the reorganization, Visa plans an initial public offering early in 2008, and part of the proceeds from the offering representing the member banks proportionate share will be placed in escrow and used to fund the actual litigation settlements when they occur. The Company currently anticipates that its proportional share of the proceeds of the Visa initial public offering will more than offset its liabilities related to the Visa litigation.

Excluding the Visa indemnification charge, non-interest expense was $553.8 million in 2007, and grew 5.4% over 2006. Salaries and benefits expense grew by $20.5 million, or 7.1%, due to merit increases, incentive compensation, payroll taxes and the effects of the recent bank acquisitions, which contributed $5.4 million of this increase. Partly offsetting these increases was a decline in employee group medical plan expense, resulting from favorable claims experience. Occupancy expense increased by $2.5 million, or 5.8%, over last year mainly as a result of seasonal maintenance costs, higher building depreciation and real estate taxes. Higher rent income from tenants, resulting from an increase in overall building occupancy, partly offset these expenses. Equipment expense declined by $1.5 million, or 6.0%, mainly due to declines in depreciation expense on data processing equipment and maintenance contract expense, in addition to relocation costs of a check processing function in 2006. Supplies and communication costs grew by $1.5 million, or 4.6%, mainly due to higher costs for supplies, postage and courier expense, partly offset by a decline in data network expense. Data processing and software expense declined $1.9 million, or 3.7%, mainly due to lower license costs related to online banking systems and a decline in bank card processing fees. A smaller variance occurred in marketing expense, which increased $882 thousand, or 5.1%, over the prior year. Other non-interest expense increased $6.4 million, or 9.6%, in 2007 due to increases in intangible asset amortization (resulting from recent bank acquisitions), bank card and other fraud losses, and dues and subscription expense. Partly offsetting these increases were declines in minority interest expense and foreclosed property expense.

In 2006, non-interest expense was $525.4 million, an increase of $28.9 million, or 5.8%, over 2005. Compared with the prior year, salaries and benefits expense grew $15.1 million, or 5.5%, due to normal merit increases and higher costs for incentive compensation, medical insurance, and payroll taxes. In addition, the effects of the bank acquisitions occurring in 2006 increased salaries and benefits by approximately $2.4 million. Partly offsetting these increases was a decline in stock-based compensation of $1.8 million, which resulted from the implementation in 2006 of estimated forfeiture accounting requirements and a slightly longer vesting period for new grants. Net occupancy costs grew $2.7 million, or 6.5%, compared to the prior year, mainly as a result of a full year of depreciation, real estate taxes and utilities expense incurred on two office buildings purchased in 2005, in addition to costs related to several branch facilities constructed during 2006. These increases were partly offset by lower net rent expense as certain banking offices were moved from leased facilities to the new buildings and office space was leased to outside tenants. In addition, in 2006 the Company recorded an asbestos abatement obligation on an office building in downtown Kansas City, which increased occupancy expense by $854 thousand. Equipment expense increased $2.5 million, or 10.6%, mainly due to higher equipment depreciation expense and the relocation of a check processing function mentioned above. Data processing and software expense increased $2.7 million, or 5.7%, due to higher bank card processing fees, online banking fees and software amortization expense. Software amortization expense increased mainly due to the installation of new data system applications, while bank card processing fees increased commensurate with the increase in bank card fee income mentioned above. Smaller variances occurred in marketing, which increased slightly, while lower telephone and network costs resulted in a reduction in supplies and communication expense of $672 thousand. Other non-interest expense increased $6.6 million due to increases in legal and professional fees, operating lease depreciation, foreclosed property expense (related to a single property acquired and subsequently sold in 2006) and minority interest expense relating to investment gains recorded by venture capital affiliates. Partly offsetting these increases were lower processing losses and bank card fraud losses.

Income Taxes

Income tax expense was $93.7 million in 2007, compared to $103.9 million in 2006 and $94.3 million in 2005. Income tax expense in 2007 decreased 9.8% from 2006, compared to a 7.2% decrease in pre-tax income. The effective tax rate was 31.2%, 32.1% and 29.7% in 2007, 2006 and 2005, respectively. The Company s effective tax rates in those years were lower than the federal statutory rate of 35% mainly due to tax exempt interest on state and municipal obligations and, in 2005, the recognition of additional tax benefits from various corporate reorganization initiatives. These tax benefits, which amounted to $13.7 million in 2005, did not reoccur in 2007 or 2006.

Financial Condition

Loan Portfolio Analysis

A schedule of average balances invested in each category of loans appears on page 52. Classifications of consolidated loans by major category at December 31 for each of the past five years are as follows. The Company s student loan portfolio was classified as held for sale in the first quarter of 2006, and is not included in the table below for 2006 and 2007. Refer to the following section, Loans Held For Sale, for information regarding student loans.

	Balance at December 31				
(In thousands)	**2007**	2006	2005	2004	2003
Business	**$ 3,257,047**	$ 2,860,692	$ 2,527,654	$ 2,246,287	$ 2,102,605
Real estate construction	**668,701**	658,148	424,561	427,124	427,083
Real estate business	**2,239,846**	2,148,195	1,919,045	1,743,293	1,875,069
Real estate personal	**1,540,289**	1,478,669	1,352,339	1,329,568	1,325,999
Consumer	**1,648,072**	1,435,038	1,287,348	1,193,822	1,150,732
Home equity	**460,200**	441,851	448,507	411,541	352,047
Student			330,238	357,991	355,763
Consumer credit card	**780,227**	648,326	592,465	561,054	526,653
Overdrafts	**10,986**	10,601	10,854	23,673	14,123
Total loans	**$ 10,605,368**	$ 9,681,520	$ 8,893,011	$ 8,294,353	$ 8,130,074

The contractual maturities of loan categories at December 31, 2007, and a breakdown of those loans between fixed rate and floating rate loans are as follows:

	Principal Payments Due			
(In thousands)	In One Year or Less	After One Year Through Five Years	After Five Years	Total
Business	$ 1,704,381	$ 1,274,730	$ 277,936	$ 3,257,047
Real estate construction	403,394	251,142	14,165	668,701
Real estate business	709,508	1,254,621	275,717	2,239,846
Real estate personal	136,099	301,669	1,102,521	1,540,289
Total business and real estate loans	$ 2,953,382	$ 3,082,162	$ 1,670,339	7,705,883

Consumer[1]				1,648,072
Home equity[2]				460,200
Consumer credit card[3]				780,227
Overdrafts				10,986
Total loans, net of unearned income				$ 10,605,368
Loans with fixed rates	$ 610,009	$ 1,662,509	$ 506,821	$ 2,779,339
Loans with floating rates	2,343,373	1,419,653	1,163,518	4,926,544
Total business and real estate loans	$ 2,953,382	$ 3,082,162	$ 1,670,339	$ 7,705,883

(1) Consumer loans with floating rates totaled $100.0 million.
(2) Home equity loans with floating rates totaled $452.7 million.
(3) Consumer credit card loans with floating rates totaled $695.8 million.

Total period end loans at December 31, 2007 were $10.6 billion, an increase of $923.8 million, or 9.5%, over balances at December 31, 2006. Loan growth came principally from business, business real estate, personal real estate, consumer and credit card loans, as demand for loan products remained solid during 2007. The 2007 bank acquisitions also contributed to the higher loan balances, adding approximately

$262.1 million to the year end 2007 balance. The acquisition-related growth occurred mainly in business loans ($95.0 million), construction loans ($49.2 million), business real estate loans ($88.2 million), and personal real estate loans ($22.2 million). Excluding these acquired loans, business loans grew $301.3 million, or 10.5%, reflecting new business in regional markets, strength in agribusiness lending, and increased borrowings by existing customers. Lease balances, which are included in the business category, increased $10.2 million, or 3.9%, compared with the previous year end balance, as equipment financing remained strong. Consumer loans grew $207.7 million, or 14.5%, during the year mainly as a result of continued growth in marine and recreational vehicle lending. Personal real estate loans grew by $39.4 million, or 2.7%, and business real estate loans rose $3.4 million, or .2%. Consumer credit card loans increased $131.9 million, or 20.3%, and saw growth especially at year end, when holiday activity is at its peak. During 2007, home equity loans increased $16.7 million, or 3.8%, due to an increase in new account activations. Construction loans declined $38.6 million, or 5.9%.

Period end loans increased $788.5 million, or 8.9%, in 2006 compared to 2005, resulting from increases in business, construction, business real estate, personal real estate and consumer loans.

The Company currently generates approximately 32% of its loan portfolio in the St. Louis market, 28% in the Kansas City market, and 40% in various other regional markets. The portfolio is diversified from a business and retail standpoint, with 58% in loans to businesses and 42% in loans to consumers. A balanced approach to loan portfolio management and an historical aversion toward credit concentrations, from an industry, geographic and product perspective, have contributed to low levels of problem loans and loan losses.

Business

Total business loans amounted to $3.3 billion at December 31, 2007 and include loans used mainly to fund customer accounts receivable, inventories, and capital expenditures. This portfolio also includes sales type and direct financing leases totaling $276.1 million, which are used by commercial customers to finance capital purchases ranging from computer equipment to office and transportation equipment. These leases comprise 2.6% of the Company s total loan portfolio. Business loans are made primarily to customers in the regional trade area of the Company, generally the central Midwest, encompassing the states of Missouri, Kansas, Illinois, and nearby Midwestern markets, including Iowa, Oklahoma, Colorado and Ohio. The portfolio is diversified from an industry standpoint and includes businesses engaged in manufacturing, wholesaling, retailing, agribusiness, insurance, financial services, public utilities, and other service businesses. Emphasis is upon middle-market and community businesses with known local management and financial stability. The Company participates in credits of large, publicly traded companies when business operations are maintained in the local communities or regional markets and opportunities to provide other banking services are present. Consistent with management s strategy and emphasis upon relationship banking, most borrowing customers also maintain deposit accounts and utilize other banking services. There were net loan charge-offs in this category of $4.4 million in 2007 compared to net loan recoveries of $823 thousand in 2006. The increase in net loan charge-offs over the prior year was partly due to a $1.4 million charge-off on an agribusiness loan secured by equipment, grain and real estate. Non-accrual business loans were $4.7 million (.1% of business loans) at December 31, 2007 compared to $5.8 million at December 31, 2006. Included in these totals were non-accrual lease-related loans of $167 thousand and $1.2 million at December 31, 2007 and 2006, respectively. Opportunities for growth in business loans will be based upon strong solicitation efforts in a highly competitive market environment for quality loans. Asset quality is, in part, a function of management s consistent application of underwriting standards and credit terms through stages in economic cycles. Therefore, portfolio growth in 2008 will be dependent upon 1) the strength of the economy, 2) the actions of the Federal Reserve with regard to targets for economic growth, interest rates, and inflationary tendencies, and 3) the competitive environment.

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Real Estate-Construction

The portfolio of loans in this category amounted to $668.7 million at December 31, 2007 and comprised 6.3% of the Company s total loan portfolio. The table below shows the Company s holdings of the major types of construction loans.

(In thousands)	Balance at December 31 2007	% of Total
Land development	$ 254,072	38.0%
Residential construction	159,624	23.9
Commercial construction	255,005	38.1
Total real estate-construction loans	**$ 668,701**	**100.0%**

These loans are predominantly made to businesses in the local markets of the Company s banking subsidiaries. Commercial construction loans are made during the construction phase for small and medium-sized office and medical buildings, manufacturing and warehouse facilities, apartment complexes, shopping centers, hotels and motels, and other commercial properties. Exposure to larger speculative office properties remains low. The largest percentage of residential construction and land development loans are for projects located in the Kansas City and St. Louis metropolitan areas. Credit losses in this portfolio are normally low. However, credit exposure in this sector has risen with the slowdown in the housing industry, and net loan charge-offs increased to $2.0 million in 2007, compared to net charge-offs of $62 thousand in 2006. The increase in net charge-offs was mainly related to charge-offs of $1.6 million on three specific loans. Construction loans on non-accrual status rose to $7.8 million at year end 2007, compared to $120 thousand at year end 2006. This increase was due to less than ten loans, ranging from $600 thousand to $1.6 million, placed on non-accrual status during 2007.

Real Estate-Business

Total business real estate loans were $2.2 billion at December 31, 2007 and comprised 21.1% of the Company s total loan portfolio. This category includes mortgage loans for small and medium-sized office and medical buildings, manufacturing and warehouse facilities, shopping centers, hotels and motels, and other commercial properties. Emphasis is placed on owner-occupied and income producing commercial real estate properties, which present lower risk levels. The borrowers and/or the properties are generally located in the local and regional markets of the affiliate banks. At December 31, 2007, non-accrual balances amounted to $5.6 million, or .3% of the loans in this category, down from $9.8 million at year end 2006. The Company experienced net charge-offs of $1.1 million in 2007, compared to net recoveries of $36 thousand in 2006.

Real Estate-Personal

At December 31, 2007, there were $1.5 billion in outstanding personal real estate loans, which comprised 14.5% of the Company s total loan portfolio. The mortgage loans in this category are extended, predominately, for owner-occupied residential properties. The Company originates both adjustable rate and fixed rate mortgage loans. The Company retains adjustable rate mortgage loans, and may from time to time retain certain fixed rate loans (typically 15-year fixed rate loans) as directed by its Asset/Liability Management Committee. Other fixed rate loans in the portfolio have resulted from previous bank acquisitions. At December 31, 2007, 63% of the portfolio was comprised of adjustable rate loans while 37% was comprised of fixed rate loans. Levels of mortgage loan origination activity increased slightly in 2007 compared to 2006, with originations of $283 million in 2007 compared with $282 million in 2006. Growth in mortgage loan originations was constrained in 2007 as a result of the slower housing starts and lower resales within the Company s markets. The Company typically does not experience significant loan losses in this category and since it does not offer any subprime lending products nor rely on outside sources for originations, its loan losses remained relatively low. The non-accrual balances of loans in this category increased to $1.1 million at December 31, 2007, compared to $384 thousand at year end 2006. The five year history of net charge-offs in the personal real estate loan category reflects nominal losses, and the credit quality of these loans is considered to be strong.

Personal Banking

Total personal banking loans, which include consumer and revolving home equity loans, totaled $2.1 billion at December 31, 2007 and increased 12.3% during 2007. These categories comprised 19.9% of the total loan portfolio at December 31, 2007. Consumer loans consist of auto, marine, tractor/trailer, recreational vehicle (RV) and fixed rate home equity loans, and totaled $1.6 billion at year end 2007. Approximately 69% of the loans outstanding were originated indirectly from auto and other dealers, while the remaining 31% were direct loans made to consumers. Approximately 30% of the consumer portfolio consists of automobile loans, 48% in marine and RV loans and 9% in fixed rate home equity lending.

Revolving home equity loans, of which 98% are adjustable rate loans, totaled $460.2 million at year end 2007. An additional $685.8 million was outstanding in unused lines of credit, which can be drawn at the discretion of the borrower. Home equity loans are secured mainly by second mortgages (and less frequently, first mortgages) on residential property of the borrower. The underwriting terms for the home equity line product permit borrowing availability, in the aggregate, generally up to 80% or 90% of the appraised value of the collateral property, although a small percentage may permit borrowing up to 100% of appraised value.

Net charge-offs for total personal banking loans were $10.0 million in 2007 compared to $6.2 million in 2006. Net charge-offs increased to .50% of average personal banking loans in 2007 compared to .35% in 2006. The increase in net charge-offs in 2007 compared to 2006 was mainly due to higher losses in the last half of 2007.

Consumer Credit Card

Total consumer credit card loans amounted to $780.2 million at December 31, 2007 and comprised 7.4% of the Company s total loan portfolio. The credit card portfolio is concentrated within regional markets served by the Company. The Company offers a variety of credit card products, including affinity cards, rewards cards, and standard and premium credit cards, and emphasizes its credit card relationship product, Special Connections. Approximately 61% of the households in Missouri that own a Commerce credit card product also maintain a deposit relationship with a subsidiary bank. Approximately 89% of the outstanding credit card loans have a floating interest rate. Net charge-offs amounted to $23.7 million in 2007, which was a $5.8 million increase over 2006. The increase in credit card loan net charge-offs was mainly due to higher delinquencies and losses in the second half of 2007. The ratio of net loan charge-offs to total average loans of 3.6% in 2007 and 3.0% in 2006 remained below national loss averages. The Company refrains from national pre-approved mailing techniques which have caused some of the problems experienced by credit card issuers.

Loans Held for Sale

Total loans held for sale at December 31, 2007 were $235.9 million, a decrease of $42.7 million, or 15.3%, from $278.6 million at year end 2006. Loans classified as held for sale consist of residential mortgage loans and student loans.

Mortgage loans are fixed rate loans, which are sold in the secondary market, generally within three months of origination, and totaled $6.9 million and $14.8 million at December 31, 2007 and 2006, respectively.

The Company originates loans to students attending colleges and universities and these loans are normally sold to the secondary market when the student graduates and the loan enters into repayment status. Student loans are primarily sold to the Missouri Higher Education Loan Authority and the Student Loan Marketing Association, in addition to several other organizations. Nearly all of these loans are based on variable rates. Student loans declined by $34.8 million, or 13.2%, to $229.0 million at year end 2007, compared to $263.8 million at year end 2006. This decline was mainly due to planned loan sales from the portfolio during 2007 which exceeded originations.

Allowance for Loan Losses

The Company has an established process to determine the amount of the allowance for loan losses, which assesses the risks and losses inherent in its portfolio. This process provides an allowance consisting of a specific allowance component based on certain individually evaluated loans and a general component based on estimates of reserves needed for pools of loans with similar risk characteristics.

Loans subject to individual evaluation are defined by the Company as impaired, and generally consist of business, construction and commercial real estate loans on non-accrual status. These loans are evaluated individually for the impairment of repayment potential and collateral adequacy, and in conjunction with current economic conditions and loss experience, allowances are estimated. Loans not individually evaluated are aggregated and reserves are recorded using a consistent methodology that considers historical loan loss experience by loan type, delinquencies, current economic factors, loan risk ratings and industry concentrations.

The Company s estimate of the allowance for loan losses and the corresponding provision for loan losses rests upon various judgments and assumptions made by management. Factors that influence these judgments include past loan loss experience, current loan portfolio composition and characteristics, trends in portfolio risk ratings, levels of non-performing assets, prevailing regional and national economic conditions, and the Company s ongoing examination process including that of its regulators. The Company has internal credit administration and loan review staffs that continuously review loan quality and report the results of their reviews and examinations to the Company s senior management and Board of Directors. Such reviews also assist management in establishing the level of the allowance. The Company s subsidiary banks continue to be subject to examination by the Office of the Comptroller of the Currency (OCC) and examinations are conducted throughout the year, targeting various segments of the loan portfolio for review. In addition to the examination of subsidiary banks by the OCC, the parent holding company and its non-bank subsidiaries are examined by the Federal Reserve Bank.

At December 31, 2007 the allowance for loan losses was $133.6 million, or 1.26% of loans outstanding, excluding held for sale, compared to a balance at year end 2006 of $131.7 million, or 1.36%. During 2007, the allowance for loan losses increased $1.9 million as a result of two bank acquisitions occurring during the year. The decline in the percentage of allowance to loans in 2007 was mainly due to a relatively stable allowance balance coupled with loan growth in 2007. During 2007, the Company s analysis of the allowance reflected the fact that while loan losses did increase, the amount of loans delinquent 90 days or more remained near 2006 levels, while non-performing loans increased only $3.0 million. Also, the Company s credit practices, which favor conservative underwriting standards, collateralized positions and regular oversight, tend to result in lower specific reserves assigned to non-performing loans. Additionally, the Company continually makes enhancements to its allowance estimation methodology, which has resulted in a more consistent balance during the past several years.

Net charge-offs totaled $42.7 million in 2007, and increased $16.7 million, or 64.0%, compared to net charge-offs of $26.1 million in 2006. Net charge-offs related to business loans of $4.4 million in 2007 included one large agribusiness loan which was charged down by $1.4 million. Construction loans incurred net charge-offs of $2.0 million in 2007 compared to $62 thousand in 2006. Certain construction loans have experienced lower credit quality in 2007 resulting from the slowdown in the housing market, which has affected the construction business. Business real estate loans incurred net charge-offs of $1.1 million in 2007 compared to a recovery position in 2006, and included one large charge-off of $1.6 million. Net charge-offs related to personal banking increased by $3.8 million to $10.0 million, compared to net charge-offs of $6.2 million in 2006. Additionally, net charge-offs related to consumer credit cards increased $5.8 million, or 32.7%, to $23.7 million in 2007 compared to $17.9 million in 2006. The ratio of net charge-offs to average loans outstanding in 2007 was .42% compared to .29% in 2006 and .38% in 2005. The provision for loan losses was $42.7 million, compared to a provision of $25.6 million in 2006 and

$28.8 million in 2005.

Approximately 55.5% of total net loan charge-offs during 2007 were related to consumer credit card loans. Net credit card charge-offs increased to 3.6% of average consumer credit card loans in 2007 compared

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to 3.0% in 2006. At year end 2007, the ratio of credit card loans 30 days or more delinquent to the total outstanding balance was 2.8%, compared to 3.1% at year end 2006.

The Company considers the allowance for loan losses of $133.6 million adequate to cover losses inherent in the loan portfolio at December 31, 2007.

The schedule which follows summarizes the relationship between loan balances and activity in the allowance for loan losses:

	Years Ended December 31				
(Dollars in thousands)	**2007**	2006	2005	2004	2003
Net loans outstanding at end of year(A)	**$ 10,605,368**	$ 9,681,520	$ 8,893,011	$ 8,294,353	$ 8,130,074
Average loans outstanding(A)	**$ 10,189,316**	$ 9,105,432	$ 8,549,573	$ 8,117,608	$ 7,973,386
Allowance for loan losses:					
Balance at beginning of year	**$ 131,730**	$ 128,447	$ 132,394	$ 135,221	$ 130,618
Additions to allowance through charges to expense	**42,732**	25,649	28,785	30,351	40,676
Allowances of acquired companies	**1,857**	3,688			500
Loans charged off:					
Business	**5,822**	1,343	1,083	8,047	9,297
Real estate construction	**2,049**	62		7	
Real estate business	**2,396**	854	827	747	1,525
Real estate personal	**181**	119	87	355	660
Personal banking(B)	**15,293**	11,522	13,475	12,764	13,856
Consumer credit card	**28,218**	22,104	28,263	23,682	23,689
Overdrafts	**4,909**	4,940	3,485	2,551	4,830
Total loans charged off	**58,868**	40,944	47,220	48,153	53,857
Recovery of loans previously charged off:					
Business	**1,429**	2,166	4,099	2,405	4,192

Real estate construction	**37**			3	122
Real estate business	**1,321**	890	330	978	1,009
Real estate personal	**42**	27	57	138	196
Personal banking[(B)]	**5,309**	5,286	4,675	5,288	5,386
Consumer credit card	**4,520**	4,250	3,851	4,249	4,202
Overdrafts	**3,477**	2,271	1,476	1,914	2,177
Total recoveries	**16,135**	14,890	14,488	14,975	17,284
Net loans charged off	**42,733**	26,054	32,732	33,178	36,573
Balance at end of year	**$ 133,586**	$ 131,730	$ 128,447	$ 132,394	$ 135,221
Ratio of net charge-offs to average loans outstanding	**.42%**	.29%	.38%	.41%	.46%
Ratio of allowance to loans at end of year	**1.26%**	1.36%	1.44%	1.60%	1.66%
Ratio of provision to average loans outstanding	**.42%**	.28%	.34%	.37%	.51%

(A) Net of unearned income, before deducting allowance for loan losses, excluding loans held for sale
(B) Personal banking loans include consumer and home equity

The following schedule provides a breakdown of the allowance for loan losses by loan category and the percentage of each loan category to total loans outstanding at year end:

thousands)	**2007**		2006		2005		2004		2003
	Loan Loss Allowance Allocation	**% of Loans to Total Loans**	Loan Loss Allowance Allocation	% of Loans to Total Loans	Loan Loss Allowance Allocation	% of Loans to Total Loans	Loan Loss Allowance Allocation	% of Loans to Total Loans	Loan Loss Allowance Allocation
	$ 29,392	**30.7%**	$ 28,529	29.5%	$ 26,211	28.4%	$ 39,312	27.0%	$ 39,411
truction	**8,507**	**6.3**	4,605	6.8	3,375	4.8	1,420	5.2	4,717
ness	**14,842**	**21.1**	19,343	22.2	19,432	21.6	15,910	21.0	20,971
onal	**2,389**	**14.5**	2,243	15.3	4,815	15.3	7,620	16.1	4,423
anking	**30,450**	**19.9**	23,690	19.4	25,364	23.2	22,652	23.6	21,793
credit card	**44,307**	**7.4**	39,965	6.7	35,513	6.6	28,895	6.8	26,544
	2,351	**.1**	3,592	.1	2,739	.1	4,895	.3	4,796
ed	**1,348**		9,763		10,998		11,690		12,566
	$ 133,586	**100.0%**	$ 131,730	100.0%	$ 128,447	100.0%	$ 132,394	100.0%	$ 135,221

Risk Elements Of Loan Portfolio

Management reviews the loan portfolio continuously for evidence of problem loans. During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of loan agreements. Such loans are placed under close supervision with consideration given to placing the loan on non-accrual status, the need for an additional allowance for loan loss, and (if appropriate) partial or full loan charge-off. Loans are placed on non-accrual status when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment. Loans that are 90 days past due as to principal and/or interest payments are generally placed on non-accrual, unless they are both well-secured and in the process of collection, or they are 1-4 family first mortgage loans or consumer loans that are exempt under regulatory rules from being classified as non-accrual. Consumer installment loans and related accrued interest are normally charged down to the fair value of related collateral (or are charged off in full if no collateral) once the loans are more than 120 days delinquent. Credit card loans and the related accrued interest are charged off when the receivable is more than 180 days past due. After a loan is placed on non-accrual status, any interest previously accrued but not yet collected is reversed against current income. Interest is included in income only as received and only after all previous loan charge-offs have been recovered, so long as management is satisfied there is no impairment of collateral values. The loan is returned to accrual status only when the borrower has brought all past due principal and interest payments current and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled.

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The following schedule shows non-performing assets and loans past due 90 days and still accruing interest.

	December 31				
(Dollars in thousands)	**2007**	2006	2005	2004	2003
Non-accrual loans:					
Business	**$ 4,700**	$ 5,808	$ 5,916	$ 9,547	$ 19,162
Real estate construction	**7,769**	120		685	795
Real estate business	**5,628**	9,845	3,149	6,558	9,372
Real estate personal	**1,095**	384	261	458	2,447
Consumer	**547**	551	519	370	747
Total non-accrual loans	**19,739**	16,708	9,845	17,618	32,523
Real estate acquired in foreclosure	**13,678**	1,515	1,868	1,157	1,162
Total non-performing assets	**$ 33,417**	$ 18,223	$ 11,713	$ 18,775	$ 33,685
Non-performing assets as a percentage of total loans	**.32%**	.19%	.13%	.23%	.41%
Non-performing assets as a percentage of total assets	**.21%**	.12%	.08%	.13%	.24%
Past due 90 days and still accruing interest:					
Business	**$ 1,427**	$ 2,814	$ 1,026	$ 357	$ 817
Real estate construction	**768**	593			38
Real estate business	**281**	1,336	1,075	520	3,934
Real estate personal	**5,131**	3,994	2,998	3,165	5,750
Consumer	**1,914**	1,255	1,069	916	1,079
Home equity	**700**	659	429	317	218
Student	**1**	1	74	199	1,252
Consumer credit card	**10,664**	9,724	7,417	7,311	7,735
Overdrafts				282	78
Total past due 90 days and still accruing interest	**$ 20,886**	$ 20,376	$ 14,088	$ 13,067	$ 20,901

The effect on interest income in 2007 of loans on non-accrual status at year end is presented below:

(In thousands)	
Gross amount of interest that would have been recorded at original rate	$ 2,987
Interest that was reflected in income	690
Interest income not recognized	$ 2,297

Total non-accrual loans at year end 2007 rose $3.0 million over 2006 levels. The increase resulted mainly from an increase of $7.6 million in construction real estate non-accrual loans, partly offset by declines in business and business real estate non-accrual loans of $1.1 million and $4.2 million, respectively. Foreclosed real estate increased to a total of $13.7 million at year end 2007. This balance included $8.7 million in undeveloped land and residential lots acquired from a single borrower; the undeveloped land is currently under a sale contract which is expected to close in the first half of 2008. The balance also included $3.3 million related to a warehouse building. Total non-performing assets remain low compared to the Company s peers, with the non-performing loans to total loans ratio at .19%. Loans past due 90 days and still accruing interest increased $510 thousand at year end 2007 compared to 2006.

In addition to the non-accrual loans mentioned above, the Company also has identified loans for which management has concerns about the ability of the borrowers to meet existing repayment terms. These loans are primarily classified as substandard for regulatory purposes under the Company s internal rating system. The loans are generally secured by either real estate or other borrower assets, reducing the potential for loss should they become non-performing. Although these loans are generally identified as potential problem loans, they may never become non-performing. Such loans totaled $127.2 million at December 31, 2007 compared with $67.1 million at December 31, 2006. The balance at December 31, 2007 included $40.5 million in business real estate loans, $36.7 million in construction real estate loans, and $29.2 million in business loans.

Within the loan portfolio, certain types of loans are considered at higher risk of loss due to their terms, location, or special conditions. Certain personal real estate products have contractual features that could increase credit exposure in a market of declining real estate prices, when interest rates are steadily increasing, or when a geographic area experiences an economic downturn. Loans might be considered at higher risk when 1) loan terms require a minimum monthly payment that covers only interest, or 2) loan-to-collateral value (LTV) ratios are above 80%, with no private mortgage insurance.

Personal Real Estate Loans

Out of the Company s $1.5 billion personal real estate loan portfolio, approximately 3.0% of the current outstandings are structured with interest only payments. Such loans are normally made to private banking, high-net worth customers and marketed with other products. At December 31, 2007, these loans had a weighted average LTV of 70%, and most had additional collateral pledged to secure the loan. Private mortgage insurance is used at times on loans with LTV s greater than 80%. Approximately 11.9% of personal real estate loans with LTV s greater than 80% do not have such insurance; however, these loans had high credit scores, averaging 734. The following table presents information about personal real estate loans with these risk characteristics for 2007 and 2006.

(Dollars in thousands)	**Principal Outstanding at December 31 2007**	**% of Loan Portfolio**	Principal Outstanding at December 31 2006	% of Loan Portfolio
Loans with interest only payments	**$ 42,309**	**3.0%**	$ 32,175	2.3%
Loans with no insurance and LTV:				
Between 80% and 90%	**94,681**	**6.6**	84,588	5.9
Between 90% and 100%	**72,438**	**5.1**	66,351	4.7
Over 100%	**3,221**	**.2**	6,953	.5
Over 80% LTV with no insurance	**170,340**	**11.9**	157,892	11.1
Total loan portfolio from which above loans were identified	**1,431,172**		1,428,475	

Revolving Home Equity Loans

The Company also has revolving home equity loans that are generally collateralized by residential real estate. Most of these loans (93.4%) are written with terms requiring interest only monthly payments. These loans are offered in three main product lines: LTV up to 80%, 80% to 90%, and 90% to 100%. The following tables break out the year end outstanding balances by product for 2007 and 2006.

(Dollars in thousands)	Principal Outstanding at December 31 2007	*	New Lines Originated During 2007	*	Unused Portion of Available Lines at December 31 2007	*	Balances Over 30 Days Past Due	*
Loans with interest only payments	$ 429,875	93.4%	$ 193,158	42.0%	$ 668,686	145.3%	$ 2,764	.6%
Loans with LTV:								
Between 80% and 90%	57,587	12.5	20,998	4.6	50,406	11.0	677	.2
Between 90% and 100%	30,451	6.6	17,310	3.8	22,794	5.0	172	
Over 80% LTV	88,038	19.1	38,308	8.4	73,200	16.0	849	.2
Total loan portfolio from which above loans were identified	460,200		203,454		685,800			

* *Percentage of total principal outstanding revolving home equity loans of $460.2 million at December 31, 2007.*

(Dollars in thousands)	Principal Outstanding at December 31 2006	*	New Lines Originated During 2006	*	Unused Portion of Available Lines at December 31 2006	*	Balances Over 30 Days Past Due	*
Loans with interest only payments	$ 407,539	92.2%	$ 175,226	39.7%	$ 621,977	140.8%	$ 2,832	.6%
Loans with LTV:								
Between 80% and 90%	55,367	12.5	18,311	4.1	47,559	10.8	468	.1
Between 90% and 100%	26,830	6.1	14,141	3.2	17,746	4.0	112	
Over 80% LTV	82,197	18.6	32,452	7.3	65,305	14.8	580	.1
Total loan portfolio from which above loans were identified	441,851		201,864		646,700			

* *Percentage of total principal outstanding revolving home equity loans of $441.9 million at December 31, 2006.*

Other Loans Collateralized by Residential Real Estate

In addition to the residential real estate mortgage loans and the revolving floating rate line product discussed above, Commerce offers a third choice to those consumers looking for a fixed rate loan and a fixed maturity date. This fixed rate home equity loan, typically for home repair or remodeling, is an alternative for individuals who want to finance a specific project or purchase, and decide to lock in a specific monthly payment over a defined period. This portfolio of loans totaled $152 million and $134 million at December 31, 2007 and 2006, respectively. Very few of these loans are made without mortgage insurance and at more than 80% LTV, as was true at December 31, 2007 when there were no outstanding balances in that category. Occasionally these loans are written with interest only monthly payments and a balloon payoff at maturity; there were only 10 loans carrying 2.3% of the outstanding principal in this portfolio with such terms at year end. The delinquency history on this product has been very positive, as only $1.3 million, or .9%, and $973 thousand, or .7%, of the portfolio was over 30 days past due at year end 2007 and 2006, respectively.

Management does not believe these loans collateralized by real estate represent any unusual concentrations of risk, as evidenced by low net charge-offs in 2007 of $139 thousand in personal real estate loans, $136 thousand in fixed rate home equity loans and $446 thousand in revolving home equity loans. The amount of any increased potential loss on high LTV agreements relates mainly to amounts advanced that are in excess of the 80% collateral calculation, not the entire approved line. The majority of the personal real estate portfolio (95.1%) consists of loans written within the Company s familiar branch network territories of Missouri, Kansas, and Illinois. Customer s credit scoring requirements also play an important part in credit line approvals and they can be increased as another means of mitigating risk when considering high LTV agreements. The Company offers no subprime loan products and has purchased no brokered loans.

There were no loan concentrations of multiple borrowers in similar activities at December 31, 2007 which exceeded 10% of total loans. The Company s aggregate legal lending limit to any single or related borrowing entities is in excess of $204 million. The largest exposures, consisting of either outstanding balances or available lines of credit, generally do not exceed $70 million.

Investment Securities Analysis

Investment securities are comprised of securities which are available for sale, non-marketable, and held for trading. During 2007, total investment securities decreased $230.6 million to $3.2 billion (excluding unrealized gains/losses) compared to $3.5 billion at the previous year end. The decrease was mainly due to sales of asset-backed (home equity, auto and credit card) securities, state and municipal obligations, and publicly traded stock, resulting in proceeds of $239.5 million. During 2007, securities of $1.1 billion were purchased, excluding those acquired in bank acquisitions, and were comprised of $27.9 million in state and municipal obligations, $548.4 million in mortgage-backed securities, $195.1 million in other asset-backed securities, and $220.0 in U.S. government and federal agency securities. Maturities and paydowns amounted to $1.1 billion. The average tax equivalent yield on total investment securities was 4.75% in 2007 and 4.41% in 2006.

At December 31, 2007, the fair value of available for sale securities was $3.2 billion, and included a net unrealized gain in fair value of $48.4 million, compared to a net gain of $17.2 million at December 31, 2006. The amount of the related after tax unrealized gain reported in stockholders equity was $30.0 million at year end 2007. The unrealized gain in fair value was the result of unrealized gains of $52.0 million on marketable equity securities held by the Parent, partly offset by unrealized losses of $4.3 million in the bank portfolios. Most of the unrealized loss in fair value in the bank portfolios related to mortgage and other asset-backed securities. The fair value of the available for sale portfolio will vary according to changes in market interest rates and the mix and duration of investments in the portfolio. Available for sale securities which mature during the next 12 months total approximately $586 million, and management expects these proceeds to meet the expected liquidity needs of the Company.

Available for sale investment securities at year end for the past two years are shown below:

	December 31	
(In thousands)	**2007**	2006
Amortized Cost		
U.S. government and federal agency obligations*	**$ 359,118**	$ 480,343
State and municipal obligations	**498,628**	593,816
Mortgage-backed securities	**1,965,290**	1,809,741
Other asset-backed securities	**182,064**	358,114
Other debt securities	**21,397**	36,528
Equity securities	**90,083**	119,723
Total available for sale investment securities	**$ 3,116,580**	$ 3,398,265
Fair Value		
U.S. government and federal agency obligations*	**$ 360,317**	$ 474,218
State and municipal obligations	**503,363**	594,824
Mortgage-backed securities	**1,960,120**	1,782,443
Other asset-backed securities	**180,365**	354,465
Other debt securities	**21,327**	36,009
Equity securities	**139,528**	173,481
Total available for sale investment securities	**$ 3,165,020**	$ 3,415,440

* *This category includes obligations of government sponsored enterprises, such as FNMA and FHLMC, which are not backed by the full faith and credit of the United States government. Such obligations are separately disclosed in Note 4 on Investment Securities in the consolidated financial statements.*

Many of the Company s investments in mortgage-backed securities are collateralized by U.S. federal agency securities. At December 31, 2007, these comprised 78% of the total mortgage-backed securities. The Company s investment securities portfolio does not have any exposure to subprime or collateralized debt obligation instruments.

Other available for sale debt securities, as shown in the table above, include corporate bonds, notes and commercial paper. Available for sale equity securities are comprised of short-term investments in money market mutual funds and publicly traded stock, which totaled $58.9 million and $80.6 million, respectively, at December 31, 2007. These investments are primarily held by the Parent.

A summary of maturities by category of investment securities and the weighted average yield for each range of maturities as of December 31, 2007, is presented in Note 4 on Investment Securities in the consolidated financial statements. At December 31, 2007, mortgage and asset-backed securities comprised 65% of the investment portfolio with a weighted average yield of 4.97% and an estimated average maturity of 2.8 years; state and municipal obligations comprised 15% with a weighted average tax equivalent yield of

3.72% and an estimated average maturity of 4.0 years; and U.S. government and federal agency obligations comprised 11% with a weighted average yield of 4.03% and an estimated average maturity of 1.0 years.

Non-marketable securities, which totaled $105.5 million at December 31, 2007, included $60.2 million in Federal Reserve Bank stock and Federal Home Loan Bank (Des Moines) stock held by bank subsidiaries in accordance with debt and regulatory requirements. These are restricted securities which, lacking a market, are carried at cost. Other non-marketable securities also include private equity and venture capital securities which are carried at estimated fair value.

The Company engages in private equity and venture capital activities through direct private equity investments and through three private equity/venture capital subsidiaries. The subsidiaries hold investments in various portfolio concerns, which are carried at fair value and totaled $37.6 million at December 31, 2007. Outside ownership interests in these partnerships were $2.1 million at December 31, 2007. The Company plans to fund an additional $11.1 million to the newest of these partnerships in the future. In addition to investments held by its private equity/venture capital subsidiaries, the Parent directly holds investments in several private equity concerns, which totaled $7.0 million at year end 2007. Most of the venture capital and private equity investments are not readily marketable. While the nature of these investments carries a higher degree of risk than the normal lending portfolio, this risk is mitigated by the overall size of the investments and oversight provided by management, which believes the potential for long-term gains in these investments outweighs the potential risks.

Non-marketable securities at year end for the past two years are shown below:

	December 31	
(In thousands)	**2007**	2006
Debt securities	**$ 17,055**	$ 17,225
Equity securities	**88,462**	56,982
Total non-marketable investment securities	**$ 105,517**	$ 74,207

Deposits and Borrowings

Deposits are the primary funding source for the Company s banks, and are acquired from a broad base of local markets, including both individual and corporate customers. Total deposits were $12.6 billion at December 31, 2007, compared to $11.7 billion last year, reflecting an increase of $806.7 million, or 6.9%. Average deposits grew by $758.2 million, or 6.8%, in 2007 compared to 2006 with most of this growth centered in money market accounts and certificates of deposit. The Company s premium money market deposits grew on average by $260.1 million, or 10.9%, in 2007 compared to 2006, and other interest bearing transaction and savings accounts grew by $18.6 million. Certificates of deposit with balances under $100,000 grew on average by $282.1 million, or 13.6%, while certificates of deposit over $100,000 grew $192.0 million, or 14.9%. The recent bank acquisitions in 2007 and 2006 contributed $362.8 million to the growth in average deposits during 2007.

The following table shows year end deposits by type as a percentage of total deposits.

	December 31	
	2007	2006
Non-interest bearing demand	**11.3%**	11.2%
Savings, interest checking and money market	**57.0**	58.6
Time open and C.D. s of less than $100,000	**18.9**	19.6
Time open and C.D. s of $100,000 and over	**12.8**	10.6
Total deposits	**100.0%**	100.0%

Core deposits (defined as all non-interest and interest bearing deposits, excluding short-term C.D. s of $100,000 and over) supported 75% of average earning assets in 2007 and 77% in 2006. Average balances by major deposit category for the last six years appear at the end of this discussion. A maturity schedule of time deposits outstanding at December 31, 2007 is included in Note 7 on Deposits in the consolidated financial statements.

The Company s primary borrowings consist of federal funds purchased and repurchase agreements. Balances in these accounts can fluctuate significantly on a day-to-day basis, and generally have overnight maturities. Balances outstanding at year end 2007 were $1.2 billion, a $532.1 million decrease from $1.8 billion outstanding at year end 2006. Most of this decline occurred in federal funds purchased, as the Company reduced its reliance on these borrowings in the fourth quarter of 2007. On an average basis, federal funds purchased declined $75.9 million in 2007 compared to 2006, which was offset by an increase of $316.9 million in repurchase agreements. The average rate paid on federal funds purchased and repurchase agreements was 4.92% during 2007 and 4.82% during 2006.

Most of the Company s long-term debt is comprised of fixed rate advances from the Federal Home Loan Bank (FHLB). As the Company diversified its funding sources during 2007, these borrowings rose from $28.2 million at December 31, 2006 to $561.5 million outstanding at December 31, 2007. Approximately $489.5 million of the outstanding balance is due or may be called for early repayment in 2008 through 2010. The average rate paid on FHLB advances was 4.68% during 2007 and 4.88% during 2006. The weighted average year end rate on outstanding FHLB advances at December 31, 2007 was 4.52%.

Liquidity and Capital Resources

Liquidity Management

Liquidity is managed within the Company in order to satisfy cash flow requirements of deposit and borrowing customers while at the same time meeting its own cash flow needs. The Company maintains its liquidity position by providing a variety of sources including:

- A portfolio of liquid assets including marketable investment securities and overnight investments,
- A large customer deposit base and limited exposure to large, volatile certificates of deposit,
- Lower long-term borrowings that might place a demand on Company cash flow,
- Relatively low loan to deposit ratio promoting strong liquidity,
- Excellent debt ratings from both Standard & Poor s and Moody s national rating services, and
- Available borrowing capacity from outside sources.

The Company s most liquid assets include available for sale marketable investment securities, federal funds sold, and securities purchased under agreements to resell (resale agreements). At December 31, 2007 and 2006, such assets were as follows:

(In thousands)	**2007**	2006
Available for sale investment securities	**$ 3,165,020**	$ 3,415,440
Federal funds sold and resale agreements	**655,165**	527,816

Total	**$ 3,820,185**	$ 3,943,256

Federal funds sold and resale agreements normally have overnight maturities and are used for general daily liquidity purposes. The Company s available for sale investment portfolio has maturities of approximately $586 million which come due during 2008 and offers substantial resources to meet either new loan demand or reductions in the Company s deposit funding base. Furthermore, in the normal course of business the Company pledges portions of its investment securities portfolio to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowing capacity at the Federal Reserve. Total pledged investment securities for these purposes comprised 63% of the available for sale investment portfolio, leaving approximately $1.2 billion of unpledged securities.

Additionally, the Company maintains a large base of core customer deposits, defined as demand, interest checking, savings, and money market deposit accounts. At December 31, 2007, such deposits totaled

$8.6 billion and represented 68% of the Company s total deposits. At December 31, 2006 these deposits totaled $8.2 billion. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company promoting long lasting relationships and stable funding sources. Time open and certificates of deposit of $100,000 or greater totaled $1.6 billion and $1.3 billion at December 31, 2007 and 2006, respectively. These deposits are normally considered more volatile and higher costing, and comprised 12.8% and 10.7% of total deposits at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, the Company s borrowings were comprised of federal funds purchased, securities sold under agreements to repurchase, and longer-term debt as follows:

(In thousands)		**2007**		2006
Federal funds purchased	**$**	**126,077**	$	715,475
Securities sold under agreements to repurchase		**1,113,142**		1,055,807
Other borrowings		**583,636**		53,934
Total	**$**	**1,822,855**	$	1,825,216

Federal funds purchased are funds generally borrowed overnight and are obtained mainly from upstream correspondent banks to assist in balancing overall bank liquidity needs. Securities sold under agreements to repurchase are comprised mainly of non-insured customer funds, normally with maturities of 90 days or less, and the Company pledges portions of its own investment portfolio to secure these deposits. These funds are offered to customers wishing to earn interest in highly liquid balances and are used by the Company as a funding source considered to be stable, but short-term in nature.

The Company s other borrowings are comprised mainly of advances from the FHLB, debentures funded by trust preferred securities, and debt related to the Company s venture capital business. At December 31, 2007 and 2006, debt from the FHLB amounted to $561.5 million and $28.2 million, respectively. The increase in FHLB borrowings during 2007 was due to new advances of $542.0 million. Nearly all outstanding advances have fixed interest rates. Advances of $10.6 million mature in 2008, while an additional $200.0 million may be called for early repayment during 2008. Debt called or maturing in 2008 may be refinanced or may be repaid with funds generated by maturities of loans or investment securities, or by deposit growth or other types of borrowings. The overall long-term debt position of the Company is small relative to the Company s overall liability position.

In addition to the sources and uses of funds noted above, the Company had an average loans to deposits ratio of 88% at December 31, 2007, which is considered in the banking industry to be a conservative measure of good liquidity. Also, the Company receives outside ratings from both Standard & Poor s and Moody s on both the consolidated company and its lead bank, Commerce Bank, N.A. (Missouri). These ratings are as follows:

	Standard & Poor s	Moody s
Commerce Bancshares, Inc.		

Counterparty rating	A-1	Aa2
Commercial paper rating	A-1	
Short-term		P-1
Commerce Bank, N. A.		
Counterparty rating	A+	
Senior long-term rating	A+	
Long-term bank deposits		Aa2
Issuer rating		Aa2
Short-term		P-1

The Company considers these ratings to be indications of a sound capital base and good liquidity, and believes that these ratings would enable its commercial paper to be readily marketable should the need arise. No commercial paper was outstanding over the past three years. The Company s excellent credit standing

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has resulted in lead bank ratings which are significantly higher than those of many of its peers in the community banking arena.

In addition to the sources of liquidity as noted above, the Company has temporary borrowing capacity at the Federal Reserve discount window of $1.1 billion, for which it has pledged $1.1 billion in loans and $246.0 million in investment securities. Also, because of its lack of significant long-term debt, the Company believes that, through its Capital Markets Group or in other public debt markets, it could generate additional liquidity from sources such as jumbo certificates of deposit, privately-placed corporate notes or other debt.

The cash flows from the operating, investing and financing activities of the Company resulted in a net increase in cash and cash equivalents of $173.9 million in 2007, as reported in the consolidated statements of cash flows on page 59 of this report. Operating activities, consisting mainly of net income adjusted for certain non-cash items, provided cash flow of $335.7 million and has historically been a stable source of funds. Investing activities, consisting mainly of purchases and maturities of available for sale investment securities and changes in the level of the Company s loan portfolio, used total cash of $578.4 million in 2007. Investing activities are somewhat unique to financial institutions in that, while large sums of cash flow are normally used to fund growth in investment securities, loans, or other bank assets, they are normally dependent on the financing activities described below.

Financing activities provided total cash of $416.6 million, resulting from a $632.2 million increase in deposits and additional FHLB borrowings of $542.0 million. Partly offsetting these cash inflows were a decline in short-term borrowings of $543.0 million, treasury stock purchases of $128.6 million, and cash dividend payments of $68.9 million. Future short-term liquidity needs for daily operations are not expected to vary significantly and the Company maintains adequate liquidity to meet these cash flows. The Company s sound equity base, along with its low debt level, common and preferred stock availability, and excellent debt ratings, provide several alternatives for future financing. Future acquisitions may utilize partial funding through one or more of these options.

Cash used for treasury stock purchases, net of cash received in connection with stock programs, and dividend payments were as follows:

(In millions)	**2007**	2006	2005
Purchase of treasury stock	**$ 128.6**	$ 135.0	$ 234.5
Exercise of stock options and sales to affiliate non- employee directors	**(13.7)**	(7.3)	(18.4)
Cash dividends	**68.9**	65.8	63.4
Total	**$ 183.8**	$ 193.5	$ 279.5

The Parent faces unique liquidity constraints due to legal limitations on its ability to borrow funds from its banking subsidiaries. The Parent obtains funding to meet its obligations from two main sources: dividends received from bank and non-bank subsidiaries (within regulatory limitations) and from management fees charged to subsidiaries as reimbursement for services provided by the Parent, as presented below:

(In millions)	**2007**	2006	2005
Dividends received from subsidiaries	**$ 179.5**	$ 140.5	$ 220.0
Management fees	**39.1**	37.7	33.0
Total	**$ 218.6**	$ 178.2	$ 253.0

These sources of funds are used mainly to purchase treasury stock, pay cash dividends on outstanding common stock, and pay general operating expenses. At December 31, 2007, the Parent s available for sale investment securities totaled $121.5 million, at fair value. The portfolio is liquid, and consisted of $58.8 million in money market mutual funds and $61.2 million in publicly traded common stock. To support its various funding commitments, the Parent maintains a $20.0 million line of credit with its lead subsidiary bank. Borrowings under the line were $10.0 million at December 31, 2007.

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Company senior management is responsible for measuring and monitoring the liquidity profile of the organization with oversight by the Company s Asset/Liability Committee (ALCO). This is done through a series of controls, including a written Contingency Funding Policy and risk monitoring procedures, including daily, weekly and monthly reporting. In addition, the Company prepares forecasts which project changes in the balance sheet affecting liquidity, and which allow the Company to better plan for forecasted changes.

Capital Management

The Company maintains strong regulatory capital ratios, including those of its principal banking subsidiaries, in excess of the well-capitalized guidelines under federal banking regulations. The Company s capital ratios at the end of the last three years are as follows:

	2007	2006	2005	Well-Capitalized Regulatory Guidelines
Risk-based capital ratios:				
Tier I capital	**10.31%**	11.25%	12.21%	6.00%
Total capital	**11.49**	12.56	13.63	10.00
Leverage ratio	**8.76**	9.05	9.43	5.00
Common equity/assets	**9.54**	9.68	9.87	
Dividend payout ratio	**33.76**	30.19	28.92	

The components of the Company s regulatory risked-based capital and risk-weighted assets at the end of the last three years are as follows:

(In thousands)	**2007**	2006	2005
Regulatory risk-based capital:			
Tier I capital	**$ 1,375,035**	$ 1,345,378	$ 1,295,898
Tier II capital	**157,154**	157,008	150,510
Total capital	**1,532,189**	1,502,386	1,446,408
Total risk-weighted assets	**13,330,968**	11,959,757	10,611,322

In February 2008, the Board of Directors authorized the Company to purchase additional shares of common stock under its repurchase program, which brought the total purchase authorization to 3,000,000 shares. The Company has routinely used these shares to fund the Company s annual 5% stock dividend and various stock compensation programs. During 2007, approximately 2,699,000 shares were acquired under a prior Board authorization at an average price of $47.66 per share.

The Company s common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital levels and alternative investment options. Per share cash dividends paid by the Company increased 7.1% in 2007 compared with 2006.

Commitments, Contractual Obligations, and Off-Balance Sheet Arrangements

Various commitments and contingent liabilities arise in the normal course of business, which are not required to be recorded on the balance sheet. The most significant of these are loan commitments, totaling $8.0 billion (including approximately $3.8 billion in unused approved credit card lines), and the contractual amount of standby letters of credit, totaling $441.4 million at December 31, 2007. The Company has various other financial instruments with off-balance sheet risk, such as commercial letters of credit and commitments to purchase and sell when-issued securities. Since many commitments expire unused or only partially used, these totals do not necessarily reflect future cash requirements. Management does not anticipate any material losses arising from commitments and contingent liabilities and believes there are no material commitments to extend credit that represent risks of an unusual nature.

A table summarizing contractual cash obligations of the Company at December 31, 2007 and the expected timing of these payments follows:

	Payments Due by Period				
(In thousands)	In One Year or Less	After One Year Through Three Years	After Three Years Through Five Years	After Five Years	Total
Long-term debt obligations, including structured repurchase agreements*	$ 10,603	$ 878,910	$ 75,529	$ 118,594	$ 1,083,636
Operating lease obligations	5,783	9,110	5,524	24,053	44,470
Purchase obligations	25,289	21,391	15,319	5,500	67,499
Time open and C.D. s*	3,673,515	260,408	48,018	396	3,982,337
Total	**$ 3,715,190**	**$ 1,169,819**	**$ 144,390**	**$ 148,543**	**$ 5,177,942**

* *Includes principal payments only*

As of December 31, 2007, the Company has unrecognized tax benefits that, if recognized, would impact the effective tax rate in future periods. Due to the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, all uncertain tax liabilities that have not been paid have been excluded from the table above. Further detail on the impact of income taxes is located in Note 9 of the consolidated financial statements.

The Company has investments in several low-income housing partnerships within the area served by the banking affiliates. At December 31, 2007, these investments totaled $3.1 million and were recorded as other assets in the Company s consolidated balance sheet. These partnerships supply funds for the construction and operation of apartment complexes that provide affordable housing to that segment of the population with lower family income. If these developments successfully attract a specified percentage of residents falling in that lower income range, state and/or federal income tax credits are made available to the partners. The tax credits are normally recognized over ten years, and they play an important part in the anticipated yield from these investments. In order to continue receiving the tax credits each year over the life of the partnership, the low-income residency targets must be maintained. Under the terms of the partnership agreements, the Company has a commitment to fund a specified amount that will be due in installments over the life of the agreements, which ranges from 10 to 15 years. These unfunded commitments are recorded as liabilities on the Company s consolidated balance sheet, and aggregated $2.3 million at December 31, 2007.

The Company periodically purchases various state tax credits arising from third-party property redevelopment. Most of the tax credits are resold to third parties, although some may be retained for use by the Company. During 2007, purchases and sales of tax credits amounted to $38.7 million and $40.5 million, respectively, generating combined gains on sales and tax savings of $2.0 million. At December 31, 2007, the Company had outstanding purchase commitments totaling $102.6 million.

The Parent has investments in several private equity concerns which are classified as non-marketable securities in the Company s consolidated balance sheet. Under the terms of the agreements with six of these concerns, the Parent has unfunded commitments outstanding of $2.1 million at December 31, 2007. The Parent also has commitments to fund $11.1 million to venture capital subsidiaries over the next several years.

Interest Rate Sensitivity

The Company s Asset/Liability Management Committee (ALCO) measures and manages the Company s interest rate risk on a monthly basis to identify trends and establish strategies to maintain stability in earnings throughout various rate environments. Analytical modeling techniques provide management insight into the Company s exposure to changing rates. These techniques include net interest income simulations and market value analyses. Management has set guidelines specifying acceptable limits within which net interest income and market value may change under various rate change scenarios. These measurement tools indicate that the Company is currently within acceptable risk guidelines as set by management.

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The Company s main interest rate measurement tool, income simulations, projects net interest income under various rate change scenarios in order to quantify the magnitude and timing of potential rate-related changes. Income simulations are able to capture option risks within the balance sheet where expected cash flows may be altered under various rate environments. Modeled rate movements include shocks, ramps and twists . Shocks are intended to capture interest rate risk under extreme conditions by immediately shifting rates up and down, while ramps measure the impact of gradual changes and twists measure yield curve risk. The size of the balance sheet is assumed to remain constant so that results are not influenced by growth predictions. The table below shows the expected effect that gradual basis point shifts in the LIBOR/swap curve over a twelve month period would have on the Company s net interest income, given a static balance sheet.

(Dollars in millions)	**December 31, 2007** Increase (Decrease)	**December 31, 2007** % of Net Interest Income	September 30, 2007 Increase (Decrease)	September 30, 2007 % of Net Interest Income	December 31, 2006 Increase (Decrease)	December 31, 2006 % of Net Interest Income
200 basis points rising	**$ 2.3**	**.40%**	$ (1.2)	(.21)%	$ (4.3)	(.80)%
100 basis points rising	**2.0**	**.34**			(.9)	(.17)
100 basis points falling	**(1.2)**	**(.20)**	(1.6)	(.29)	(.6)	(.10)
200 basis points falling	**(5.5)**	**(.95)**	(2.8)	(.50)	(.7)	(.13)

The Company also employs a sophisticated simulation technique known as a stochastic income simulation. This technique allows management to see a range of results from hundreds of income simulations. The stochastic simulation creates a vector of potential rate paths around the market s best guess (forward rates) concerning the future path of interest rates and allows rates to randomly follow paths throughout the vector. This allows for the modeling of non-biased rate forecasts around the market consensus. Results give management insight into a likely range of rate-related risk as well as worst and best-case rate scenarios.

The Company also uses market value analyses to help identify longer-term risks that may reside on the balance sheet. This is considered a secondary risk measurement tool by management. The Company measures the market value of equity as the net present value of all asset and liability cash flows discounted along the current LIBOR/swap curve plus appropriate market risk spreads. It is the change in the market value of equity under different rate environments, or effective duration, that gives insight into the magnitude of risk to future earnings due to rate changes. Market value analyses also help management understand the price sensitivity of non-marketable bank products under different rate environments.

The Company s modeling of interest rate risk continues to show there is modest interest rate risk exposure. The table reflects a decrease in the exposure of the Company s net interest income to rising rates at year end 2007, but increasing exposure to falling rates. At December 31, 2007, the Company calculated that a gradual increase in rates of 100 basis points would increase net interest income by $2.0 million, or .34% of total net interest income, compared with a reduction of $900 thousand calculated at December 31, 2006. Also, a 200 basis point gradual rise in rates calculated at December 31, 2007 would increase net interest income by $2.3 million, or .40%, up from a reduction of $4.3 million last year. The Company s exposure to falling rates increased at December 31, 2007, as under a 100 basis point falling rate scenario, net interest income would decrease $1.2 million compared to a $600 thousand decline at December 31, 2006. In addition, under a 200 basis point decrease, net interest income would decline $5.5 million compared with

$700 thousand in the prior year.

As shown in the table above, the Company s interest rate simulations prepared at December 31, 2007 reflect a reduction in risk to rising interest rates when compared to the same period in the prior year. This is partly the result of higher average loan balances in 2007 compared to the previous year (average increase of $1.1 billion) which contain both variable and fixed rate loans, but with relatively short maturities. Additionally, the Company s portfolio of investment securities, which have mainly fixed rates, decreased on average $189.8 million during 2007, thus reducing the percentage of overall fixed rate assets. Federal funds sold and resale agreements, which generally have overnight maturities, increased on average $227.8 million, allowing for greater re-pricing opportunities in a rising rate environment. Growth in average interest bearing deposits during 2007 totaled $752.9 million but was mostly comprised of certificates of deposit with fixed rates. The same factors which reduced interest rate risk in a rising rate environment also increased overall risk in a falling rate environment, leaving the Company subject to lower levels of net interest income. The overall increase in 2007 in average loans mentioned above allows for faster re-pricing downward under falling rate assumptions and, while falling rates can generally lower overall interest costs, the fact that many of the Company s core deposits are already at low rates suggests that large decreases in rates may not be realized on certain deposit products. Also, the increases in average balances of fixed rate certificates of deposit suggests that a lower rate environment will only slowly reduce interest costs on these instruments. Mitigating some of these effects of lower rates is a relatively large investment securities portfolio which re-prices slowly, coupled with a higher average balance of borrowings of federal funds purchased and repurchase agreements which re-price daily.

Through review and oversight by the ALCO, the Company attempts to engage in strategies that neutralize interest rate risk as much as possible. The Company s balance sheet remains well-diversified with moderate interest rate risk and is well-positioned for future growth. The use of derivative products is limited and the deposit base is strong and stable. The loan to deposit ratio is still at relatively low levels, which should present the Company with opportunities to fund future loan growth at reasonable costs.

Derivative Financial Instruments

The Company maintains an overall interest rate risk management strategy that permits the use of derivative instruments to modify exposure to interest rate risk. The Company s interest rate risk management strategy includes the ability to modify the re-pricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Interest rate swaps are used on a limited basis as part of this strategy. As of December 31, 2007, the Company had entered into two interest rate swaps with a notional amount of $13.4 million which are designated as fair value hedges of certain fixed rate loans. The Company also sells swap contracts to customers who wish to modify their interest rate sensitivity. The Company offsets the interest rate risk of these swaps by purchasing matching contracts with offsetting pay/receive rates from other financial institutions. Because of the matching terms of the offsetting contracts, the net effect of changes in the fair value of the paired swaps is minimal. The notional amount of these types of swaps at December 31, 2007 was $295.0 million.

The Company enters into foreign exchange derivative instruments as an accommodation to customers and offsets the related foreign exchange risk by entering into offsetting third-party forward contracts with approved reputable counterparties. In addition, the Company takes proprietary positions in such contracts based on market expectations. This trading activity is managed within a policy of specific controls and limits. Most of the foreign exchange contracts outstanding at December 31, 2007 mature within 90 days, and the longest period to maturity is 10 months.

Additionally, interest rate lock commitments issued on residential mortgage loans held for resale are considered derivative instruments. The interest rate exposure on these commitments is economically hedged primarily with forward sale contracts in the secondary market.

In all of these contracts, the Company is exposed to credit risk in the event of nonperformance by counterparties, who may be bank customers or other financial institutions. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures. Because the Company generally enters into transactions only with high quality counterparties, there have been no losses associated with counterparty nonperformance on derivative financial instruments.

The following table summarizes the notional amounts and estimated fair values of the Company s derivative instruments at December 31, 2007 and 2006. Notional amount, along with the other terms of the derivative, is used to determine the amounts to be exchanged between the counterparties. Because the notional amount does not represent amounts exchanged by the parties, it is not a measure of loss exposure related to the use of derivatives nor of exposure to liquidity risk. Positive fair values are recorded in other assets and negative fair values are recorded in other liabilities in the consolidated balance sheets.

		2007			2006	
(In thousands)	**Notional Amount**	**Positive Fair Value**	**Negative Fair Value**	Notional Amount	Positive Fair Value	Negative Fair Value
Interest rate contracts:						
Swap contracts	**$ 308,361**	**$ 4,766**	**$ (6,333)**	$ 181,464	$ 1,185	$ (2,003)
Option contracts				6,970	10	(10)
Credit risk participation agreements	**25,389**		**(174)**			
Foreign exchange contracts:						
Forward contracts	**12,212**	**105**	**(149)**	16,117	29	(20)
Option contracts	**3,120**	**9**	**(9)**	2,670	16	(16)
Mortgage loan commitments	**7,123**	**18**	**(10)**	11,529		(43)
Mortgage loan forward sale contracts	**15,017**	**25**	**(34)**	21,269	60	(14)
Total at December 31	**$ 371,222**	**$ 4,923**	**$ (6,709)**	$ 240,019	$ 1,300	$ (2,106)

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. Additional information is presented in Note 13 on Segments in the consolidated financial statements.

The Company uses a funds transfer pricing method to value funds used (e.g., loans, fixed assets, cash, etc.) and funds provided (deposits, borrowings, and equity) by the business segments and their components. This process assigns a specific value to each new source or use of funds with a maturity, based on current LIBOR interest rates, thus determining an interest spread at the time of the transaction. Non-maturity assets and liabilities are assigned to LIBOR based funding pools. This method helps to provide an accurate means of valuing fund sources and uses in a varying interest rate environment. The Company also assigns loan charge-offs and recoveries directly to each operating segment instead of allocating a portion of actual loan loss provision to the segments. The operating segments also include a number of allocations of income and expense from various support and overhead centers within the Company. Management periodically

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makes changes to the method of assigning costs and income to its business segments to better reflect operating results. If appropriate, these changes are reflected in the prior year information in the table below.

The table below is a summary of segment pre-tax income for the past three years.

				% Change	
(Dollars in thousands)	**2007**	2006	2005	**07- 06**	06- 05
Consumer	**$ 238,999**	$ 244,490	$ 193,253	**(2.2)%**	26.5%
Commercial	**140,735**	147,625	133,937	**(4.7)**	10.2
Money management	**37,144**	34,540	31,716	**7.5**	8.9
Total segments	**416,878**	426,655	358,906	**(2.3)**	18.9
Other/elimination	**(116,481)**	(102,909)	(41,312)	**NM**	NM
Income before income taxes	**$ 300,397**	$ 323,746	$ 317,594	**(7.2)%**	1.9%

Consumer

The Consumer segment includes the retail branch network, consumer finance, bankcard, student loans and discount brokerage services. Pre-tax income for 2007 was $239.0 million, a decrease of $5.5 million, or 2.2%, from 2006. This decrease was due to an increase of $19.8 million, or 6.9%, in non-interest expense, coupled with an $8.4 million increase in the provision for loan losses, mainly relating to consumer credit card and marine and recreational vehicle loan net charge-offs. The increase in non-interest expense over the previous year was mainly due to higher salaries expense, occupancy expense, corporate management fees and various assigned processing costs. In addition, net investment securities gains declined by $2.8 million due to a gain recorded in 2006 on the sale of MasterCard Inc. restricted shares. Partly offsetting these effects was an $18.1 million increase in net interest income. This growth resulted mainly from a $37.0 million increase in net allocated funding credits assigned to the Consumer segment s deposit and loan portfolios, and higher loan interest income of $38.2 million, which more than offset growth of $57.0 million in deposit interest expense. Non-interest income increased $7.5 million, or 4.1%, mainly due to higher bank card transaction fees (primarily debit card) and consumer brokerage and insurance fees, partly offset by a decline in overdraft and return item fees and lower gains on sales of student loans. Total average assets directly related to the segment rose 10.5% over 2006. During 2007, total average loans increased 9.7%, compared to a 3.5% increase in 2006. The increase in average loans during 2007 resulted mainly from growth in consumer, personal real estate and consumer credit card loans. Average deposits increased 9.8% over the prior year, mainly due to growth in short-term certificates of deposit and premium money market deposit accounts.

Pre-tax income for 2006 was $244.5 million, an increase of $51.2 million, or 26.5%, over 2005. This increase included growth of $42.9 million in net interest income, coupled with a $6.4 million increase in non-interest income. The increase in net interest income resulted mainly from an $85.2 million increase in net allocated funding credits and higher loan interest income of $43.2 million, partly offset by growth of $85.2 million in deposit interest expense. The rising interest rate environment in 2006 assigned a greater value, and thus income, to customer deposits in this segment. The increase in non-interest income resulted mainly from higher overdraft fees and bank card transaction fees, partly offset by a decline in gains on the sale of student loans. Non-interest expense increased $9.3 million, or 3.3%, over the previous year mainly due to higher salaries expense, occupancy expense, loan servicing costs, bank card processing expense, and online banking processing costs. These increases were partly offset by declines in corporate management fees and credit card fraud losses. Net loan charge-offs declined $8.4 million in the Consumer segment, mainly relating to personal and consumer credit card loans, as a result of lower bankruptcy notices received in 2006. Total average assets directly related to the segment rose 3.8% over 2005. During 2006, total average loans increased 3.5%, mainly due to growth in consumer, personal real estate and consumer credit card loans. Average deposits increased 6.4% over the prior year, mainly due to growth in long-term certificates of deposit.

Commercial

The Commercial segment provides corporate lending, leasing, international services, and corporate cash management services. Pre-tax profitability for the Commercial segment decreased $6.9 million, or 4.7%, compared to the prior year. Most of the decrease was due to a $14.2 million, or 9.8%, increase in non-interest expense and an $8.5 million increase in net loan charge-offs. Partly offsetting these increases in expense were a $10.1 million, or 4.8%, increase in net interest income and a $5.7 million increase in non-interest income. Included in net interest income was a $58.0 million increase in loan interest income, which was partly offset by higher assigned net funding costs of $43.5 million and higher deposit interest expense of $4.4 million. Non-interest income increased by 7.2% over the previous year as a result of higher commercial cash management fees, overdraft fees, bank card fees (mainly corporate card) and cash sweep commissions. The increase in non-interest expense resulted from higher salaries expense, commercial deposit account processing costs and corporate management fees, partly offset by a decline in foreclosed property expense. Net loan charge-offs were $8.2 million in 2007 compared to net recoveries of $313 thousand in 2006. The increase over 2006 was due to charge-offs related to several specific commercial borrowers. Total average assets directly related to the segment rose 14.4% over 2006. Average segment loans increased 14.1% compared to 2006 as a result of growth in business, construction real estate and business real estate loans, while average deposits increased 1.7% due to growth in interest checking deposit accounts.

In 2006, income before income taxes for the Commercial segment increased $13.7 million, or 10.2%, compared to the prior year. Most of the increase was due to an $18.1 million, or 9.3%, increase in net interest income and a $6.2 million increase in non-interest income. Included in net interest income was a $97.7 million increase in loan interest income, which was partly offset by higher assigned net funding costs of $72.8 million and higher deposit interest expense of $7.3 million. Non-interest income increased by 8.4% over the previous year mainly as a result of higher operating lease-related income and commercial debit card transaction fees. The $8.6 million, or 6.3%, increase in non-interest expense included increases in salaries expense, operating lease depreciation, foreclosed property expense, commercial deposit account processing costs, and bank card servicing expense. Net loan recoveries were $313 thousand in 2006 compared to net recoveries of $2.3 million in 2005, which also had a negative impact on the year to year comparison of the Commercial segment profitability. Total average assets directly related to the segment rose 14.7% over 2005. Average segment loans increased 14.4% compared to 2005 mainly as a result of growth in business and business real estate loans, while average deposits decreased slightly.

Money Management

The Money Management segment consists of the trust and capital markets activities. The Trust group provides trust and estate planning services, and advisory and discretionary investment management services. At December 31, 2007 the Trust group managed investments with a market value of $12.5 billion and administered an additional $10.2 billion in non-managed assets. It also provides investment management services to The Commerce Funds, a series of mutual funds with $1.5 billion in total assets at December 31, 2007. The Capital Markets Group sells primarily fixed-income securities to individuals, corporations, correspondent banks, public institutions, and municipalities, and also provides investment safekeeping and bond accounting services. Pre-tax income for the segment was $37.1 million in 2007 compared to $34.5 million in 2006, an increase of $2.6 million, or 7.5%. The increase over the prior year was mainly due to higher non-interest income. Non-interest income increased $7.4 million, or 8.7%, due to higher private client, institutional and corporate trust fees, bond trading income in the Capital Markets Group, and cash sweep commissions. Net interest income increased $546 thousand, or 5.6%, over the prior year. Growth in interest income on short-term investments was partly offset by higher net funding charges assigned to the segment s short-term investments and borrowings, in addition to an increase in interest expense on deposits and borrowings. Non-interest expense increased $5.3 million, or 8.8%, over the prior year mainly due to higher salaries expense, assigned processing costs and corporate management fees. Average assets increased $148.0 million during 2007 because of higher overnight investments of liquid funds. Average deposits increased

$14.8 million during 2007, mainly due to continuing growth in short-term certificates of deposit over $100,000.

Pre-tax income for the Money Management segment was $34.5 million in 2006 compared to $31.7 million in 2005, an increase of $2.8 million, or 8.9%. The increase over the prior year was mainly due to higher non-interest income. Non-interest income was up $2.7 million, or 3.3%, mainly in private client revenues, partly offset by lower bond trading income. Net interest income, which increased $1.6 million, or 20.3%, over the prior year, was higher primarily due to higher assigned funding credits attributed to the deposit portfolio of this segment. The $1.6 million increase in non-interest expense was due to higher salaries expense and corporate management fees. Average assets increased $216.0 million during 2006 because of higher overnight investments. Average deposits increased $37.0 million during 2006, mainly due to growth in short-term certificates of deposit over $100,000.

The Other/elimination category shown in the table above includes support and overhead operating units of the Company which contain various operating expenses such as salaries, occupancy, etc. Also included in this category is the Company s available for sale investment securities portfolio, which totaled $3.2 billion at December 31, 2007. The pre-tax profitability in the Other/elimination category decreased $13.6 million in 2007 compared to 2006, and decreased $61.6 million in 2006 compared to 2005. The decline in 2007 compared to 2006 occurred partly because of a $21.0 million litigation expense provision, previously discussed, which was not allocated to a segment. The decline in 2006 from 2005 was mainly due to LIBOR based cost of funds charges that rose faster during 2006 than the investment securities yields.

Impact of Recently Issued Accounting Standards

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . The Statement permits fair value remeasurement for certain hybrid financial instruments containing embedded derivatives, and clarifies the derivative accounting requirements for interest and principal-only strip securities and interests in securitized financial assets. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and eliminates a previous prohibition on qualifying special-purpose entities from holding certain derivative financial instruments. For calendar year companies, the Statement was effective for all financial instruments acquired or issued after January 1, 2007. The Company s holdings of instruments that are subject to the provisions of this Statement are not material, and, accordingly, its adoption of the Statement did not affect its consolidated financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 . The Statement specifies under what situations servicing assets and servicing liabilities must be recognized. It requires these assets and liabilities to be initially measured at fair value and specifies acceptable measurement methods subsequent to their recognition. Separate presentation in the financial statements and additional disclosures are also required. For calendar year companies, the Statement was effective beginning January 1, 2007. The Company s adoption of the Statement did not result in the recognition of any additional servicing assets or liabilities, or a change in its measurement methods.

In June 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), which prescribes the recognition threshold and measurement attributes necessary for recognition in the financial statements of a tax position taken, or expected to be taken, in a tax return. Under FIN 48, an income tax position will be recognized if it is more likely than not that it will be sustained upon IRS examination, based upon its technical merits. Once that status is met, the amount recorded will be the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. It also provides guidance on derecognition, classification, interest and penalties, interim period accounting, disclosure, and transition requirements. As a result of the Company s adoption of FIN 48, additional income tax benefits of $446 thousand were recognized as of January 1, 2007 as an increase to retained earnings.

The Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements , on January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that provides the highest priority to measurements using quoted prices in active markets and the lowest priority to measurements based on unobservable data. The Statement does not require any new fair value measurements. The Statement also modifies the guidance for initial recognition of fair value for certain derivative contracts held by the Company. Former accounting guidance precluded immediate recognition in earnings of an unrealized gain or loss, measured as the difference between the transaction price and fair value of these instruments at initial recognition. This guidance was nullified by the Statement. In accordance with the new recognition requirements of the Statement, the Company increased equity by $902 thousand on January 1, 2008.

The Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , at December 31, 2006. The Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Company s initial recognition at December 31, 2006 of the funded status of its defined benefit pension plan reduced its prepaid pension asset by $17.5 million, reduced deferred tax liabilities by $6.6 million, and reduced the equity component of accumulated other comprehensive income by $10.9 million. Beginning in 2008, the Statement also requires an employer to measure plan assets and obligations as of the date of its fiscal year end statement of financial position. The change in measurement date is not expected to have a material effect on the Company s consolidated financial statements.

In September 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . This EITF Issue addresses accounting for separate agreements which split life insurance policy benefits between an employer and employee. The Issue requires the employer to recognize a liability for future benefits payable to the employee based on the substantive agreement with the employee, because the postretirement benefit obligation is not effectively settled through the purchase of the insurance policy. The EITF Issue was effective January 1, 2008, and the Company s adoption on that date resulted in a reduction to equity of $716 thousand.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value, on an instrument-by-instrument basis. Once an entity has elected to record eligible items at fair value, the decision is irrevocable and the entity should report unrealized gains and losses for which the fair value option has been elected in earnings. The Statement s objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board s long-term measurement objectives for accounting for financial instruments. The Statement may be applied to financial instruments existing at the January 1, 2008 adoption date, financial instruments recognized after the adoption date, and upon certain other events. As of the adoption date and subsequent to that date, the Company has chosen not to elect the fair value option, but continues to consider future election and the effect on its consolidated financial statements.

In November 2007, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 109 (SAB 109). SAB 109 provides revised guidance on the valuation of written loan commitments accounted for at fair value through earnings. Former guidance under SAB 105 indicated that the expected net future cash flows related to the associated servicing of the loan should not be incorporated into the measurement of the fair value of a derivative loan commitment. The new guidance under SAB 109 requires these cash flows to be included in the fair value measurement, and the SAB requires this view to be applied on a prospective basis to derivative loan commitments issued or modified in the first quarter of 2008. The

Company s application of SAB 109 in 2008 did not have a material effect on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised), Business Combinations . The Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting be used for business combinations, but broadens the scope of Statement 141 and contains improvements to the application of this method. The Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies must be measured at fair value as of the acquisition date. Contingent consideration must also be measured at fair value as of the acquisition date. The Statement also changes the accounting for negative goodwill arising from a bargain purchase, requiring recognition in earnings instead of allocation to assets acquired. For business combinations achieved in stages (step acquisitions), the assets and liabilities must be recognized at the full amounts of their fair values, while under former guidance the entity was acquired in a series of purchases, with costs and fair values being identified and measured at each step. The Statement applies to business combinations occurring after January 1, 2009.

Also in December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 . The Statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Statement establishes a single method of accounting for changes in a parent s ownership interest if the parent retains its controlling interest, deeming these to be equity transactions. Such changes include the parent s purchases and sales of ownership interests in its subsidiary and the subsidiary s acquisition and issuance of its ownership interests. The Statement also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. It changes the way the consolidated income statement is presented, requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest, and requires disclosure of these amounts on the face of the consolidated statement of income. The Statement is effective on January 1, 2009. The Company does not expect adoption of the Statement to have a significant effect on its consolidated financial statements.

Effects of Inflation

The impact of inflation on financial institutions differs significantly from that exerted on industrial entities. Financial institutions are not heavily involved in large capital expenditures used in the production, acquisition or sale of products. Virtually all assets and liabilities of financial institutions are monetary in nature and represent obligations to pay or receive fixed and determinable amounts not affected by future changes in prices. Changes in interest rates have a significant effect on the earnings of financial institutions. Higher interest rates generally follow the rising demand of borrowers and the corresponding increased funding requirements of financial institutions. Although interest rates are viewed as the price of borrowing funds, the behavior of interest rates differs significantly from the behavior of the prices of goods and services. Prices of goods and services may be directly related to that of other goods and services while the price of borrowing relates more closely to the inflation rate in the prices of those goods and services. As a result, when the rate of inflation slows, interest rates tend to decline while absolute prices for goods and services remain at higher levels. Interest rates are also subject to restrictions imposed through monetary policy, usury laws and other artificial constraints.

Corporate Governance

The Company has adopted a number of corporate governance measures. These include corporate governance guidelines, a code of ethics that applies to its senior financial officers and the charters for its audit committee, its committee on compensation and human resources, and its committee on governance/directors. This information is available on the Company s web site www.commercebank.com under Investor Relations.

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Forward-Looking Statements

This report may contain forward-looking statements that are subject to risks and uncertainties and include information about possible or assumed future results of operations. Many possible events or factors could affect the future financial results and performance of the Company. This could cause results or performance to differ materially from those expressed in the forward-looking statements. Words such as expects , anticipates , believes , estimates , variatio of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed throughout this report. Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. Such possible events or factors include: changes in economic conditions in the Company s market area; changes in policies by regulatory agencies, governmental legislation and regulation; fluctuations in interest rates; changes in liquidity requirements; demand for loans in the Company s market area; changes in accounting and tax principles; estimates made on income taxes; and competition with other entities that offer financial services.

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SUMMARY OF QUARTERLY STATEMENTS OF INCOME

Year Ended December 31, 2007	For the Quarter Ended			
(In thousands, except per share data)	12/31/07	9/30/07	6/30/07	3/31/07
Interest income	$ 236,752	$ 238,274	$ 232,808	$ 228,267
Interest expense	(99,285)	(103,012)	(98,944)	(96,788)
Net interest income	137,467	135,262	133,864	131,479
Non-interest income	98,101	95,137	94,059	84,284
Investment securities gains (losses), net	3,270	1,562	(493)	3,895
Salaries and employee benefits	(78,433)	(77,312)	(76,123)	(76,900)
Other expense	(84,464)	(61,781)	(60,226)	(59,519)
Provision for loan losses	(14,062)	(11,455)	(9,054)	(8,161)
Income before income taxes	61,879	81,413	82,027	75,078
Income taxes	(18,187)	(25,515)	(26,453)	(23,582)
Net income	$ 43,692	$ 55,898	$ 55,574	$ 51,496
Net income per share basic*	$ .61	$ .78	$ .76	$ .71
Net income per share diluted*	$ .60	$ .77	$ .75	$ .70
Weighted average shares basic*	71,681	71,919	72,750	73,112
Weighted average shares diluted*	72,482	72,707	73,570	74,018

Year Ended December 31, 2006	For the Quarter Ended			
(In thousands, except per share data)	12/31/06	9/30/06	6/30/06	3/31/06
Interest income	$ 228,159	$ 216,270	$ 199,250	$ 188,627
Interest expense	(93,927)	(87,517)	(72,771)	(64,892)
Net interest income	134,232	128,753	126,479	123,735
Non-interest income	90,030	87,332	88,179	87,045
Investment securities gains, net	24	3,324	3,284	2,403
Salaries and employee benefits	(73,140)	(72,169)	(71,239)	(71,725)
Other expense	(60,470)	(60,135)	(58,311)	(58,236)
Provision for loan losses	(7,970)	(7,575)	(5,672)	(4,432)

Income before income taxes	82,706	79,530	82,720	78,790
Income taxes	(25,689)	(24,982)	(27,387)	(25,846)
Net income	$ 57,017	$ 54,548	$ 55,333	$ 52,944
Net income per share basic*	$ .77	$ .74	$ .75	$ .72
Net income per share diluted*	$ .76	$ .73	$ .74	$ .71
Weighted average shares basic*	73,976	73,538	73,372	73,856
Weighted average shares diluted*	74,940	74,509	74,375	74,889

Year Ended December 31, 2005	For the Quarter Ended			
(In thousands, except per share data)	12/31/05	9/30/05	6/30/05	3/31/05
Interest income	$ 185,343	$ 178,570	$ 172,800	$ 160,853
Interest expense	(58,337)	(52,738)	(45,413)	(39,376)
Net interest income	127,006	125,832	127,387	121,477
Non-interest income	87,544	86,606	83,608	77,079
Investment securities gains, net	1,089	289	1,372	3,612
Salaries and employee benefits	(68,730)	(66,682)	(67,585)	(70,180)
Other expense	(58,471)	(55,705)	(55,427)	(53,742)
Provision for loan losses	(11,980)	(8,934)	(5,503)	(2,368)
Income before income taxes	76,458	81,406	83,852	75,878
Income taxes	(20,216)	(18,615)	(29,484)	(26,032)
Net income	$ 56,242	$ 62,791	$ 54,368	$ 49,846
Net income per share basic*	$ .75	$ .82	$ .70	$ .64
Net income per share diluted*	$ .74	$ .81	$ .69	$ .63
Weighted average shares basic*	75,201	76,342	77,253	78,303
Weighted average shares diluted*	76,117	77,389	78,317	79,392

* *Restated for the 5% stock dividend distributed in 2007.*

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AVERAGE BALANCE SHEETS AVERAGE RATES AND YIELDS

	Years Ended December 31								
	2007			2006			2005		
in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/ Paid**	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Av R Ea I
S									
)									
(B)	**$ 3,110,386**	**$ 208,819**	**6.71%**	$ 2,688,722	$ 177,313	6.59%	$ 2,336,681	$ 125,417	
te									
tion	**671,986**	**49,436**	**7.36**	540,574	40,477	7.49	480,864	28,422	
te business	**2,204,041**	**154,819**	**7.02**	2,053,455	140,659	6.85	1,794,269	106,167	
te personal	**1,521,066**	**90,537**	**5.95**	1,415,321	79,816	5.64	1,339,900	71,222	
er	**1,558,302**	**115,184**	**7.39**	1,352,047	95,074	7.03	1,242,163	80,431	
uity	**443,748**	**33,526**	**7.56**	445,376	33,849	7.60	429,911	26,463	
D)							357,319	17,050	
er credit card	**665,964**	**84,856**	**12.74**	595,252	77,737	13.06	554,471	66,552	
fts	**13,823**			14,685			13,995		
ans	**10,189,316**	**737,177**	**7.23**	9,105,432	644,925	7.08	8,549,573	521,724	