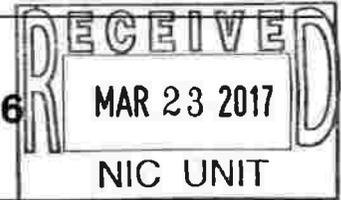


Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6



Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016

Month / Day / Year

N/A

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

I, Carolyn Baker

Name of the Holding Company Director and Official

CFO and Director

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

Commerce BancShares, Inc.

Legal Title of Holding Company

P.O. Box 2188

(Mailing Address of the Holding Company) Street / P.O. Box

Lubbock TX 79408-2188

City State Zip Code

904 Avenue O, Lubbock, TX 79401-3924

Physical Location (if different from mailing address)

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Person to whom questions about this report should be directed:

Jim A. Tidwell SVP

Name Title

806-775-8030

Area Code / Phone Number / Extension

806-291-5667

Area Code / FAX Number

jim.tidwell@bankoncb.com

E-mail Address

www.bankoncb.com

Address (URL) for the Holding Company's web page

Signature of Holding Company Director and Official

3-22-2017

Date of Signature

For holding companies not registered with the SEC—

Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
- will be sent under separate cover
- is not prepared

For Federal Reserve Bank Use Only

RSSD ID 1103391
 C.I. _____

Is confidential treatment requested for any portion of this report submission? No Yes

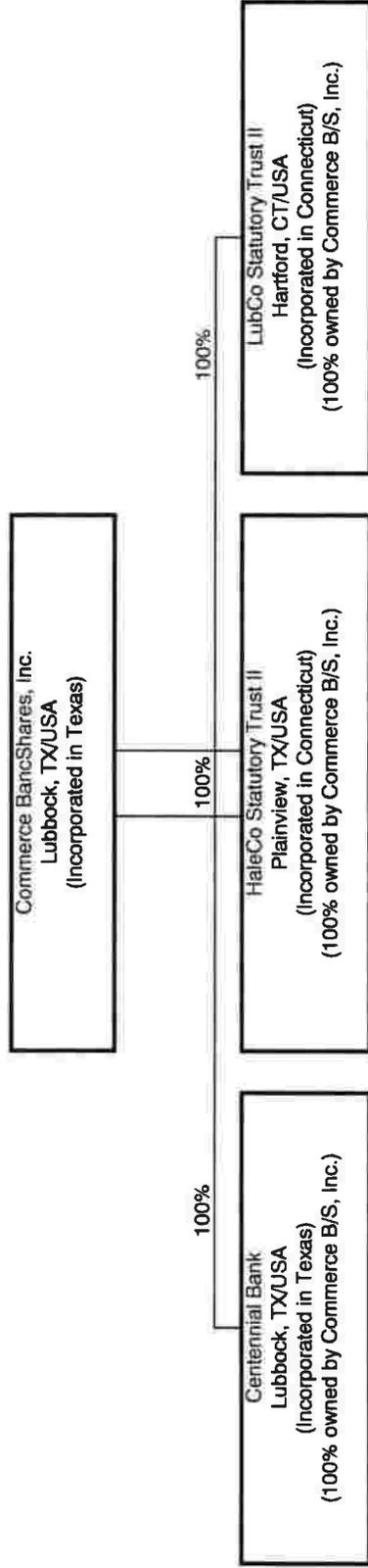
In accordance with the General Instructions for this report (check only one),

- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

**COMMERCE BANCSHARES, INC.
LUBBOCK, TEXAS**

**FORM FR Y-6 ANNUAL REPORT OF HOLDING COMPANIES
REPORT ITEM 2.A. - ORGANIZATION CHART
FISCAL YEAR ENDED DECEMBER 31, 2016**



Note: No entity in the above organization chart has a Legal Entity Identifier (LEI).

Results: A list of branches for your depository institution: CENTENNIAL BANK (ID: RSSD-973364)
 This depository institution is held by COMMERCE BANCSHARES, INC. (11033591) of LUBBOCK, TX.
 The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

Reconciliation and Verification Steps

1. In the Data Action column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the Effective Date column

Actions

OK: If the branch information is correct, enter 'OK' in the Data Action column.
 Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the Data Action column and the date when this information first became valid in the Effective Date column.
 Close: If a branch listed was sold or closed, enter 'Close' in the Data Action column and the sale or closure date in the Effective Date column.
 Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the Data Action column.
 Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the Data Action column and the opening or acquisition date in the Effective Date column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:

To satisfy the FR Y-10 reporting requirements, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a Data Action of Change, Close, Delete, or Add.
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FOC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	973364	CENTENNIAL BANK	904 AVENUE D	LUBBOCK	TX	79401	LUBBOCK	UNITED STATES	9099	0	CENTENNIAL BANK	973364	
OK		Full Service	4660433	ROPERNE BANKING CENTER	1696 RIVER ROAD	ROPERNE	TX	79006	KENDALL	UNITED STATES	Not Required	Not Required	CENTENNIAL BANK	973364	
OK		Full Service	3789854	FREDERICKSBURG BANKING CENTER	710 SOUTH ADAMS STREET	FREDERICKSBURG	TX	78624	GILLESPIE	UNITED STATES	478817	5	CENTENNIAL BANK	973364	
OK		Full Service	1429907	HART BANKING CENTER	424 BROADWAY	HART	TX	79043	GASTRO	UNITED STATES	11881	1	CENTENNIAL BANK	973364	
OK		Full Service	3183780	KERRVILLE BANKING CENTER	1145 JUNCTION HIGHWAY	KERRVILLE	TX	78028	KERR	UNITED STATES	419367	4	CENTENNIAL BANK	973364	
OK		Full Service	3730260	KERRVILLE SOUTH BANKING CENTER	207 SIDNEY BAKER STREET SOUTH, SUITE C	KERRVILLE	TX	78028	KERR	UNITED STATES	Not Required	Not Required	CENTENNIAL BANK	973364	
OK		Full Service	3792422	LUBBOCK QUAKER BANKING CENTER	6602 QUAKER AVENUE	LUBBOCK	TX	79413	LUBBOCK	UNITED STATES	443179	9	CENTENNIAL BANK	973364	
OK		Full Service	3611006	LUBBOCK UPLAND BANKING CENTER	7207 82ND STREET	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	465981	10	CENTENNIAL BANK	973364	
OK		Full Service	4549934	PLAINVIEW BANKING CENTER	201 WEST 8TH STREET	PLAINVIEW	TX	79072	HALE	UNITED STATES	Not Required	Not Required	CENTENNIAL BANK	973364	
OK		Full Service	2483876	PLAINVIEW WEST BANKING CENTER	1201 OLTON ROAD	PLAINVIEW	TX	79072	HALE	UNITED STATES	231739	3	CENTENNIAL BANK	973364	
OK		Full Service	2108525	POST BANKING CENTER	210 NORTH BROADWAY STREET	POST	TX	79356	SAARZA	UNITED STATES	234584	7	CENTENNIAL BANK	973364	
OK		Full Service	2512821	SLATON BANKING CENTER	109 TEXAS AVENUE	SLATON	TX	79364	LUBBOCK	UNITED STATES	9877	6	CENTENNIAL BANK	973364	
OK		Full Service	3947627	TULLIA BANKING CENTER	125 SOUTH AUSTIN	TULLIA	TX	79088	SWISHER	UNITED STATES	12568	2	CENTENNIAL BANK	973364	

AMENDED
JUL 05 2017

COMMERCE BANCSHARES, INC.
DECEMBER 31, 2016

Report Item 3: Shareholders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending DECEMBER 31, 2016

(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each class of Voting Securities
Brian Pohlimeier Plainview, TX, USA	USA	11,590 Common Stock	N/A	N/A	10%
All Pohlimeier Chappell Galveston, TX, USA	USA	655 Common Stock			1%
Levi Pohlimeier Lubbock, TX, USA	USA	655 Common Stock			1%
E. W. Williams, Jr. Estate J. David Williams, Executor Kerrville, TX, USA	USA	13,235 Common Stock			12%
E. W. Williams, III Dallas, TX, USA	USA	3,087 Common Stock			3%
J. David Williams Kerrville, TX, USA	USA	54,712 Common Stock			50%
Amanda Elizabeth Williams Keator Boerne, TX, USA	USA	4,346 Common Stock			4%
Rebecca Brooke Williams Whitaker Miami, FL USA	USA	1,160 Common Stock			1%

Shareholders not listed in (3)(1)(e) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending DECEMBER 31, 2016

AMENDED

A JUL 05 2017

FORM FR Y-6
COMMERCE BANCSHARES, INC.
 DECEMBER 31, 2016

Report Item 4: Insiders

11.03, 21.01(b)(1) and 41.01(b)(1)

(1) Name & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(e) Title & Position with Other Businesses (Include names of other businesses)	(4)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(5)(e) Title & Position with Other Businesses (Include names of other businesses)	(4)(e) Percentage of Voting Shares in Bank Holding Company	(4)(f) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) holding securities or if 25% or more of held (List names of companies and percentage of voting securities held)
Gregg Appel Kerrville, Texas USA	N/A	Director (Centennial Bank, Lubbock, TX)	N/A	N/A	1%	0%	N/A
Carilyn Baker, CPA Plainview, Texas USA	N/A	Director/CFO & Treasurer (Centennial Bank, Lubbock, TX)	Director & Exec VP & CFO (Centennial Bank, Lubbock, TX) Trustee (HaleCo Capital Trust II, Lubbock, TX)	N/A	3%	0%	N/A
Brian J. Fohrmeier Clayton, Texas USA	N/A	Director/President & Secretary (Centennial Bank, Lubbock, TX)	Director, Secretary & Vice Chairman (Centennial Bank, Lubbock, TX)	Shareholder and Director (Union BancShares, Inc., Clayton, NM) Director (First National Bank of New Mexico, Clayton, NM)	10%	0%	N/A
Al Fohrmeier Crespell Galveston, Texas USA	Pharmaceutical - Medical Scientific Liaison	N/A	N/A	N/A	1%	0%	N/A
Lew Fohrmeier Lubbock, Texas USA	Construction - Project Manager	N/A	N/A	N/A	1%	0%	N/A
Craig Reeves Clayton, NM USA	Banker	Director (Centennial Bank, Lubbock, TX)	Director (Centennial Bank, Lubbock, TX)	President / Director/Shareholder (Union BancShares, Inc., Clayton, NM) President & CEO / Director (First National Bank of New Mexico, Clayton, NM)	0%	0%	26.96% (Union BancShares, Inc., Clayton, NM)
E. W. Williams, Jr. Estate ** J. David Williams, Executor Kerrville, Texas USA	N/A	N/A	N/A	Partner (E. W. Williams Ranch, Post, TX)	12%	0%	Partner - 80% (E. W. Williams Ranch, Post, TX) Shareholder - 75.50% (Coyote Lake Feedyard, Mulishoa, TX)
E. W. Williams III Dallas, Texas USA	Physician	N/A	N/A	Partner (E. W. Williams Ranch, Post, TX)	3%	0%	N/A
J. David Williams Kerrville, Texas USA	N/A	Chairman & CEO and Director	Chairman & Director (Centennial Bank, Lubbock, TX) Trustee (HaleCo Capital Trust II, Lubbock, TX)	Shareholder and Director (Union BancShares, Inc., Clayton, NM) Director (First National Bank of New Mexico, Clayton, NM) Partner (E. W. Williams Ranch, Post, TX) Director/President (WMS Properties Ltd., Inc., Plainview, TX)	50%	0%	Director/President - 100% (WMS Properties Ltd., Inc., Plainview, TX)

FORM FR Y-6
COMMERCE BANCSHARES, INC.
 DECEMBER 31, 2016

Report Item 4c
 (1) (2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Other Businesses (include names of subsidiaries)	(2)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Amanda Elizabeth Williams Kuator Boerne, Texas USA	Counselor	N/A	N/A	N/A	0%	0%	N/A
Rebecca Brooke Williams Whitaker Miami, Florida USA	Teacher	N/A	N/A	N/A	1%	0%	N/A

* Note: Although E.W. Williams, Jr. Estate is not a director or officer of the holding company, information must be provided because the entity is considered a "principal securities holder" of the holding company.

COMMERCE BANCSHARES, INC. 2016 ANNUAL REPORT

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2016 FINANCIAL HIGHLIGHTS

DOLLARS IN THOUSANDS, EXCEPT PER SHARE

	2016	2015
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 8,765	\$ 10,339
PER COMMON SHARE DATA		
Net income	\$ 79.34	\$ 94.36
Cash dividends	\$ 74.70	\$ 27.88
Book value, excluding other comprehensive income	\$ 614.36	\$ 609.47
Dividend payout ratio	94.15%	29.55%
PERFORMANCE RATIOS		
Net income as a percent of average assets	1.22%	1.42%
Net income – adjusted Sub S	0.88%	1.02%
Return on average common equity, excluding other comprehensive income	13.04%	16.72%
Net interest margin	4.26%	4.22%
YEAR-END BALANCE SHEET DATA		
Loans	\$ 497,257	\$ 519,466
Securities, net of unrealized gains or losses	\$ 157,247	\$ 154,220
Earning assets (interest and dividend earning assets)	\$ 657,587	\$ 676,704
TOTAL ASSETS	\$ 727,168	\$ 737,078
Non-interest bearing demand deposits	\$ 196,292	\$ 185,111
Interest-bearing deposits	\$ 449,374	\$ 392,184
TOTAL DEPOSITS	\$ 645,666	\$ 577,295
Long-term debt and other borrowings	\$ 11,146	\$ 87,446
Shareholder's equity, excluding other comprehensive income	\$ 67,869	\$ 66,781
Other comprehensive income (loss)	\$ (1,344)	\$ 1,992
TOTAL SHAREHOLDER'S EQUITY	\$ 66,525	\$ 68,773

Certain prior year amounts have been restated to conform with the current year financial statement presentation.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
ASSETS		
Cash and due from banks	\$ 32,241	\$ 17,703
Interest-bearing deposits in other banks	547	1,484
Cash and cash equivalents	32,788	19,187
Securities available-for-sale	156,224	153,173
Securities held-to-maturity	1,023	1,047
Federal Reserve Bank stock and other investments, at cost	2,551	5,391
Loans, net	490,656	513,555
Note receivable		182
Premises and equipment, net	26,585	27,670
Accrued interest receivable	3,895	4,047
Other assets	13,446	12,826
TOTAL ASSETS	\$ 727,168	\$ 737,078
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest-bearing demand	\$ 196,292	\$ 185,111
NOW, money market and savings	290,040	276,782
Time deposits	159,334	115,402
TOTAL DEPOSITS	645,666	577,295
Federal Home Loan Bank advances		75,350
Other borrowings	423	1,373
Junior subordinated debentures	10,723	10,723
Accrued interest payable	182	101
Other liabilities	3,649	3,463
TOTAL LIABILITIES	660,643	668,305
STOCKHOLDERS' EQUITY		
Series A preferred stock		-
Series B preferred stock		-
Common stock	143	143
Paid-in capital	2,059	2,059
Retained earnings	67,131	66,618
Treasury stock, at cost	(1,464)	(2,039)
Accumulated other comprehensive income (loss)	(1,344)	1,992
TOTAL STOCKHOLDERS' EQUITY	66,525	68,773
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 727,168	\$ 737,078

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
INTEREST INCOME		
Loans, including fees	\$ 26,101	\$ 25,663
Taxable securities	1,785	1,899
Tax-exempt securities	2,173	2,149
Other	170	131
TOTAL INTEREST INCOME	30,229	29,842
INTEREST EXPENSE		
Deposits	1,579	1,258
Other borrowings	234	81
Junior subordinated debentures	311	283
TOTAL INTEREST EXPENSE	2,124	1,622
NET INTEREST INCOME	28,105	28,220
PROVISION FOR LOAN LOSSES	835	754
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,270	27,466
NON-INTEREST INCOME		
Service charges on deposit accounts	2,678	2,640
Trust fees	934	931
Net realized gain on sale of securities available-for-sale	167	8
Income from Bank-owned life insurance	337	397
Net gain on branch sale	-	2,951
Net other-than-temporary impairment gains on investments recognized in earnings	22	-
Other operating income	503	782
TOTAL NON-INTEREST INCOME	4,641	7,709
NON-INTEREST EXPENSES		
Salaries and employee benefits	12,831	13,113
Occupancy	2,216	2,266
Equipment	1,122	1,327
Data processing and service fees	1,829	2,308
Regulatory assessments and FDIC insurance	324	433
Professional fees	716	796
Marketing	852	1,208
Telecommunications	164	179
Other non-interest expenses	3,092	3,206
TOTAL NON-INTEREST EXPENSES	23,146	24,836
NET INCOME	\$ 8,765	10,339

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
NET INCOME	\$ 8,765	\$ 10,339
OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS)		
Unrealized holding gains (losses) on securities available-for-sale	(3,147)	(443)
Reclassification adjustment for gains realized in net income	(189)	(8)
Unrealized holding losses on securities available-for-sale for which an other-than-temporary impairment has been recognized	-	-
Reclassification adjustment for other-than-temporary impairment losses realized in net income (loss)	-	-
Other comprehensive income (loss)	(3,336)	(451)
COMPREHENSIVE INCOME (LOSS)	\$ 5,429	\$ 9,888

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	TOTAL
Balance at December 31, 2014	\$ -	\$ -	143	\$ 2,059	\$ 59,334	\$ (2,275)	\$ 2,443	\$ 61,704
Comprehensive income	-	-	-	-	10,339	-	(451)	9,888
Restricted stock grants issued (400 shares)	-	-	-	(236)	-	236	-	-
Stock-based compensation	-	-	-	236	-	-	-	236
Cash dividends (\$27.88 per share)	-	-	-	-	(3,055)	-	-	(3,055)
Balance at December 31, 2015	-	-	143	2,059	66,618	(2,039)	1,992	68,773
Comprehensive income	-	-	-	-	8,765	-	(3,336)	5,429
Restricted stock grants issued (900 shares)	-	-	-	(575)	-	575	-	-
Stock-based compensation	-	-	-	575	-	-	-	575
Cash dividends (\$74.70 per share)	-	-	-	-	(8,252)	-	-	(8,252)
Balance at December 31, 2016	\$ -	\$ -	143	\$ 2,059	\$ 67,131	\$ (1,464)	\$ (1,344)	\$ 66,525

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 8,765	\$ 10,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	835	754
Depreciation and amortization expense	1,520	1,816
Net amortization of premiums and discounts on securities	837	770
Net realized (gain) loss on securities	(189)	(8)
Stock based compensation grant exercised	575	236
Gain (loss) on sale of foreclosed assets	14	(48)
Gain (loss) on sale or disposition of premises and equipment	29	142
Net gain on sale of branch	-	(2,951)
Change in accrued interest receivable	152	287
Change in other assets	(1,530)	(250)
Change in accrued interest payable	81	12
Change in other liabilities	186	639
Net cash provided by operating activities	11,275	11,738
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of securities available-for-sale	23,107	34,209
Proceeds from maturities and principal repayments on securities available-for-sale	169,498	163,949
Purchases of securities available-for-sale	(199,632)	(181,678)
Proceeds from maturities and principal repayments on securities held-to-maturity	16	-
Purchases of securities held-to-maturity	-	(1,053)
Net cash from (paid for) sale of branch	-	(35,117)
Net (increase) decrease in loans receivable	22,033	(23,377)
Purchase of premises and equipment	(468)	(1,442)
Proceeds from sale of premises and equipment	4	8
Proceeds from sale of foreclosed assets	927	1,446
Federal Home Loan Bank stock subscription remitted	2,840	1,224
Net cash provided (used) by investing activities	18,325	(41,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, NOW and savings accounts	24,439	(20,768)
Net increase (decrease) in time deposits	43,932	15,382
Repayments of other borrowings	(950)	(858)
Payment of dividends	(8,252)	(3,055)
Decrease in note receivable	182	118
Increase (decrease) in FHLB overnight advances	(75,350)	40,324
Net cash provided (used) by financing activities	(15,999)	31,143
Net increase in cash and cash equivalents	13,601	1,050
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,187	18,137
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 32,788	\$ 19,187

COMMERCE BANCSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

In 2012, HaleCo Bancshares, Inc. (HaleCo) and LubCo Bancshares, Inc. (LubCo), entities under common control, effectuated a reorganization agreement and a merger agreement in which HaleCo and LubCo were merged. The shareholders of HaleCo approved an amendment to change the corporation's name to Commerce BancShares, Inc. (Commerce).

As a result of the merger, HCSB, a subsidiary of HaleCo BancShares, Inc., and Citizens Bank, a subsidiary of LubCo BancShares, Inc., became subsidiaries of Commerce. Effective January 18, 2013, HCSB, a state banking association (HCSB) and Citizens Bank (Citizens) merged to become Centennial Bank, a wholly owned subsidiary of Commerce. All shares of Citizens' stock were cancelled without consideration and the HCSB stock outstanding remained outstanding as all of the outstanding common stock of Centennial Bank. As the entities were considered entities under common control, the merger was accounted for as taking place January 1, 2013.

Commerce and Subsidiary's (the Company) revenue, operating income and assets are primarily from the banking industry. The Company provides a full range of commercial and consumer banking services to individuals and businesses in agriculture, cattle and commercial sectors in primarily West and South Central Texas.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Commerce and its wholly owned subsidiary, Centennial Bank (Centennial) as of December 31, 2016 and 2015. All significant intercompany balances and transactions have been eliminated in consolidation.

In addition, the Company wholly owns Capital Trust 2 (Trust 2) as a 100% owned, unconsolidated subsidiary.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and related provision and the fair value of financial instruments.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, the Company considers cash and cash equivalents to include cash on hand, interest-bearing deposits of other banks and amounts due from banks (including cash items in process of clearing) and federal funds sold. The Company normally considers all highly liquid investments with an initial maturity of less than ninety days to be cash equivalents. Cash flows from loans and deposits are reported net.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SECURITIES

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. The Company had no securities classified as trading at December 31, 2016 or 2015. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company follows accounting guidance related to recognition and presentation of other-than-temporary impairments (OTTI), which is primarily codified in Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 320-10. This guidance amended the recognition guidance for OTTI of debt securities and expands the financial statement disclosures for OTTI on debt and equity securities. The guidance replaced the “intent and ability” indication by specifying that (a) if a corporation does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

In accordance with OTTI guidance, the Company’s Consolidated Statement of Income reflects the full impairment (that is, the difference between the security’s amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the fair value loss is recognized in Accumulated Other Comprehensive Income (Loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the Company does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FEDERAL RESERVE BANK STOCK AND OTHER INVESTMENTS

Federal Reserve Bank (FRB) stock is carried at cost and can only be sold back to the FRB at par value. Dividends on FRB stock are included in interest income in the Consolidated Statement of Income.

LOANS

The Company grants loans to customers based on source of repayment, credit history, availability of collateral and other considerations. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses and unearned interest, as well as any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. All interest, accrued but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for real estate, agricultural and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures.

PREMISES AND EQUIPMENT

Land is carried at cost. Bank premises and improvements, furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Furniture and equipment	3-10 years

OTHER INCOME

Revenue from trust services is accrued and recognized as services are provided. Service charges and fees on customer deposits are recognized as the services are provided.

FORECLOSED ASSETS

Assets acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at date of foreclosure establishing a new cost basis. Foreclosed assets, after foreclosure, are carried at the lower of carrying amount or the property's estimated fair value minus estimated costs to sell (fair value). Impairment losses are measured as the amount by which the carrying amount of a property exceeds its fair value, and losses are charged to operations.

The valuation of foreclosed assets is subjective in nature and may be adjusted in the near term because of changes in economic conditions or by review by regulatory examiners. Foreclosed assets and other purchased real estate owned at December 31, 2016 and 2015 were approximately \$31,000 and \$1,002,000, respectively, and are included in other assets on the accompanying consolidated balance sheets.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net income and other items of comprehensive income (loss). Other items of comprehensive income (loss) include realized/unrealized gains and losses on securities available-for-sale.

MARKETING COSTS

Marketing costs are expensed as incurred. Marketing expense incurred for the years ended December 31, 2016 and 2015 was approximately \$852,000 and \$1,208,000, respectively.

CONCENTRATIONS

The Company's business operations are concentrated in the West and South Central Texas areas and primarily serve agricultural, commercial, real estate and consumer deposit and lending activities.

The ability of debtors to honor their contracts is dependent upon cash flows from business operations, including real estate, and other sources which are dependent upon general economic conditions in this area and in these industries. The Company does not have any significant concentrations of credit risk to any one customer other than the U.S. government or its agencies (including guaranties of borrower credits by these agencies).

The Company holds its primary liquid assets in the form of demand deposits in, and Federal funds sold to, other commercial banks and the FRB. Management monitors the safety and soundness of its correspondents and does not believe these institutions present a significant credit risk.

TAX STATUS

Commerce and Centennial are Subchapter S corporations for federal tax purposes. Earnings and losses are included in the personal income tax returns of the stockholders. These entities will generally not incur additional income tax obligations, and future financial statements are not expected to include a provision for federal income taxes for these entities. Because the Company's stockholders are obligated to pay federal income taxes on the earnings of the Company, the Company expects to declare cash dividends sufficient to fund stockholders' tax payments as they come due.

The Company follows the provisions of the FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. The Company has evaluated their status as a pass-through entity and believes there is sufficient positive evidence to support their position.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

TAX STATUS *(CONTINUED)*

The Company's Federal Tax Returns for 2014, 2015 and 2016 are subject to examination by the Internal Revenue Service for three years after they were filed.

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year presentation.

COMMERCE BANCSHARES, INC. AND SUBSIDIARY SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET — December 31, 2016

CONSOLIDATING STATEMENT OF INCOME — Year Ended December 31, 2016

CENTENNIAL BANK — Four-Year Comparative Balance Sheets

CENTENNIAL BANK — Four-Year Comparative Statements of Income

COMMERCE BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2016
(IN THOUSANDS)

	Commerce BancShares, Inc	Centennial BANK	Eliminating Entries	Consolidated Balance
ASSETS				
Cash and due from banks	\$ 1,257	\$ 32,241	\$ (1,257)	\$ 32,241
Interest-bearing deposits in other banks	501	46	-	547
Cash and cash equivalents	1,758	32,287	(1,257)	32,788
Investment in subsidiary	75,299	-	(75,299)	-
Securities available-for-sale	-	156,224	-	156,224
Securities held-to-maturity	-	1,023	-	1,023
Federal Reserve Bank stock and other investments, at cost	-	2,551	-	2,551
Loans, net	-	490,656	-	490,656
Note receivable	-	-	-	-
Premises and equipment, net	-	26,585	-	26,585
Accrued interest receivable	-	3,895	-	3,895
Other assets	663	12,783	-	13,446
TOTAL ASSETS	\$ 77,720	\$ 726,004	\$ (76,556)	\$ 727,168
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposits:				
Non-interest-bearing demand	\$ -	\$ 197,549	\$ (1,257)	\$ 196,292
NOW, money market and savings	-	290,040	-	290,040
Time deposits	-	159,334	-	159,334
Federal Home Loan Bank advances	-	-	-	-
Other borrowings	423	-	-	423
Junior subordinated debentures	10,723	-	-	10,723
Accrued interest payable	14	168	-	182
Other liabilities	35	3,614	-	3,649
TOTAL LIABILITIES	11,195	650,705	(1,257)	660,643
STOCKHOLDERS' EQUITY				
Series A preferred stock	-	-	-	-
Series B preferred stock	-	-	-	-
Common stock	143	1,000	(1,000)	143
Paid-in capital	2,059	30,000	(30,000)	2,059
Retained earnings	67,131	45,643	(45,643)	67,131
Treasury stock, at cost	(1,464)	-	-	(1,464)
Accumulated other comprehensive income (loss)	(1,344)	(1,344)	1,344	(1,344)
TOTAL STOCKHOLDERS' EQUITY	66,525	75,299	(75,299)	66,525
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	77,720	726,004	(76,556)	\$ 727,168

COMMERCE BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2016
(IN THOUSANDS)

	Commerce BancShares, Inc	Centennial BANK	Eliminating Entries	Consolidated Balance
INTEREST INCOME				
Loans, including fees	\$ 3	\$ 26,098	\$ -	\$ 26,101
Taxable securities	-	1,785	-	1,785
Tax-exempt securities	-	2,173	-	2,173
Other	10	160	-	170
TOTAL INTEREST INCOME	13	30,216	-	30,229
INTEREST EXPENSE				
Deposits	-	1,579	-	1,579
Other borrowings	-	234	-	234
Junior subordinated debentures	311	-	-	311
TOTAL INTEREST EXPENSE	311	1,813	-	2,124
NET INTEREST INCOME	(298)	28,403	-	28,105
PROVISION FOR LOAN LOSSES	-	835	-	835
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	(298)	27,568	-	27,270
NON-INTEREST INCOME				
Service charges on deposit accounts	-	2,678	-	2,678
Trust fees	-	934	-	934
Net realized loss on sale of securities available-for-sale	-	167	-	167
Income from Bank-owned life insurance	-	337	-	337
Net gain (loss) on branch sale	-	-	-	-
Net other-than-temporary impairment gains on investments recognized in earnings	-	22	-	22
Other operating income	-	503	-	503
Equity in earnings of subsidiary	9,943	-	(9,943)	-
TOTAL NON-INTEREST INCOME	9,943	4,641	(9,943)	4,641
NON-INTEREST EXPENSES				
Salaries and employee benefits	700	12,131	-	12,831
Occupancy	21	2,195	-	2,216
Equipment	-	1,122	-	1,122
Data processing and service fees	-	1,829	-	1,829
Regulatory assessments and FDIC insurance	-	324	-	324
Professional fees	102	614	-	716
Marketing	-	852	-	852
Telecommunications	-	164	-	164
Other non-interest expenses	57	3,035	-	3,092
TOTAL NON-INTEREST EXPENSES	880	22,266	-	23,146
NET INCOME	\$ 8,765	\$ 9,943	\$ (9,943)	\$ 8,765

CENTENNIAL BANK
BALANCE SHEETS
 FOUR-YEAR COMPARATIVE
 (IN THOUSANDS)

	2016	2015	2014	2013*
ASSETS				
Cash and cash equivalents	\$ 32,287	\$ 17,749	\$ 15,927	\$ 20,811
Securities	157,247	154,220	170,860	182,446
Federal Reserve Bank stock and other investments	2,551	5,391	6,615	4,637
Loans, net	490,656	513,555	500,273	463,230
Premises and equipment, net	26,585	27,670	28,674	28,706
Accrued interest receivable	3,895	4,047	4,481	4,252
Other assets	12,783	12,101	12,267	14,231
TOTAL ASSETS	\$ 726,004	\$ 734,733	\$ 739,097	\$ 718,313
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Deposits	\$ 646,923	\$ 578,214	\$ 629,804	\$ 633,148
Accrued interest payable	168	88	77	80
Federal Home Loan Bank advances	-	75,350	35,026	19,981
Other liabilities	3,614	3,421	2,797	2,555
TOTAL LIABILITIES	650,705	657,073	667,704	655,764
STOCKHOLDERS' EQUITY				
Common stock	1,000	1,000	1,000	1,000
Paid-in capital	30,000	30,000	30,000	30,000
Retained earnings	45,643	44,669	37,950	34,700
STOCKHOLDERS' EQUITY BEFORE UNREALIZED GAIN (LOSS) ON SECURITIES	76,643	75,669	68,950	65,700
Accumulated other comprehensive income (loss)	(1,344)	1,991	2,443	(3,151)
TOTAL STOCKHOLDERS' EQUITY	75,299	77,660	71,393	62,549
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 726,004	\$ 734,733	\$ 739,097	\$ 718,313

* HCSB, a State Banking Association and Citizens Bank merged January 18, 2013.

CENTENNIAL BANK
STATEMENTS OF INCOME
 FOUR-YEAR COMPARATIVE
 (IN THOUSANDS)

	2016	2015	2014	2013*
NET INTEREST INCOME				
Interest income	\$ 30,216	\$ 29,824	\$ 29,119	\$ 28,798
Interest expense	1,813	1,339	1,425	1,781
Net interest income	<u>28,403</u>	<u>28,485</u>	<u>27,694</u>	<u>27,017</u>
OTHER INCOME				
Service charges	2,678	2,640	2,613	2,608
Trust fees	934	931	882	756
Securities gains (losses)	167	8	(61)	25
Net gain (loss) on branch sale	-	3,050	-	-
Other income	862	1,209	1,878	610
TOTAL OTHER INCOME	<u>4,641</u>	<u>7,838</u>	<u>5,312</u>	<u>3,999</u>
OTHER EXPENSES				
Employee expense	12,131	12,770	13,100	12,118
Occupancy expense	2,195	2,245	2,210	2,083
Equipment	1,122	1,327	1,614	1,510
Data processing and service fees	1,829	2,308	3,548	3,636
Regulatory assessments and FDIC insurance	324	545	519	527
Professional fees	614	690	731	702
Marketing	852	1,208	1,434	1,354
Telecommunications	164	179	182	225
Net other-than-temporary impairment losses on investments recognized in earnings	-	-	10	328
Other operating expenses	3,035	3,228	2,065	1,778
TOTAL OTHER EXPENSES	<u>22,266</u>	<u>24,500</u>	<u>25,413</u>	<u>24,261</u>
Income before loan loss provision	10,778	11,823	7,593	6,755
PROVISION FOR LOAN LOSSES	835	754	794	515
NET INCOME	<u>\$ 9,943</u>	<u>\$ 11,069</u>	<u>\$ 6,799</u>	<u>\$ 6,240</u>

* HCSB, a State Banking Association and Citizens Bank merged January 18, 2013.

COMMERCE BANCSHARES, INC. & CENTENNIAL BANK

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Chairman &
Chief Executive Officer

Brian Pohlmeier
President & Secretary

Carolyn Baker, CPA
Chief Financial Officer

Gregg Appel
Craig Reeves

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Rebecca Whitaker
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Jay L. Kemper
Senior Vice President
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Michael Crump
Senior Vice President
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Boerne

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Senior Vice President
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Chairman

Brian Pohlmeier
Vice Chairman

Gregg Appel
President &
Chief Executive Officer

Carolyn Baker, CPA
Executive Vice President &
Chief Financial Officer

Monty Long
Executive Vice President &
Chief Investment Officer

Kevin Malone
Executive Vice President &
Chief Credit Officer

C. Brett McDowell
Executive Vice President &
Chief Lending Officer