

COMMERCE BANCSHARES INC /MO/
Form 10-Q
November 07, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2016

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

For the transition period from _____ to _____
Commission File No. 0-2989
COMMERCE BANCSHARES, INC.
(Exact name of registrant as specified
in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark 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 Exchange Act. (Check one):

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

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

Yes No

As of November 2, 2016, the registrant had outstanding 96,592,152 shares of its \$5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (Unaudited) (In thousands)	December 31, 2015
ASSETS		
Loans	\$ 13,230,241	\$ 12,436,692
Allowance for loan losses	(154,532)	(151,532)
Net loans	13,075,709	12,285,160
Loans held for sale (including \$4,447,000 of residential mortgage loans carried at fair value at September 30, 2016 and \$4,981,000 at December 31, 2015)	9,511	7,607
Investment securities:		
Available for sale (\$578,090,000 pledged at September 30, 2016 and \$568,257,000 at December 31, 2015 to secure swap and repurchase agreements)	9,438,871	9,777,004
Trading	28,586	11,890
Non-marketable	108,224	112,786
Total investment securities	9,575,681	9,901,680
Federal funds sold and short-term securities purchased under agreements to resell	13,415	14,505
Long-term securities purchased under agreements to resell	725,000	875,000
Interest earning deposits with banks	56,767	23,803
Cash and due from banks	396,938	464,411
Land, buildings and equipment, net	339,196	352,581
Goodwill	138,921	138,921
Other intangible assets, net	6,621	6,669
Other assets	396,709	534,625
Total assets	\$24,734,468	\$24,604,962
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	\$7,130,415	\$7,146,398
Savings, interest checking and money market	11,023,526	10,834,746
Time open and C.D.'s of less than \$100,000	732,575	785,191
Time open and C.D.'s of \$100,000 and over	1,279,644	1,212,518
Total deposits	20,166,160	19,978,853
Federal funds purchased and securities sold under agreements to repurchase	1,489,891	1,963,552
Other borrowings	101,415	103,818
Other liabilities	416,189	191,321
Total liabilities	22,173,655	22,237,544
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, \$1 par value		
Authorized 2,000,000 shares; issued 6,000 shares	144,784	144,784
Common stock, \$5 par value		
Authorized 120,000,000 shares;		
issued 97,972,433 shares	489,862	489,862

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Capital surplus	1,335,150	1,337,677
Retained earnings	515,081	383,313
Treasury stock of 1,212,837 shares at September 30, 2016 and 603,003 shares at December 31, 2015, at cost	(50,538) (26,116)
Accumulated other comprehensive income	121,082	32,470
Total Commerce Bancshares, Inc. stockholders' equity	2,555,421	2,361,990
Non-controlling interest	5,392	5,428
Total equity	2,560,813	2,367,418
Total liabilities and equity	\$24,734,468	\$24,604,962

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	For the Three		For the Nine	
	Months Ended		Months Ended	
	September 30		September 30	
(In thousands, except per share data)	2016	2015	2016	2015
	(Unaudited)			
INTEREST INCOME				
Interest and fees on loans	\$ 123,750	\$ 114,954	\$ 364,234	\$ 339,707
Interest and fees on loans held for sale	334	48	1,161	108
Interest on investment securities	51,661	50,716	155,250	142,416
Interest on federal funds sold and short-term securities purchased under agreements to resell	20	21	63	45
Interest on long-term securities purchased under agreements to resell	3,328	3,273	10,157	9,994
Interest on deposits with banks	268	103	689	404
Total interest income	179,361	169,115	531,554	492,674
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	3,619	3,356	10,651	9,951
Time open and C.D.'s of less than \$100,000	683	786	2,134	2,484
Time open and C.D.'s of \$100,000 and over	2,186	1,554	6,519	4,468
Interest on federal funds purchased and securities sold under agreements to repurchase	724	483	2,337	1,271
Interest on other borrowings	906	898	3,066	2,667
Total interest expense	8,118	7,077	24,707	20,841
Net interest income	171,243	162,038	506,847	471,833
Provision for loan losses	7,263	8,364	25,918	19,541
Net interest income after provision for loan losses	163,980	153,674	480,929	452,292
NON-INTEREST INCOME				
Bank card transaction fees	47,006	44,635	136,541	132,606
Trust fees	30,951	29,302	90,435	88,815
Deposit account charges and other fees	22,241	20,674	64,260	58,810
Capital market fees	2,751	2,620	7,976	8,360
Consumer brokerage services	3,375	3,687	10,375	10,530
Loan fees and sales	3,123	1,855	8,829	6,127
Other	9,872	8,515	36,497	26,849
Total non-interest income	119,319	111,288	354,913	332,097
INVESTMENT SECURITIES GAINS (LOSSES), NET	(1,965)	(378)	(3,704)	7,800
NON-INTEREST EXPENSE				
Salaries and employee benefits	107,004	100,874	318,671	298,603
Net occupancy	12,366	11,247	34,761	33,807
Equipment	4,842	4,789	14,257	14,171
Supplies and communication	5,968	5,609	18,490	16,416
Data processing and software	23,663	21,119	69,332	61,670
Marketing	4,399	4,343	12,601	12,568
Deposit insurance	3,576	2,981	9,884	9,001
Other	19,424	20,440	57,808	54,474
Total non-interest expense	181,242	171,402	535,804	500,710

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Income before income taxes	100,092	93,182	296,334	291,479
Less income taxes	30,942	27,969	91,854	88,929
Net income	69,150	65,213	204,480	202,550
Less non-controlling interest expense	605	601	668	2,530
Net income attributable to Commerce Bancshares, Inc.	68,545	64,612	203,812	200,020
Less preferred stock dividends	2,250	2,250	6,750	6,750
Net income available to common shareholders	\$66,295	\$62,362	\$197,062	\$193,270
Net income per common share — basic	\$.69	\$.63	\$2.04	\$1.93
Net income per common share — diluted	\$.68	\$.63	\$2.03	\$1.93

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
	(Unaudited)			
Net income	\$69,150	\$65,213	\$204,480	\$202,550
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	46	(327)	(352)	(306)
Net unrealized gains (losses) on other securities	(13,747)	16,891	87,887	2,754
Pension loss amortization	359	283	1,077	1,095
Other comprehensive income (loss)	(13,342)	16,847	88,612	3,543
Comprehensive income	55,808	82,060	293,092	206,093
Less non-controlling interest expense	605	601	668	2,530
Comprehensive income attributable to Commerce Bancshares, Inc.	\$55,203	\$81,459	\$292,424	\$203,563
See accompanying notes to consolidated financial statements.				

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Commerce Bancshares, Inc. Shareholders

(In thousands, except per share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Unaudited)							
Balance January 1, 2016	\$ 144,784	\$ 489,862	\$ 1,337,677	\$ 383,313	\$ (26,116)	\$ 32,470	\$ 5,428	\$ 2,367,418
Net income				203,812			668	204,480
Other comprehensive income						88,612		88,612
Distributions to non-controlling interest							(704)	(704)
Purchases of treasury stock					(38,476)			(38,476)
Issuance of stock under purchase and equity compensation plans			(14,057)		14,054			(3)
Excess tax benefit related to equity compensation plans			2,629					2,629
Stock-based compensation			8,901					8,901
Cash dividends on common stock (\$.675 per share)				(65,294)				(65,294)
Cash dividends on preferred stock (\$1.125 per depositary share)				(6,750)				(6,750)
Balance September 30, 2016	\$ 144,784	\$ 489,862	\$ 1,335,150	\$ 515,081	\$ (50,538)	\$ 121,082	\$ 5,392	\$ 2,560,813
Balance January 1, 2015	\$ 144,784	\$ 484,155	\$ 1,229,075	\$ 426,648	\$ (16,562)	\$ 62,093	\$ 4,053	\$ 2,334,246
Net income				200,020			2,530	202,550
Other comprehensive income						3,543		3,543
Distributions to non-controlling interest							(845)	(845)
Purchases of treasury stock					(9,147)			(9,147)
Accelerated share repurchase agreements			60,000		(160,000)			(100,000)
Issuance of stock under purchase and equity compensation plans			(15,302)		17,216			1,914
Excess tax benefit related to equity			1,871					1,871

compensation plans								
Stock-based compensation		7,702						7,702
Cash dividends on common stock (\$.643 per share)			(64,041)					(64,041)
Cash dividends on preferred stock (\$1.125 per depositary share)			(6,750)					(6,750)
Balance September 30, 2015	\$ 144,784	\$ 484,155	\$ 1,283,346	\$ 555,877	\$ (168,493)	\$ 65,636	\$ 5,738	\$ 2,371,043

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Nine Months Ended September 30	
	2016	2015
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	\$204,480	\$202,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	25,918	19,541
Provision for depreciation and amortization	30,997	32,100
Amortization of investment security premiums, net	23,357	23,249
Investment securities (gains) losses, net (A)	3,704	(7,800)
Net gains on sales of loans held for sale	(4,924)	(2,184)
Originations of loans held for sale	(115,768)	(75,589)
Proceeds from sales of loans held for sale	117,746	72,973
Net (increase) decrease in trading securities, excluding unsettled transactions	77,262	(5,042)
Stock-based compensation	8,901	7,702
Increase in interest receivable	(331)	(2,652)
Increase (decrease) in interest payable	269	(96)
Increase in income taxes payable	1,787	16,312
Excess tax benefit related to equity compensation plans	(2,629)	(1,871)
Other changes, net	(24,602)	(365)
Net cash provided by operating activities	346,167	278,828
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities (A)	7,946	684,893
Proceeds from maturities/pay downs of investment securities (A)	1,659,778	1,923,785
Purchases of investment securities (A)	(1,080,003)	(2,507,803)
Net increase in loans	(817,886)	(782,559)
Repayments of long-term securities purchased under agreements to resell	150,000	75,000
Purchases of land, buildings and equipment	(18,479)	(22,718)
Sales of land, buildings and equipment	5,831	4,752
Net cash used in investing activities	(92,813)	(624,650)
FINANCING ACTIVITIES:		
Net increase (decrease) in non-interest bearing, savings, interest checking and money market deposits	280,495	(319,853)
Net increase (decrease) in time open and C.D.'s	14,510	(130,591)
Net increase (decrease) in federal funds purchased and short-term securities sold under agreements to repurchase	(473,661)	330,679
Repayment of long-term borrowings	(3,872)	(227)
Additional long-term borrowings	1,469	—
Purchases of treasury stock	(38,476)	(9,147)
Accelerated share repurchase agreements	—	(100,000)
Issuance of stock under equity compensation plans	(3)	1,914
Excess tax benefit related to equity compensation plans	2,629	1,871
Cash dividends paid on common stock	(65,294)	(64,041)
Cash dividends paid on preferred stock	(6,750)	(6,750)
Net cash used in financing activities	(288,953)	(296,145)

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Decrease in cash and cash equivalents	(35,599)	(641,967)
Cash and cash equivalents at beginning of year	502,719	1,100,717
Cash and cash equivalents at September 30	\$467,120	\$458,750
(A) Available for sale and non-marketable securities		
Income tax payments, net	\$88,531	\$70,860
Interest paid on deposits and borrowings	\$24,438	\$20,937
Loans transferred to foreclosed real estate	\$1,031	\$2,459
Loans transferred from held for investment to held for sale, net	\$42,688	\$—
Settlement of accelerated stock repurchase agreement and receipt of treasury stock	\$—	\$60,000
See accompanying notes to consolidated financial statements.		

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016 (Unaudited)

1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2015 data to conform to current year presentation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management has evaluated subsequent events for potential recognition or disclosure. The results of operations for the three and nine month periods ended September 30, 2016 are not necessarily indicative of results to be attained for the full year or any other interim period.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's most recent Annual Report on Form 10-K, containing the latest audited consolidated financial statements and notes thereto.

2. Loans and Allowance for Loan Losses

Major classifications within the Company's held for investment loan portfolio at September 30, 2016 and December 31, 2015 are as follows:

(In thousands)	September 30, 2016	December 31, 2015
Commercial:		
Business	\$ 4,770,883	\$ 4,397,893
Real estate – construction and land	800,545	624,070
Real estate – business	2,520,528	2,355,544
Personal Banking:		
Real estate – personal	1,968,005	1,915,953
Consumer	1,972,969	1,924,365
Revolving home equity	417,591	432,981
Consumer credit card	760,022	779,744
Overdrafts	19,698	6,142
Total loans	\$ 13,230,241	\$ 12,436,692

At September 30, 2016, loans of \$3.6 billion were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of \$1.6 billion were pledged at the

Federal Reserve Bank as collateral for discount window borrowings.

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Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2016 and 2015, respectively, follows:

(In thousands)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$89,198	\$64,634	\$153,832	\$82,086	\$69,446	\$151,532
Provision	(1,411)	8,674	7,263	4,309	21,609	25,918
Deductions:						
Loans charged off	291	11,872	12,163	2,465	35,633	38,098
Less recoveries on loans	2,759	2,841	5,600	6,325	8,855	15,180
Net loan charge-offs (recoveries)	(2,468)	9,031	6,563	(3,860)	26,778	22,918
Balance September 30, 2016	\$90,255	\$64,277	\$154,532	\$90,255	\$64,277	\$154,532
Balance at beginning of period	\$86,329	\$65,203	\$151,532	\$89,622	\$66,910	\$156,532
Provision	(1,976)	10,340	8,364	(6,089)	25,630	19,541
Deductions:						
Loans charged off	903	11,321	12,224	3,035	34,194	37,229
Less recoveries on loans	1,167	2,693	3,860	4,119	8,569	12,688
Net loan charge-offs (recoveries)	(264)	8,628	8,364	(1,084)	25,625	24,541
Balance September 30, 2015	\$84,617	\$66,915	\$151,532	\$84,617	\$66,915	\$151,532

The following table shows the balance in the allowance for loan losses and the related loan balance at September 30, 2016 and December 31, 2015, disaggregated on the basis of impairment methodology. Impaired loans evaluated under ASC 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

(In thousands)	Impaired Loans		All Other Loans	
	Allowance	Outstanding	Allowance	Outstanding

	Loan Losses	Losses		
September 30, 2016				
Commercial	\$1,816\$ 44,526	\$88,439	\$8,047,430	
Personal Banking	1,253 20,594	63,024	5,117,691	
Total	\$3,069\$ 65,120	\$151,463	\$13,165,121	
December 31, 2015				
Commercial	\$1,927\$ 43,027	\$80,159	\$7,334,480	
Personal Banking	1,557 22,287	67,889	5,036,898	
Total	\$3,484\$ 65,314	\$148,048	\$12,371,378	

Impaired loans

The table below shows the Company's investment in impaired loans at September 30, 2016 and December 31, 2015. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section on page 14.

(In thousands)	Sept. 30, 2016	Dec. 31, 2015
Non-accrual loans	\$15,645	\$26,575
Restructured loans (accruing)	49,475	38,739
Total impaired loans	\$65,120	\$65,314

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The following table provides additional information about impaired loans held by the Company at September 30, 2016 and December 31, 2015, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2016			
With no related allowance recorded:			
Business	\$ 7,053	\$ 10,018	\$ —
Real estate – construction and land	1,228	1,594	—
	\$ 8,281	\$ 11,612	\$ —
With an allowance recorded:			
Business	\$ 28,369	\$ 30,171	\$ 1,284
Real estate – construction and land	214	219	18
Real estate – business	7,662	9,077	514
Real estate – personal	6,703	9,564	602
Consumer	5,537	5,537	66
Revolving home equity	636	646	18
Consumer credit card	7,718	7,718	567
	\$ 56,839	\$ 62,932	\$ 3,069
Total	\$ 65,120	\$ 74,544	\$ 3,069
December 31, 2015			
With no related allowance recorded:			
Business	\$ 9,330	\$ 11,777	\$ —
Real estate – construction and land	2,961	8,956	—
Real estate – business	4,793	6,264	—
Real estate – personal	373	373	—
	\$ 17,457	\$ 27,370	\$ —
With an allowance recorded:			
Business	\$ 18,227	\$ 20,031	\$ 1,119
Real estate – construction and land	1,227	2,804	63
Real estate – business	6,489	9,008	745
Real estate – personal	7,667	10,530	831
Consumer	5,599	5,599	63
Revolving home equity	704	852	67
Consumer credit card	7,944	7,944	596
	\$ 47,857	\$ 56,768	\$ 3,484
Total	\$ 65,314	\$ 84,138	\$ 3,484

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Total average impaired loans for the three and nine month periods ended September 30, 2016 and 2015, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended September 30, 2016			
Non-accrual loans	\$ 15,106	\$ 3,928	\$ 19,034
Restructured loans (accruing)	31,372	17,082	48,454
Total	\$ 46,478	\$ 21,010	\$ 67,488
For the nine months ended September 30, 2016			
Non-accrual loans	\$ 19,387	\$ 4,336	\$ 23,723
Restructured loans (accruing)	29,117	17,359	46,476
Total	\$ 48,504	\$ 21,695	\$ 70,199
For the three months ended September 30, 2015			
Non-accrual loans	\$ 21,119	\$ 5,179	\$ 26,298
Restructured loans (accruing)	13,399	18,221	31,620
Total	\$ 34,518	\$ 23,400	\$ 57,918
For the nine months ended September 30, 2015			
Non-accrual loans	\$ 25,784	\$ 5,791	\$ 31,575
Restructured loans (accruing)	16,612	18,854	35,466
Total	\$ 42,396	\$ 24,645	\$ 67,041

The table below shows interest income recognized during the three and nine month periods ended September 30, 2016 and 2015, respectively, for impaired loans held at the end of each respective period. This interest all relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section on page 14.

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Interest income recognized on impaired loans:				
Business	\$ 277	\$ 63	\$ 830	\$ 188
Real estate – construction and land	2	22	7	66
Real estate – business	42	33	126	99
Real estate – personal	39	47	118	142
Consumer	89	87	267	261
Revolving home equity	7	6	22	17
Consumer credit card	174	186	522	558
Total	\$ 630	\$ 444	\$ 1,892	\$ 1,331

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Delinquent and non-accrual loans

The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at September 30, 2016 and December 31, 2015.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
September 30, 2016					
Commercial:					
Business	\$4,758,519	\$3,100	\$ 506	\$ 8,758	\$4,770,883
Real estate – construction and land	794,731	2,357	2,147	1,310	800,545
Real estate – business	2,513,270	5,011	327	1,920	2,520,528
Personal Banking:					
Real estate – personal	1,954,889	6,901	2,581	3,634	1,968,005
Consumer	1,951,011	19,510	2,448	—	1,972,969
Revolving home equity	414,251	2,246	1,071	23	417,591
Consumer credit card	742,820	9,366	7,836	—	760,022
Overdrafts	19,254	444	—	—	19,698
Total	\$13,148,745	\$48,935	\$ 16,916	\$ 15,645	\$13,230,241
December 31, 2015					
Commercial:					
Business	\$4,384,149	\$2,306	\$ 564	\$ 10,874	\$4,397,893
Real estate – construction and land	617,838	3,142	—	3,090	624,070
Real estate – business	2,340,919	6,762	—	7,863	2,355,544
Personal Banking:					
Real estate – personal	1,901,330	7,117	3,081	4,425	1,915,953
Consumer	1,903,389	18,273	2,703	—	1,924,365
Revolving home equity	427,998	2,641	2,019	323	432,981
Consumer credit card	762,750	8,894	8,100	—	779,744
Overdrafts	5,834	308	—	—	6,142
Total	\$12,344,207	\$49,443	\$ 16,467	\$ 26,575	\$12,436,692

Credit quality

The following table provides information about the credit quality of the Commercial loan portfolio, using the Company's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the "pass" category is monitored for early identification of credit deterioration. The "special mention" rating is applied to loans where the borrower exhibits negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. It is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well-defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. Loans are placed on "non-accrual" when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment.

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Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate- Business	Total
September 30, 2016				
Pass	\$4,625,175	\$ 798,168	\$2,421,327	\$7,844,670
Special mention	76,105	860	46,281	123,246
Substandard	60,845	207	51,000	112,052
Non-accrual	8,758	1,310	1,920	11,988
Total	\$4,770,883	\$ 800,545	\$2,520,528	\$8,091,956
December 31, 2015				
Pass	\$4,278,857	\$ 618,788	\$2,281,565	\$7,179,210
Special mention	49,302	1,033	15,009	65,344
Substandard	58,860	1,159	51,107	111,126
Non-accrual	10,874	3,090	7,863	21,827
Total	\$4,397,893	\$ 624,070	\$2,355,544	\$7,377,507

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain Personal Banking loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. At September 30, 2016, these were comprised of \$251.7 million in personal real estate loans, or 4.9% of the Personal Banking portfolio, compared to \$257.8 million at December 31, 2015. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at September 30, 2016 and December 31, 2015 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer Home Equity	Revolving	Consumer Credit Card
September 30, 2016				
FICO score:				
Under 600	1.4	%4.2	% 1.2	% 4.0
600 - 659	3.0	8.5	3.8	11.9
660 - 719	10.3	21.0	13.2	31.4
720 - 779	24.8	26.5	28.1	28.4
780 and over	60.5	39.8	53.7	24.3
Total	100.0%	100.0	% 100.0	% 100.0
December 31, 2015				
FICO score:				
Under 600	1.5	%4.5	% 1.5	% 3.9
600 - 659	3.0	9.7	3.9	12.0
660 - 719	9.1	21.8	13.6	31.7
720 - 779	25.0	26.4	28.4	27.9
780 and over	61.4	37.6	52.6	24.5

Total 100.0% 100.0 % 100.0 % 100.0 %

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Troubled debt restructurings

As mentioned previously, the Company's impaired loans include loans which have been classified as troubled debt restructurings. Total restructured loans amounted to \$59.0 million at September 30, 2016. Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession.

Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected, and those non-accrual loans totaled \$9.6 million at September 30, 2016. Other performing restructured loans totaled \$49.5 million at September 30, 2016. These include certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result the loans were classified as troubled debt restructurings. These commercial loans totaled \$33.2 million at September 30, 2016. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs, which totaled \$7.7 million at September 30, 2016. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. The Company has classified additional loans as troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. At September 30, 2016, these loans totaled \$8.2 million in personal real estate, revolving home equity, and consumer loans. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments under the terms of the loan agreements.

The following table shows the outstanding balances of loans classified as troubled debt restructurings at September 30, 2016, in addition to the outstanding balances of these restructured loans which the Company considers to have been in default at any time during the past twelve months. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal.

(In thousands)	September 30, 2016	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	\$ 34,227	\$ —
Real estate - construction and land	784	676
Real estate - business	5,742	751
Personal Banking:		
Real estate - personal	4,387	358
Consumer	5,560	62
Revolving home equity	613	67
Consumer credit card	7,718	537
Total restructured loans	\$ 59,031	\$ 2,451

For those loans on non-accrual status also classified as restructured, the modification did not create any further financial effect on the Company as those loans were already recorded at net realizable value. For those performing commercial loans classified as restructured, there were no concessions involving forgiveness of principal or interest and, therefore, there was no financial impact to the Company as a result of modification to these loans. No financial

impact resulted from those performing loans where the debt was not reaffirmed in bankruptcy, as no changes to loan terms occurred in that process. The effects of modifications to consumer credit card loans were estimated to decrease interest income by approximately \$926 thousand on an annual, pre-tax basis, compared to amounts contractually owed.

The allowance for loan losses related to troubled debt restructurings on non-accrual status is determined by individual evaluation, including collateral adequacy, using the same process as loans on non-accrual status which are not classified as troubled debt restructurings. Those performing loans classified as troubled debt restructurings are accruing loans which management expects to collect under contractual terms. Performing commercial loans have had no other concessions granted other than being renewed at an interest rate judged not to be market. As such, they have similar risk characteristics as non-troubled debt commercial loans and are collectively evaluated based on internal risk rating, loan type, delinquency, historical experience and current economic factors. Performing personal banking loans classified as troubled debt restructurings resulted from the borrower not reaffirming the debt during bankruptcy and have had no other concession granted, other than the Bank's future limitations on collecting payment deficiencies or in pursuing foreclosure actions. As such, they have similar risk characteristics as non-troubled debt personal banking loans and are evaluated collectively based on loan type, delinquency, historical experience and current economic factors.

If a troubled debt restructuring defaults and is already on non-accrual status, the allowance for loan losses continues to be based on individual evaluation, using discounted expected cash flows or the fair value of collateral. If an accruing troubled debt

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restructuring defaults, the loan's risk rating is downgraded to non-accrual status and the loan's related allowance for loan losses is determined based on individual evaluation, or if necessary, the loan is charged off and collection efforts begun.

The Company had commitments of \$11.5 million at September 30, 2016 to lend additional funds to borrowers with restructured loans.

Loans held for sale

Beginning January 1, 2015, certain long-term fixed rate personal real estate loan originations have been designated as held for sale, and the Company has elected the fair value option for these loans. The election of the fair value option aligns the accounting for these loans with the related economic hedges discussed in Note 10. At September 30, 2016, the fair value of these loans was \$4.4 million, and the unpaid principal balance was \$4.3 million.

Beginning in the third quarter of 2015, the Company has designated certain student loan originations as held for sale. The borrowers are credit-worthy students who are attending colleges and universities. The loans are intended to be sold in the secondary market, and the Company maintains contracts with Sallie Mae to sell the loans at various times while the student is attending school or shortly after graduation. At September 30, 2016, the balance of these loans was \$5.1 million. These loans are carried at lower of cost or fair value.

In March 2016, the Company designated certain loans secured by automobiles as held for sale in order to rebalance the auto loan portfolio in relation to the Company's other loan categories. The loans were sold in the second and third quarters and totaled \$33.6 million, resulting in a net gain of \$56 thousand. The group of loans were representative of the overall auto loan portfolio and were sold to other financial institutions.

At September 30, 2016, none of the loans held for sale were on non-accrual status or 90 days past due and still accruing. Interest income with respect to loans held for sale is accrued based on the principal amount outstanding and the loan's contractual interest rate. Gains and losses in fair value resulting from the application of the fair value option, or lower of cost or fair value accounting, are recognized in loan fees and sales in the consolidated statements of income.

Foreclosed real estate/repossessed assets

The Company's holdings of foreclosed real estate totaled \$950 thousand and \$2.8 million at September 30, 2016 and December 31, 2015, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled \$2.5 million and \$3.3 million at September 30, 2016 and December 31, 2015, respectively. Upon acquisition, these assets are recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. They are subsequently carried at the lower of this cost basis or fair value less estimated selling costs.

3. Investment Securities

Investment securities, at fair value, consisted of the following at September 30, 2016 and December 31, 2015.

	Sept. 30, 2016	Dec. 31, 2015
(In thousands)		
Available for sale	\$9,438,871	\$9,777,004
Trading	28,586	11,890
Non-marketable	108,224	112,786
Total investment securities	\$9,575,681	\$9,901,680

Most of the Company's investment securities are classified as available for sale, and this portfolio is discussed in more detail below. The available for sale and the trading portfolios are carried at fair value. Securities which are classified as non-marketable include Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank stock held for debt and regulatory purposes, which totaled \$46.9 million at September 30, 2016 and \$46.8 million at December 31, 2015. Investment in Federal Reserve Bank stock is based on the capital structure of the investing bank, and investment in FHLB stock is tied to the level of borrowings from the FHLB. These holdings are carried at cost. Non-marketable securities also include private equity investments, which amounted to \$61.0 million at September 30, 2016 and \$65.6 million at December 31, 2015. In the absence of readily ascertainable market values, these securities are carried at estimated fair value.

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A summary of the available for sale investment securities by maturity groupings as of September 30, 2016 is shown below. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, GNMA and FDIC, in addition to non-agency mortgage-backed securities, which have no guarantee but are collateralized by residential mortgages. Also included are certain other asset-backed securities, which are primarily collateralized by credit cards, automobiles, student loans, and commercial loans. These securities differ from traditional debt securities primarily in that they may have uncertain maturity dates and are priced based on estimated prepayment rates on the underlying collateral.

(In thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	\$59,068	\$60,028
After 1 but within 5 years	500,823	514,620
After 5 but within 10 years	106,427	110,802
After 10 years	72,340	70,199
Total U.S. government and federal agency obligations	738,658	755,649
Government-sponsored enterprise obligations:		
Within 1 year	11,589	11,627
After 1 but within 5 years	419,071	424,410
After 5 but within 10 years	14,988	15,205
Total government-sponsored enterprise obligations	445,648	451,242
State and municipal obligations:		
Within 1 year	153,968	155,078
After 1 but within 5 years	626,147	641,498
After 5 but within 10 years	941,494	983,236
After 10 years	55,248	56,189
Total state and municipal obligations	1,776,857	1,836,001
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	2,590,902	2,663,677
Non-agency mortgage-backed securities	922,302	937,208
Asset-backed securities	2,403,019	2,409,324
Total mortgage and asset-backed securities	5,916,223	6,010,209
Other debt securities:		
Within 1 year	5,997	6,025
After 1 but within 5 years	97,136	98,939
After 5 but within 10 years	214,311	222,376
After 10 years	11,588	11,472
Total other debt securities	329,032	338,812
Equity securities	5,678	46,958
Total available for sale investment securities	\$9,212,096	\$9,438,871

Investments in U.S. government and federal agency obligations include U.S. Treasury inflation-protected securities, which totaled \$437.9 million, at fair value, at September 30, 2016. Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index. Included in equity securities is common and preferred stock held by the holding company, Commerce Bancshares, Inc. (the Parent), with a fair value of \$46.9 million at September 30, 2016.

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For securities classified as available for sale, the following table shows the unrealized gains and losses (pre-tax) in accumulated other comprehensive income, by security type.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
U.S. government and federal agency obligations	\$738,658	\$ 19,132	\$(2,141)	\$755,649
Government-sponsored enterprise obligations	445,648	5,637	(43)	451,242
State and municipal obligations	1,776,857	59,760	(616)	1,836,001
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,590,902	72,803	(28)	2,663,677
Non-agency mortgage-backed securities	922,302	15,145	(239)	937,208
Asset-backed securities	2,403,019	14,026	(7,721)	2,409,324
Total mortgage and asset-backed securities	5,916,223	101,974	(7,988)	6,010,209
Other debt securities	329,032	9,946	(166)	338,812
Equity securities	5,678	41,280	—	46,958
Total	\$9,212,096	\$ 237,729	\$(10,954)	\$9,438,871
December 31, 2015				
U.S. government and federal agency obligations	\$729,846	\$ 5,051	\$(7,821)	\$727,076
Government-sponsored enterprise obligations	794,912	2,657	(4,546)	793,023
State and municipal obligations	1,706,635	37,061	(1,739)	1,741,957
Mortgage and asset-backed securities:				