COMMERCE BANCSHARES INC /MO/
Form 10-Q
May 06, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

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

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

Missouri	43-0889454
(State of Incorporation)	(IRS Employer Identification No.)
1000 Walnut, Kansas City, MO	64106
(Address of principal executive offices)	(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 þ No o
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 þ No o
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 þ Accelerated filer o Non-accelerated filer o 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 o No þ

As of April 29, 2016, the registrant had outstanding 96,547,944 shares of its $5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

Form 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
	(In thousands)	
ASSETS		
Loans	$12,697,870	$12,436,692
Allowance for loan losses	(152,132)	(151,532)
Net loans	12,545,738	12,285,160
Loans held for sale (including $4,505,000 of residential mortgage loans carried at fair value at March 31, 2016 and $4,981,000 at December 31, 2015)	60,078	7,607
Investment securities:		
Available for sale ($581,035,000 pledged at March 31, 2016 and $568,257,000 at December 31, 2015 to secure swap and repurchase agreements)	9,552,179	9,777,004
Trading	23,130	11,890
Non-marketable	117,259	112,786
Total investment securities	9,692,568	9,901,680
Federal funds sold and short-term securities purchased under agreements to resell	9,075	14,505
Long-term securities purchased under agreements to resell	825,000	875,000
Interest earning deposits with banks	171,651	23,803
Cash and due from banks	375,481	464,411
Land, buildings and equipment, net	350,423	352,581
Goodwill	138,921	138,921
Other intangible assets, net	6,539	6,669
Other assets	331,478	534,625
Total assets	$24,506,952	$24,604,962
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	$7,065,066	$7,146,398
Savings, interest checking and money market	11,205,357	10,834,746
Time open and C.D.'s of less than $100,000	766,810	785,191
Time open and C.D.'s of $100,000 and over	1,649,076	1,212,518
Total deposits	20,686,309	19,978,853
Federal funds purchased and securities sold under agreements to repurchase	957,388	1,963,552
Other borrowings	103,806	103,818
Other liabilities	312,167	191,321
Total liabilities	22,059,670	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

Capital surplus	1,332,429	1,337,677
Retained earnings	424,677	383,313
Treasury stock of 1,267,747 shares at March 31, 2016		
and 603,003 shares at December 31, 2015, at cost	(52,653)	(26,116)
Accumulated other comprehensive income	102,929	32,470
Total Commerce Bancshares, Inc. stockholders' equity	2,442,028	2,361,990
Non-controlling interest	5,254	5,428
Total equity	2,447,282	2,367,418
Total liabilities and equity	$24,506,952	$24,604,962

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Three Months Ended March 31 2016	2015
	(Unaudited)	
INTEREST INCOME		
Interest and fees on loans	$119,333	$111,286
Interest and fees on loans held for sale	135	21
Interest on investment securities	48,891	38,436
Interest on federal funds sold and short-term securities purchased under agreements to resell	24	9
Interest on long-term securities purchased under agreements to resell	3,475	3,051
Interest on deposits with banks	270	179
Total interest income	172,128	152,982
INTEREST EXPENSE		
Interest on deposits:		
Savings, interest checking and money market	3,484	3,308
Time open and C.D.'s of less than $100,000	742	880
Time open and C.D.'s of $100,000 and over	1,986	1,410
Interest on federal funds purchased and securities sold under agreements to repurchase	888	367
Interest on other borrowings	1,253	879
Total interest expense	8,353	6,844
Net interest income	163,775	146,138
Provision for loan losses	9,439	4,420
Net interest income after provision for loan losses	154,336	141,718
NON-INTEREST INCOME		
Bank card transaction fees	44,470	42,299
Trust fees	30,370	29,586
Deposit account charges and other fees	20,691	18,499
Capital market fees	2,725	3,002
Consumer brokerage services	3,509	3,336
Loan fees and sales	2,510	2,089
Other	14,749	7,763
Total non-interest income	119,024	106,574
INVESTMENT SECURITIES GAINS (LOSSES), NET	(995)	6,035
NON-INTEREST EXPENSE		
Salaries and employee benefits	106,859	98,074
Net occupancy	11,303	11,561
Equipment	4,634	4,703
Supplies and communication	6,829	5,581
Data processing and software	22,899	19,506
Marketing	3,813	3,918
Deposit insurance	3,165	3,001
Other	17,971	17,501
Total non-interest expense	177,473	163,845

Income before income taxes	94,892	90,482
Less income taxes	29,370	28,468
Net income	65,522	62,014
Less non-controlling interest expense	148	959
Net income attributable to Commerce Bancshares, Inc.	65,374	61,055
Less preferred stock dividends	2,250	2,250
Net income available to common shareholders	$63,124	$58,805
Net income per common share — basic	$.65	$.58
Net income per common share — diluted	$.65	$.58

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended March 31	
(In thousands)	2016	2015
	(Unaudited)	
Net income	$65,522	$62,014
Other comprehensive income (loss):		
Net unrealized losses on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	(398)	(128)
Net unrealized gains on other securities	70,495	29,346
Pension loss amortization	362	406
Other comprehensive income	70,459	29,624
Comprehensive income	135,981	91,638
Less non-controlling interest expense	148	959
Comprehensive income attributable to Commerce Bancshares, Inc.	$135,833	$90,679

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	$2,367,418
Net income				65,374			148	65,522
Other comprehensive income						70,459		70,459
Distributions to non-controlling interest							(322)	(322)
Purchases of treasury stock					(36,432)			(36,432)
Issuance of stock under purchase and equity compensation plans			(9,895)		9,895			—
Excess tax benefit related to equity compensation plans			1,236					1,236
Stock-based compensation			3,411					3,411
Cash dividends on common stock ($.225 per share)				(21,760)				(21,760)
Cash dividends on preferred stock ($.375 per depositary share)				(2,250)				(2,250)
Balance March 31, 2016	$144,784	$489,862	$1,332,429	$424,677	$(52,653)	$ 102,929	$ 5,254	$2,447,282
Balance January 1, 2015	$144,784	$484,155	$1,229,075	$426,648	$(16,562)	$ 62,093	$ 4,053	$2,334,246
Net income				61,055			959	62,014
Other comprehensive income						29,624		29,624
Distributions to non-controlling interest							(219)	(219)
Purchases of treasury stock					(1,718)			(1,718)
Issuance of stock under purchase and equity compensation plans			(9,547)		11,412			1,865
Excess tax benefit related to equity compensation plans			857					857
Stock-based compensation			2,740					2,740

Cash dividends on common stock ($.214 per share)				(21,752)				(21,752)
Cash dividends on preferred stock ($.375 per depositary share)				(2,250)				(2,250)
Balance March 31, 2015	$144,784	$484,155	$1,223,125	$463,701	$(6,868)	$ 91,717	$ 4,793	$2,405,407

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Three Months Ended March 31 2016	2015
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	$65,522	$62,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,439	4,420
Provision for depreciation and amortization	10,146	10,694
Amortization of investment security premiums, net	11,188	15,099
Investment securities (gains) losses, net (A)	995	(6,035)
Net gains on sales of loans held for sale	(969)	(467)
Originations of loans held for sale	(24,009)	(17,806)
Proceeds from sales of loans held for sale	22,666	15,575
Net (increase) decrease in trading securities, excluding unsettled transactions	76,143	(4,361)
Stock-based compensation	3,411	2,740
Increase in interest receivable	(473)	(788)
Increase in interest payable	280	27
Increase in income taxes payable	26,133	24,904
Excess tax benefit related to equity compensation plans	(1,236)	(857)
Other changes, net	(3,352)	(9,642)
Net cash provided by operating activities	195,884	95,517
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities (A)	94	185,732
Proceeds from maturities/pay downs of investment securities (A)	542,059	609,144
Purchases of investment securities (A)	(180,774)	(1,125,969)
Net increase in loans	(320,987)	(260,799)
Repayments of long-term securities purchased under agreements to resell	50,000	—
Purchases of land, buildings and equipment	(7,389)	(8,575)
Sales of land, buildings and equipment	520	3
Net cash provided by (used in) investing activities	83,523	(600,464)
FINANCING ACTIVITIES:		
Net increase in non-interest bearing, savings, interest checking and money market deposits	421,286	218,837
Net increase in time open and C.D.'s	418,177	12,921
Net decrease in federal funds purchased and short-term securities sold under agreements to repurchase	(1,006,164)	(252,055)
Repayment of other long-term borrowings	(12)	(204)
Purchases of treasury stock	(36,432)	(1,718)
Issuance of stock under equity compensation plans	—	1,865
Excess tax benefit related to equity compensation plans	1,236	857
Cash dividends paid on common stock	(21,760)	(21,752)
Cash dividends paid on preferred stock	(2,250)	(2,250)
Net cash used in financing activities	(225,919)	(43,499)
Increase (decrease) in cash and cash equivalents	53,488	(548,446)
Cash and cash equivalents at beginning of year	502,719	1,100,717
Cash and cash equivalents at March 31	$556,207	$552,271

(A) Available for sale and non-marketable securities

Income tax payments, net	$2,658	$2,953
Interest paid on deposits and borrowings	$8,073	$6,817
Loans transferred to foreclosed real estate	$471	$482
Loans transferred from held for investment to held for sale	$50,360	$—

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 month period ended March 31, 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 March 31, 2016 and December 31, 2015 are as follows:

(In thousands)	March 31, 2016	December 31, 2015
Commercial:		
Business	$4,575,081	$4,397,893
Real estate – construction and land	745,369	624,070
Real estate – business	2,395,933	2,355,544
Personal Banking:		
Real estate – personal	1,903,969	1,915,953
Consumer	1,904,320	1,924,365
Revolving home equity	423,005	432,981
Consumer credit card	744,364	779,744
Overdrafts	5,829	6,142
Total loans	$12,697,870	$12,436,692

At March 31, 2016, loans of $3.7 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 $1.5 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 months ended March 31, 2016 and 2015, respectively, follows:

	For the Three Months Ended March 31		
(In thousands)	Commercial	Personal Banking	Total
Balance January 1	$82,086	$69,446	$151,532
Provision	4,151	5,288	9,439
Deductions:			
Loans charged off	1,513	11,777	13,290
Less recoveries on loans	1,303	3,148	4,451
Net loan charge-offs (recoveries)	210	8,629	8,839
Balance March 31, 2016	$86,027	$66,105	$152,132
Balance January 1	$89,622	$66,910	$156,532
Provision	(1,752)	6,172	4,420
Deductions:			
Loans charged off	724	11,576	12,300
Less recoveries on loans	1,760	3,120	4,880
Net loan charge-offs (recoveries)	(1,036)	8,456	7,420
Balance March 31, 2015	$88,906	$64,626	$153,532

The following table shows the balance in the allowance for loan losses and the related loan balance at March 31, 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.

	Impaired Loans		All Other Loans	
(In thousands)	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
March 31, 2016				
Commercial	$2,963	$ 58,199	$83,064	$7,658,184

Personal Banking	1,385	22,188	64,720	4,959,299
Total	$4,348	$ 80,387	$147,784	$12,617,483
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 March 31, 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 13.

(In thousands)	Mar. 31, 2016	Dec. 31, 2015
Non-accrual loans	$29,367	$26,575
Restructured loans (accruing)	51,020	38,739
Total impaired loans	$80,387	$65,314

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The following table provides additional information about impaired loans held by the Company at March 31, 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
March 31, 2016			
With no related allowance recorded:			
Business	$ 10,381	$ 12,874	$ —
Real estate – construction and land	2,335	3,307	—
Real estate – business	3,593	4,739	—
Real estate – personal	362	373	—
	$ 16,671	$ 21,293	$ —
With an allowance recorded:			
Business	$ 34,821	$ 36,845	$ 2,328
Real estate – construction and land	546	6,962	67
Real estate – business	6,523	8,773	568
Real estate – personal	7,377	10,291	656
Consumer	5,945	5,945	119
Revolving home equity	541	592	31
Consumer credit card	7,963	7,963	579
	$ 63,716	$ 77,371	$ 4,348
Total	$ 80,387	$ 98,664	$ 4,348
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

Total average impaired loans for the three month periods ended March 31, 2016 and 2015, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended March 31, 2016			

Non-accrual loans	$ 21,004	$ 4,623	$ 25,627
Restructured loans (accruing)	27,179	17,701	44,880
Total	$ 48,183	$ 22,324	$ 70,507
For the three months ended March 31, 2015			
Non-accrual loans	$ 31,281	$ 6,258	$ 37,539
Restructured loans (accruing)	22,280	19,386	41,666
Total	$ 53,561	$ 25,644	$ 79,205

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The table below shows interest income recognized during the three month periods ended March 31, 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 13.

(In thousands)	For the Three Months Ended March 31 2016	2015
Interest income recognized on impaired loans:		
Business	$274	$135
Real estate – construction and land	2	80
Real estate – business	36	15
Real estate – personal	46	53
Consumer	90	52
Revolving home equity	5	4
Consumer credit card	146	174
Total	$599	$513

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 March 31, 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
March 31, 2016					
Commercial:					
Business	$4,551,468	$6,806	$709	$ 16,098	$4,575,081
Real estate – construction and land	734,547	8,112	—	2,710	745,369
Real estate – business	2,379,738	9,961	—	6,234	2,395,933
Personal Banking:					
Real estate – personal	1,890,775	6,477	2,512	4,205	1,903,969
Consumer	1,884,817	16,726	2,777	—	1,904,320
Revolving home equity	419,114	2,147	1,624	120	423,005
Consumer credit card	728,741	7,885	7,738	—	744,364
Overdrafts	5,593	236	—	—	5,829
Total	$12,594,793	$58,350	$ 15,360	$ 29,367	$12,697,870
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.

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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.

Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate-Business	Total
March 31, 2016				
Pass	$4,435,061	$ 733,542	$2,318,735	$7,487,338
Special mention	64,964	8,026	20,180	93,170
Substandard	58,958	1,091	50,784	110,833
Non-accrual	16,098	2,710	6,234	25,042
Total	$4,575,081	$ 745,369	$2,395,933	$7,716,383
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 March 31, 2016, these were comprised of $250.2 million in personal real estate loans, or 5.0% 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 March 31, 2016 and December 31, 2015 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
March 31, 2016				
FICO score:				
Under 600	1.4 %	4.6 %	1.4 %	4.3 %
600 - 659	2.8	9.2	3.9	12.5
660 - 719	9.8	22.1	15.1	32.7
720 - 779	24.7	26.5	27.1	27.9
780 and over	61.3	37.6	52.5	22.6
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 $66.4 million at March 31, 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 $15.4 million at March 31, 2016. Other performing restructured loans totaled $51.0 million at March 31, 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 $33.9 million at March 31, 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 $8.0 million at March 31, 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 March 31, 2016, these loans totaled $8.8 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 March 31, 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)	March 31, 2016	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$ 39,577	$ —
Real estate - construction and land	2,849	81
Real estate - business	4,587	—
Personal Banking:		
Real estate - personal	4,995	370
Consumer	5,969	465
Revolving home equity	431	63
Consumer credit card	7,963	547
Total restructured loans	$ 66,371	$ 1,526

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 $927 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 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 $12.6 million at March 31, 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 March 31, 2016, the fair value of these loans was $4.5 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 March 31, 2016, the balance of these loans was $5.2 million. These loans are carried at lower of cost or fair value.

In March 2016, the Company designated certain loans secured by automobiles, totaling $50.4 million, as held for sale. The loans are being marketed to other financial institutions such as regional banks and credit unions, and the amount expected to be sold approximates nearly 5% of the total auto loan portfolio. The group of loans held for sale are representative of the overall auto loan portfolio. These loans are carried at lower of cost or fair value.

At March 31, 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 $2.0 million and $2.8 million at March 31, 2016 and December 31, 2015, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $2.6 million and $3.3 million at March 31, 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 March 31, 2016 and December 31, 2015.

(In thousands)	Mar. 31, 2016	Dec. 31, 2015
Available for sale	$9,552,179	$9,777,004
Trading	23,130	11,890
Non-marketable	117,259	112,786
Total investment securities	$9,692,568	$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 March 31, 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 $70.0 million at March 31, 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 March 31, 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	$58,866	$60,127
After 1 but within 5 years	498,613	514,076
After 5 but within 10 years	104,754	108,327
After 10 years	35,444	32,780
Total U.S. government and federal agency obligations	697,677	715,310
Government-sponsored enterprise obligations:		
Within 1 year	10,680	10,754
After 1 but within 5 years	572,163	579,157
After 5 but within 10 years	125,012	126,156
After 10 years	5,630	5,591
Total government-sponsored enterprise obligations	713,485	721,658
State and municipal obligations:		
Within 1 year	99,478	99,618
After 1 but within 5 years	680,866	698,660
After 5 but within 10 years	916,693	948,352
After 10 years	64,768	66,161
Total state and municipal obligations	1,761,805	1,812,791
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	2,538,407	2,611,384
Non-agency mortgage-backed securities	852,059	863,158
Asset-backed securities	2,445,528	2,440,055
Total mortgage and asset-backed securities	5,835,994	5,914,597
Other debt securities:		
Within 1 year	9,327	9,341
After 1 but within 5 years	94,819	95,938
After 5 but within 10 years	222,744	227,750
After 10 years	12,000	11,748
Total other debt securities	338,890	344,777
Equity securities	5,678	43,046
Total available for sale investment securities	$9,353,529	$9,552,179

Investments in U.S. government and federal agency obligations include U.S. Treasury inflation-protected securities, which totaled $397.4 million, at fair value, at March 31, 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 $43.0 million at March 31, 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
March 31, 2016				
U.S. government and federal agency obligations	$697,677	$20,297	$(2,664)	$715,310
Government-sponsored enterprise obligations	713,485	8,353	(180)	721,658
State and municipal obligations	1,761,805	52,229	(1,243)	1,812,791
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,538,407	73,025	(48)	2,611,384
Non-agency mortgage-backed securities	852,059	12,341	(1,242)	863,158
Asset-backed securities	2,445,528	7,493	(12,966)	2,440,055
Total mortgage and asset-backed securities	5,835,994	92,859	(14,256)	5,914,597
Other debt securities	338,890	6,673	(786)	344,777
Equity securities	5,678	37,368	—	43,046
Total	$9,353,529	$217,779	$(19,129)	$9,552,179
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:				
Agency mortgage-backed securities	2,579,031	47,856	(8,606)	2,618,281
Non-agency mortgage-backed securities	879,186	8,596	(7,819)	879,963
Asset-backed securities	2,660,201	1,287	(17,107)	2,644,381
Total mortgage and asset-backed securities	6,118,418	57,739	(33,532)	6,142,625
Other debt securities	335,925	377	(4,982)	331,320
Equity securities	5,678	35,325	—	41,003
Total	$9,691,414	$138,210	$(52,620)	$9,777,004

The Company’s impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis and analysis is placed on securities whose credit rating has fallen below A3 (Moody's) or A- (Standard & Poor's), whose fair values have fallen more than 20% below purchase price for an extended period of time, or have been identified based on management’s judgment. These securities are placed on a watch list, and for all such securities, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At March 31, 2016, the fair value of securities on this watch list was $85.9 million compared to $95.8 million at December 31, 2015.

As of March 31, 2016, the Company had recorded other-than-temporary impairment (OTTI) on certain non-agency mortgage-backed securities, part of the watch list mentioned above, which had an aggregate fair value of $39.9 million. The cumulative credit-related portion of the impairment on these securities, which was recorded in earnings, totaled $14.2 million. The Company does not intend to sell these securities and believes it is not likely that it will be required to sell the securities before the recovery of their amortized cost.

The credit-related portion of the loss on these securities was based on the cash flows projected to be received over the estimated life of the securities, discounted to present value, and compared to the current amortized cost bases of the securities. Significant inputs to the cash flow models used to calculate the credit losses on these securities at March 31, 2016 included the following:

Significant Inputs	Range
Prepayment CPR	0% - 25%
Projected cumulative default	17% - 53%
Credit support	0% - 25%
Loss severity	19% - 68%

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The following table presents a rollforward of the cumulative OTTI credit losses recognized in earnings on all available for sale debt securities.

	For the Three Months Ended March 31	
(In thousands)	2016	2015
Cumulative OTTI credit losses at January 1	$14,129	$13,734
Credit losses on debt securities for which impairment was previously recognized	123	17
Increase in expected cash flows that are recognized over remaining life of security	(18)	(29)
Cumulative OTTI credit losses at March 31	$14,234	$13,722

Securities with unrealized losses recorded in accumulated other comprehensive income are shown in the table below, along with the length of the impairment period.

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2016						
U.S. government and federal agency obligations	$—	$ —	$32,780	$ 2,664	$32,780	$ 2,664
Government-sponsored enterprise obligations	—	—	15,445	180	15,445	180
State and municipal obligations	31,624	512	10,997	731	42,621	1,243
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	33,723	40	2,819	8	36,542	48
Non-agency mortgage-backed securities	155,845	752	66,103	490	221,948	1,242
Asset-backed securities	1,000,464	9,430	172,710	3,536	1,173,174	12,966
Total mortgage and asset-backed securities	1,190,032	10,222	241,632	4,034	1,431,664	14,256
Other debt securities	20,356	276	13,425	510	33,781	786
Total	$1,242,012	$ 11,010	$314,279	$ 8,119	$1,556,291	$ 19,129
December 31, 2015						
U.S. government and federal agency obligations	$491,998	$ 3,098	$31,012	$ 4,723	$523,010	$ 7,821
Government-sponsored enterprise obligations	157,830	1,975	110,250	2,571	268,080	4,546
State and municipal obligations	66,998	544	31,120	1,195	98,118	1,739
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	530,035	2,989	291,902	5,617	821,937	8,606
Non-agency mortgage-backed securities	653,603	7,059	54,536	760	708,139	7,819
Asset-backed securities	2,207,922	12,492	223,311	4,615	2,431,233	17,107
Total mortgage and asset-backed securities	3,391,560	22,540	569,749	10,992	3,961,309	33,532
Other debt securities	244,452	3,687	25,218	1,295	269,670	4,982
Total	$4,352,838	$ 31,844	$767,349	$ 20,776	$5,120,187	$ 52,620

The total available for sale portfolio consisted of approximately 2,000 individual securities at March 31, 2016. The portfolio included 228 securities, having an aggregate fair value of $1.6 billion, that were in an unrealized loss position at March 31, 2016, compared to 466 securities, with a fair value of $5.1 billion, at December 31, 2015. The total amount of unrealized losses on these securities decreased $33.5 million to $19.1 million at March 31, 2016, largely due to a lower rate environment. At March 31, 2016, the fair value of securities in an unrealized loss position for 12 months or longer totaled $314.3 million, or 3.3% of the total portfolio value.

The Company’s holdings of state and municipal obligations included gross unrealized losses of $1.2 million at March 31, 2016. Of these losses, $1.1 million related to auction rate securities and $171 thousand related to other state and municipal obligations. This portfolio, exclusive of auction rate securities, totaled $1.8 billion at fair value, or 18.8% of total available for sale securities. The average credit quality of the portfolio, excluding auction rate securities, is Aa2 as rated by Moody’s. The portfolio is diversified in order to reduce risk, and the Company has processes and procedures in place to monitor its holdings, identify signs of financial distress and, if necessary, exit its positions in a timely manner.

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The following table presents proceeds from sales of securities and the components of investment securities gains and losses which have been recognized in earnings.

	For the Three Months Ended March 31	
(In thousands)	2016	2015
Proceeds from sales of available for sale securities	$—	$185,053
Proceeds from sales of non-marketable securities	94	679
Total proceeds	$94	$185,732
Available for sale:		
Gains realized on sales	$—	$2,526
Other-than-temporary impairment recognized on debt securities	(123)	(17)
Non-marketable:		
Gains realized on sales	42	226
Fair value adjustments, net	(914)	3,300
Investment securities gains (losses), net	$(995)	$6,035

At March 31, 2016, securities totaling $3.9 billion in fair value were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowings at the Federal Reserve Bank and FHLB. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated $581.0 million, while the remaining securities were pledged under agreements pursuant to which the secured parties may not sell or re-pledge the collateral. Except for obligations of various government-sponsored enterprises such as FNMA, FHLB and FHLMC, no investment in a single issuer exceeded 10% of stockholders' equity.

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4. Goodwill and Other Intangible Assets

The following table presents information about the Company's intangible assets which have estimable useful lives.

	March 31, 2016				December 31, 2015			
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$31,270	$ (26,574)	$ —	$ 4,696	$31,270	$ (26,239)	$ —	$ 5,031
Mortgage servicing rights	4,904	(3,031)	(30)	1,843	4,638	(2,971)	(29)	1,638
Total	$36,174	$ (29,605)	$ (30)	$ 6,539	$35,908	$ (29,210)	$ (29)	$ 6,669

Aggregate amortization expense on intangible assets was $395 thousand and $473 thousand for the three month periods ended March 31, 2016 and 2015, respectively. The following table shows the estimated annual amortization expense for the next five fiscal years. This expense is based on existing asset balances and the interest rate environment as of March 31, 2016. The Company’s actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2016	$1,457
2017	1,105
2018	846
2019	700
2020	572

Changes in the carrying amount of goodwill and net other intangible assets for the three month period ended March 31, 2016 is as follows:

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2016	$138,921	$ 5,031	$ 1,638
Originations	—	—	266
Amortization	—	(335)	(60)
Impairment	—	—	(1)
Balance March 31, 2016	$138,921	$ 4,696	$ 1,843

Goodwill allocated to the Company’s operating segments at March 31, 2016 and December 31, 2015 is shown below.

(In thousands)	
Consumer segment	$70,721
Commercial segment	67,454
Wealth segment	746
Total goodwill	$138,921

5. Guarantees

The Company, as a provider of financial services, routinely issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Company generally to guarantee the payment or performance obligation of a customer to a third party. While these represent a potential outlay by the Company, a significant amount of the commitments may expire without being drawn upon. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. The letters of credit are subject to the same credit policies, underwriting standards and approval process as loans made by the Company. Most of the standby letters of credit are secured, and in the event of nonperformance by customers, the Company has rights to the underlying collateral, which could include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

Upon issuance of standby letters of credit, the Company recognizes a liability for the fair value of the obligation undertaken, which is estimated to be equivalent to the amount of fees received from the customer over the life of the agreement. At March 31, 2016, that net liability was $2.7 million, which will be accreted into income over the remaining life of the respective commitments. The contractual amount of these letters of credit, which represents the maximum potential future payments guaranteed by the Company, was $346.6 million at March 31, 2016.

The Company periodically enters into risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral and at March 31, 2016, believes sufficient collateral is available to cover potential swap losses. The RPAs are carried at fair value throughout their term with all changes in fair value, including those due to a change in the third party's creditworthiness, recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 3 to 11 years. At March 31, 2016, the fair value of the Company's guarantee liabilities for RPAs was $267 thousand, and the notional amount of the underlying swaps was $58.6 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated but is dependent upon the fair value of the interest rate swaps at the time of default.

6. Pension

The amount of net pension cost is shown in the table below:

	For the Three Months Ended March 31	
(In thousands)	2016	2015
Service cost - benefits earned during the period	$133	$126
Interest cost on projected benefit obligation	967	1,216
Expected return on plan assets	(1,437)	(1,523)
Amortization of prior service cost	(68)	—
Amortization of unrecognized net loss	651	655
Net periodic pension cost	$246	$474

Substantially all benefits accrued under the Company's defined benefit pension plan were frozen effective January 1, 2005, and the remaining benefits were frozen effective January 1, 2011. During the first three months of 2016, the Company made no funding contributions to its defined benefit pension plan and made minimal funding contributions to a supplemental executive retirement plan (the CERP), which carries no segregated assets. The Company has no plans to make any further contributions, other than those related to the CERP, during the remainder of 2016.

Effective January 1, 2016, the Company changed the method used to estimate the interest cost component of net periodic pension cost for its defined benefit pension plan. Prior to the change, the interest cost component was estimated by utilizing a single weighted average discount rate derived from the yield curve used to measure the projected benefit obligation. Under the new method, the interest cost component is estimated by applying the specific annual spot rates along the yield curve used in the determination of the projected benefit obligation to the relevant projected cash flows. This change provides a more precise measurement of the interest cost by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. The Company accounted for this change prospectively as a change in accounting estimate. The change resulted in a decrease of approximately $900 thousand in the interest cost component of the estimated annual net periodic pension cost for 2016.

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7. Common and Preferred Stock *

Presented below is a summary of the components used to calculate basic and diluted income per share. The Company applies the two-class method of computing income per share, as nonvested share-based awards that contain nonforfeitable rights to dividends are considered securities which participate in undistributed earnings with common stock. The two-class method requires the calculation of separate income per share amounts for the nonvested share-based awards and for common stock. Income per share attributable to common stock is shown in the table below. Nonvested share-based awards are further discussed in Note 12.

	For the Three Months Ended March 31	
(In thousands, except per share data)	2016	2015
Basic income per common share:		
Net income attributable to Commerce Bancshares, Inc.	$65,374	$61,055
Less preferred stock dividends	2,250	2,250
Net income available to common shareholders	63,124	58,805
Less income allocated to nonvested restricted stock	894	796
Net income allocated to common stock	$62,230	$58,009
Weighted average common shares outstanding	95,566	100,053
Basic income per common share	$.65	$.58
Diluted income per common share:		
Net income available to common shareholders	$63,124	$58,805
Less income allocated to nonvested restricted stock	893	794
Net income allocated to common stock	$62,231	$58,011
Weighted average common shares outstanding	95,566	100,053
Net effect of the assumed exercise of stock-based awards - based on the treasury stock method using the average market price for the respective periods	216	314
Weighted average diluted common shares outstanding	95,782	100,367
Diluted income per common share	$.65	$.58

Unexercised stock options and stock appreciation rights of 468 thousand and 322 thousand were excluded in the computation of diluted income per common share for the three month periods ended March 31, 2016 and 2015, respectively, because their inclusion would have been anti-dilutive.

The Company also has 6,000,000 depositary shares outstanding, representing 6,000 shares of 6.00% Series B Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share, having an aggregate liquidation preference of $150.0 million (“Series B Preferred Stock”). Each depositary share has a liquidation preference of $25.00 per share. Dividends on the Series B Preferred Stock, if declared, accrue and are payable quarterly, in arrears, at a rate of 6.00%. The Series B Preferred Stock qualifies as Tier 1 capital for the purposes of the regulatory capital calculations. In the event that the Company does not declare and pay dividends on the Series B Preferred Stock for the most recent dividend period, the ability of the Company to declare or pay dividends on, purchase, redeem or otherwise acquire shares of its common stock or any securities of the Company that rank junior to the Series B Preferred Stock is subject to certain restrictions under the terms of the Series B Preferred Stock.

* All prior year share and per share amounts in this note have been restated for the 5% common stock dividend distributed in December 2015.

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8. Accumulated Other Comprehensive Income

The table below shows the activity and accumulated balances for components of other comprehensive income. The largest component is the unrealized holding gains and losses on available for sale securities. Unrealized gains and losses on debt securities for which an other-than-temporary impairment (OTTI) has been recorded in current earnings are shown separately below. The other component is the amortization from other comprehensive income of losses associated with pension benefits, which occurs as the losses are included in current net periodic pension cost.

(In thousands)	Unrealized Gains (Losses) on Securities (1) OTTI	Other	Pension Loss (2)	Total Accumulated Other Comprehensive Income
Balance January 1, 2016	$3,316	$49,750	$(20,596)	$ 32,470
Other comprehensive income (loss) before reclassifications	(765)	113,702	—	112,937
Amounts reclassified from accumulated other comprehensive income	123	—	583	706
Current period other comprehensive income (loss), before tax	(642)	113,702	583	113,643
Income tax (expense) benefit	244	(43,207)	(221)	(43,184)
Current period other comprehensive income (loss), net of tax	(398)	70,495	362	70,459
Balance March 31, 2016	$2,918	$120,245	$(20,234)	$ 102,929
Balance January 1, 2015	$3,791	$81,310	$(23,008)	$ 62,093
Other comprehensive income (loss) before reclassifications	(223)	49,859	—	49,636
Amounts reclassified from accumulated other comprehensive income	17	(2,526)	655	(1,854)
Current period other comprehensive income (loss), before tax	(206)	47,333	655	47,782
Income tax (expense) benefit	78	(17,987)	(249)	(18,158)
Current period other comprehensive income (loss), net of tax	(128)	29,346	406	29,624
Balance March 31, 2015	$3,663	$110,656	$(22,602)	$ 91,717

(1) The pre-tax amounts reclassified from accumulated other comprehensive income are included in "investment securities gains (losses), net" in the consolidated statements of income.
(2) The pre-tax amounts reclassified from accumulated other comprehensive income are included in the computation of net periodic pension cost as "amortization of prior service cost" and "amortization of unrecognized net loss" (see Note 6), for inclusion in the consolidated statements of income.

9. Segments

The Company segregates financial information for use in assessing its performance and allocating resources among three operating segments: Consumer, Commercial and Wealth. The Consumer segment includes the consumer portion of the retail branch network (loans, deposits, and other personal banking services), indirect and other consumer financing, and consumer debit and credit bank cards. The Commercial segment provides corporate lending (including the Small Business Banking product line within the branch network), leasing, international services, and business, government deposit, and related commercial cash management services, as well as merchant and commercial bank card products. The Commercial segment includes the Capital Markets Group, which sells fixed income securities and provides investment safekeeping and bond accounting services. The Wealth segment provides traditional trust and estate tax planning, advisory and discretionary investment management, and brokerage services, and includes the Private Banking product portfolio.

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The following table presents selected financial information by segment and reconciliations of combined segment totals to consolidated totals. There were no material intersegment revenues among the three segments. Management periodically makes changes to methods of assigning costs and income to its business segments to better reflect operating results. If appropriate, these change are reflected in prior year information presented below.

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/Elimination	Consolidated Totals
Three Months Ended March 31, 2016						
Net interest income	$ 66,570	$ 75,911	$ 10,875	$ 153,356	$ 10,419	$ 163,775
Provision for loan losses	(8,725)	19	(106)	(8,812)	(627)	(9,439)
Non-interest income	29,896	51,119	34,402	115,417	3,607	119,024
Investment securities losses, net	—	—	—	—	(995)	(995)
Non-interest expense	(68,976)	(69,757)	(28,540)	(167,273)	(10,200)	(177,473)
Income before income taxes	$ 18,765	$ 57,292	$ 16,631	$ 92,688	$ 2,204	$ 94,892
Three Months Ended March 31, 2015						
Net interest income	$ 65,664	$ 71,111	$ 10,742	$ 147,517	$ (1,379)	$ 146,138
Provision for loan losses	(8,323)	877	7	(7,439)	3,019	(4,420)
Non-interest income	26,612	47,581	33,659	107,852	(1,278)	106,574
Investment securities gains, net	—	—	—	—	6,035	6,035
Non-interest expense	(66,692)	(64,770)	(27,270)	(158,732)	(5,113)	(163,845)
Income before income taxes	$ 17,261	$ 54,799	$ 17,138	$ 89,198	$ 1,284	$ 90,482

The information presented above was derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting procedures and methods, which have been developed to reflect the underlying economics of the businesses. The methodologies are applied in connection with funds transfer pricing and assignment of overhead costs among segments. Funds transfer pricing was used in the determination of net interest income by assigning a standard cost (credit) for funds used (provided) by assets and liabilities based on their maturity, prepayment and/or repricing characteristics.

The segment activity, as shown above, includes both direct and allocated items. Amounts in the “Other/Elimination” column include activity not related to the segments, such as that relating to administrative functions, the investment securities portfolio, and the effect of certain expense allocations to the segments. The provision for loan losses in this category contains the difference between net loan charge-offs assigned directly to the segments and the recorded provision for loan loss expense. Included in this category’s net interest income are earnings of the investment portfolio, which are not allocated to a segment.

The performance measurement of the operating segments is based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The information is also not necessarily indicative of the segments' financial condition and results of operations if they were independent entities.

10. Derivative Instruments

The notional amounts of the Company’s derivative instruments are shown in the table below. These contractual amounts, along with other terms of the derivative, are used to determine amounts to be exchanged between counterparties and are not a measure of loss exposure. The Company’s derivative instruments are accounted for as free-standing derivatives, and changes in their fair value are recorded in current earnings.

(In thousands)	March 31, 2016	December 31, 2015
Interest rate swaps	$1,162,638	$ 1,020,310
Interest rate caps	64,543	66,118
Credit risk participation agreements	64,085	62,456
Foreign exchange contracts	5,278	15,535
Mortgage loan commitments	20,160	8,605
Mortgage loan forward sale contracts	1,643	642
Forward TBA contracts	22,000	11,000
Total notional amount	$1,340,347	$ 1,184,666

The largest group of notional amounts relate to interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. These swaps are offset by matching contracts purchased by the Company from other financial dealer institutions. Contracts with dealers that require central clearing are novated to a clearing agency who becomes the Company's counterparty. Because of the matching terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings.

Many of the Company’s interest rate swap contracts with large financial institutions contain contingent features relating to debt ratings or capitalization levels. Under these provisions, if the Company’s debt rating falls below investment grade or if the Company ceases to be “well-capitalized” under risk-based capital guidelines, certain counterparties can require immediate and ongoing collateralization on interest rate swaps in net liability positions or instant settlement of the contracts. The Company maintains debt ratings and capital well above these minimum requirements.

The banking customer counterparties are engaged in a variety of businesses, including real estate and building materials, manufacturing, education, communications, retail product distribution, and retirement communities. At March 31, 2016, the largest potential loss exposures were in the groups related to retirement communities, real estate, and distribution. If the counterparties in these groups failed to perform, and if the underlying collateral proved to be of no value, the Company estimates that it would incur losses of $2.9 million (retirement communities), $12.7 million (real estate), and $3.2 million (distribution) at March 31, 2016.

The Company also contracts with other financial institutions, as a guarantor or beneficiary, to share credit risk associated with certain interest rate swaps through risk participation agreements. The Company’s risks and responsibilities as guarantor are further discussed in Note 5 on Guarantees. In addition, the Company enters into foreign exchange contracts, which are mainly comprised of contracts to purchase or deliver foreign currencies for customers at specific future dates.

In 2015, the Company initiated a program of secondary market sales of residential mortgage loans and has designated certain newly-originated residential mortgage loans as held for sale. Derivative instruments arising from this activity include mortgage loan commitments and forward loan sale commitments. Changes in the fair values of the loan commitments and funded loans prior to sale that are due to changes in interest rates are economically hedged with forward contracts to sell residential mortgage-backed securities in the to-be-announced (TBA) market. These forward TBA contracts are also considered to be derivatives and are settled in cash at the security settlement date.

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The fair values of the Company's derivative instruments, whose notional amounts are listed above, are shown in the table below. Derivative instruments with a positive fair value (asset derivatives) are reported in other assets in the consolidated balance sheets, while derivative instruments with a negative fair value (liability derivatives) are reported in other liabilities in the consolidated balance sheets. Information about the valuation methods used to determine fair value is provided in Note 13 on Fair Value Measurements.

	Asset Derivatives		Liability Derivatives	
	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015
(In thousands)	Fair Value		Fair Value	
Derivative instruments:				
Interest rate swaps	$26,743	$11,993	$(26,700)	$(11,993)
Interest rate caps	44	73	(44)	(73)
Credit risk participation agreements	1	1	(266)	(195)
Foreign exchange contracts	8	437	(50)	(430)
Mortgage loan commitments	771	263	—	—
Mortgage loan forward sale contracts	1	—	(2)	—
Forward TBA contracts	—	4	(133)	(38)
Total	$27,568	$12,771	$(27,195)	$(12,729)

The effects of derivative instruments on the consolidated statements of income are shown in the table below.

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives For the Three Months Ended March 31	
(In thousands)		2016	2015
Derivative instruments:			
Interest rate swaps	Other non-interest income	$2,226	$1,183
Credit risk participation agreements	Other non-interest income	(35)	(27)
Foreign exchange contracts	Other non-interest income	(49)	(439)
Mortgage loan commitments	Loan fees and sales	508	408
Mortgage loan forward sale contracts	Loan fees and sales	(1)	(3)
Forward TBA contracts	Loan fees and sales	(329)	(5)
Total		$2,320	$1,117

The following table shows the extent to which assets and liabilities relating to derivative instruments have been offset in the consolidated balance sheets. It also provides information about these instruments which are subject to an enforceable master netting arrangement, irrespective of whether they are offset, and the extent to which the instruments could potentially be offset. Also shown is collateral received or pledged in the form of other financial instruments, which is generally cash or marketable securities. The collateral amounts in this table are limited to the outstanding balances of the related asset or liability (after netting is applied); thus amounts of excess collateral are not shown. Most of the derivatives in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

The Company is party to master netting arrangements with most of its swap derivative counterparties; however, the Company does not offset derivative assets and liabilities under these arrangements on its consolidated balance sheet. Collateral, usually in the form of marketable securities, is exchanged between the Company and dealer bank counterparties and is generally subject to thresholds and transfer minimums. By contract, it may be sold or re-pledged by the secured party until recalled at a subsequent valuation date by the pledging party. For those swap transactions requiring central clearing, the Company posts cash and securities to its clearing agency. At March 31, 2016, the Company had a net liability position with dealer bank and clearing agency counterparties totaling $26.7 million, and had posted securities with a fair value of $5.1 million and cash totaling $26.6 million. Collateral positions are valued daily, and adjustments to amounts received and pledged by the Company are made as appropriate to maintain proper collateralization for these transactions. Swap derivative transactions with customers are generally secured by rights to non-financial collateral, such as real and personal property, which is not shown in the table below.

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(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments Available for Offset	Collateral Received/Pledged	Net Amount
March 31, 2016						
Assets:						
Derivatives subject to master netting agreements	$ 26,788	$ —	$ 26,788	$ (44)	$ —	$ 26,744
Derivatives not subject to master netting agreements	780	—	780			
Total derivatives	27,568	—	27,568			
Liabilities:						
Derivatives subject to master netting agreements	$ 27,143	$ —	$ 27,143	$ (44)	$ (25,633)	$ 1,466
Derivatives not subject to master netting agreements	52	—	52			
Total derivatives	27,195	—	27,195			
December 31, 2015						
Assets:						
Derivatives subject to master netting agreements	$ 12,071	$ —	$ 12,071	$ (94)	$ —	$ 11,977
Derivatives not subject to master netting agreements	700	—	700			
Total derivatives	12,771	—	12,771			
Liabilities:						
Derivatives subject to master netting agreements	$ 12,299	$ —	$ 12,299	$ (94)	$ (10,927)	$ 1,278
Derivatives not subject to master netting agreements	430	—	430			
Total derivatives	12,729	—	12,729			

11. Resale and Repurchase Agreements

The following table shows the extent to which assets and liabilities relating to securities purchased under agreements to resell (resale agreements) and securities sold under agreements to repurchase (repurchase agreements) have been offset in the consolidated balance sheets, in addition to the extent to which they could potentially be offset. Also shown is collateral received or pledged, which consists of marketable securities. The collateral amounts in the table are limited to the outstanding balances of the related asset or liability (after netting is applied); thus amounts of excess collateral are not shown. The agreements in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

Resale and repurchase agreements are agreements to purchase/sell securities subject to an obligation to resell/repurchase the same or similar securities. They are accounted for as collateralized financing transactions, not as sales and purchases of the securities portfolio. The securities collateral accepted or pledged in resale and repurchase agreements with other financial institutions also may be sold or re-pledged by the secured party, but is usually delivered to and held by third party trustees. The Company generally retains custody of securities pledged for repurchase agreements with customers.

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The Company is party to several agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resale agreements with the same financial institution counterparty. These repurchase and resale agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the consolidated balance sheets, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled $550.0 million at both March 31, 2016 and December 31, 2015. At March 31, 2016, the Company had posted collateral of $576.0 million in marketable securities, consisting mainly of agency mortgage-backed bonds and treasuries, and had accepted $570.3 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds.

				Gross Amounts Not Offset in the Balance Sheet		
(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Financial Instruments Available for Offset	Securities Collateral Received/Pledged	Net Amount
March 31, 2016						
Total resale agreements, subject to master netting arrangements	$ 1,375,000	$ (550,000)	$ 825,000	$ —	$ (825,000)	$ —
Total repurchase agreements, subject to master netting arrangements	1,503,503	(550,000)	953,503	—	(953,503)	—
December 31, 2015						
Total resale agreements, subject to master netting arrangements	$ 1,425,000	$ (550,000)	$ 875,000	$ —	$ (875,000)	$ —
Total repurchase agreements, subject to master netting arrangements	1,956,582	(550,000)	1,406,582	—	(1,406,582)	—

The table below shows the remaining contractual maturities of repurchase agreements outstanding at March 31, 2016 and December 31, 2015, in addition to the various types of marketable securities that have been pledged as collateral for these borrowings.

	Remaining Contractual Maturity of the Agreements			
(In thousands)	Overnight and continuous	Up to 90 days	Greater than 90 days	Total
March 31, 2016				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	$253,016	$315	$300,000	$553,331
Government-sponsored enterprise obligations	288,370	24,095	—	312,465
Agency mortgage-backed securities	336,448	28,917	200,000	565,365
Asset-backed securities	7,342	65,000	—	72,342
Total repurchase agreements, gross amount recognized	$885,176	$118,327	$500,000	$1,503,503
December 31, 2015				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	$210,346	$—	$300,000	$510,346
Government-sponsored enterprise obligations	356,970	—	24,096	381,066

Agency mortgage-backed securities	579,974	2,292	225,904	808,170
Asset-backed securities	212,000	45,000	—	257,000
Total repurchase agreements, gross amount recognized	$1,359,290	$47,292	$550,000	$1,956,582

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12. Stock-Based Compensation

The Company issues stock-based compensation in the form of nonvested restricted stock and stock appreciation rights (SARs). Most of the awards are issued during the first quarter of each year. The stock-based compensation expense that has been charged against income was $3.4 million and $2.7 million in the three month periods ended March 31, 2016 and 2015, respectively.

Nonvested stock awards generally vest in 4 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company's nonvested share awards as of March 31, 2016, and changes during the three month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	1,384,417	$34.38
Granted	196,625	41.50
Vested	(215,838)	30.05
Forfeited	(9,647)	37.93
Nonvested at March 31, 2016	1,355,557	$36.08

SARs are granted with exercise prices equal to the market price of the Company's stock at the date of grant. SARs vest ratably over 4 years of continuous service and have 10-year contractual terms. All SARs must be settled in stock under provisions of the plan. In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of SARs on date of grant. The current year per share average fair value and the model assumptions are shown in the table below.

Weighted per share average fair value at grant date	$7.48
Assumptions:	
Dividend yield	2.2 %
Volatility	21.2 %
Risk-free interest rate	1.8 %
Expected term	7.2 years

A summary of SAR activity during the first three months of 2016 is presented below.

(Dollars in thousands, except per share data)	Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2016	1,588,457	$33.74		
Granted	250,482	41.32		
Forfeited	(4,986)	38.06		
Expired	(811)	37.45		
Exercised	(208,418)	31.54		
Outstanding at March 31, 2016	1,624,724	$35.17	5.4 years	$ 15,882

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13. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain financial and nonfinancial assets and liabilities and to determine fair value disclosures. Various financial instruments such as available for sale and trading securities, certain non-marketable securities relating to private equity activities, and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets and liabilities on a nonrecurring basis, such as mortgage servicing rights and certain other investment securities. These nonrecurring fair value adjustments typically involve lower of cost or fair value accounting or write-downs of individual assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. For accounting disclosure purposes, a three-level valuation hierarchy of fair value measurements has been established. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and inputs that are observable for the assets or liabilities, either directly or indirectly (such as interest rates, yield curves, and prepayment speeds).
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value. These may be internally developed, using the Company’s best information and assumptions that a market participant would consider.

When determining the fair value measurements for assets and liabilities required or permitted to be recorded or disclosed at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities. Nevertheless, certain assets and liabilities are not actively traded in observable markets, and the Company must use alternative valuation techniques to derive an estimated fair value measurement.

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Instruments Measured at Fair Value on a Recurring Basis

The table below presents the March 31, 2016 and December 31, 2015 carrying values of assets and liabilities measured at fair value on a recurring basis. There were no transfers among levels during the first three months of 2016 or the year ended December 31, 2015.

		Fair Value Measurements Using		
(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2016				
Assets:				
Residential mortgage loans held for sale	$ 4,505	$ —	$ 4,505	$ —
Available for sale securities:				
U.S. government and federal agency obligations	715,310	715,310	—	—
Government-sponsored enterprise obligations	721,658	—	721,658	—
State and municipal obligations	1,812,791	—	1,795,582	17,209
Agency mortgage-backed securities	2,611,384	—	2,611,384	—
Non-agency mortgage-backed securities	863,158	—	863,158	—
Asset-backed securities	2,440,055	—	2,440,055	—
Other debt securities	344,777	—	344,777	—
Equity securities	43,046	21,217	21,829	—
Trading securities	23,130	—	23,130	—
Private equity investments	67,432	—	—	67,432
Derivatives *	27,568	—	26,796	772
Assets held in trust	9,449	9,449	—	—
Total assets	9,684,263	745,976	8,852,874	85,413
Liabilities:				
Derivatives *	27,195	—	26,929	266
Total liabilities	$ 27,195	$ —	$ 26,929	$ 266
December 31, 2015				
Assets:				
Residential mortgage loans held for sale	$ 4,981	$ —	$ 4,981	$ —
Available for sale securities:				
U.S. government and federal agency obligations	727,076	727,076	—	—
Government-sponsored enterprise obligations	793,023	—	793,023	—
State and municipal obligations	1,741,957	—	1,724,762	17,195
Agency mortgage-backed securities	2,618,281	—	2,618,281	—
Non-agency mortgage-backed securities	879,963	—	879,963	—
Asset-backed securities	2,644,381	—	2,644,381	—
Other debt securities	331,320	—	331,320	—

Equity securities	41,003	20,263	20,740	—
Trading securities	11,890	—	11,890	—
Private equity investments	63,032	—	—	63,032
Derivatives *	12,771	—	12,507	264
Assets held in trust	9,278	9,278	—	
Total assets	9,878,956	756,617	9,041,848	80,491
Liabilities:				
Derivatives *	12,729	—	12,534	195
Total liabilities	$ 12,729	$ —	$ 12,534	$ 195

* The fair value of each class of derivative is shown in Note 10.

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Valuation methods for instruments measured at fair value on a recurring basis

Following is a description of the Company's valuation methodologies used for instruments measured at fair value on a recurring basis.

Residential mortgage loans held for sale

The Company originates fixed rate, first lien residential mortgage loans that are intended for sale in the secondary market. Fair value is based on quoted secondary market prices for loans with similar characteristics, which are adjusted to include the embedded servicing value in the loans. This adjustment represents an unobservable input to the valuation but is not considered significant given the relative insensitivity of the valuation to changes in this input. Accordingly, these loan measurements are classified as Level 2.

Available for sale investment securities

For available for sale securities, changes in fair value, including that portion of other-than-temporary impairment unrelated to credit loss, are recorded in other comprehensive income. As mentioned in Note 3 on Investment Securities, the Company records the credit-related portion of other-than-temporary impairment in current earnings. This portfolio comprises the majority of the assets which the Company records at fair value. Most of the portfolio, which includes government-sponsored enterprise, mortgage-backed and asset-backed securities, are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. These measurements are classified as Level 2 in the fair value hierarchy. Where quoted prices are available in an active market, the measurements are classified as Level 1. Most of the Level 1 measurements apply to common stock and U.S. Treasury obligations.

The fair values of Level 1 and 2 securities (excluding equity securities) in the available for sale portfolio are prices provided by a third-party pricing service. The prices provided by the third-party pricing service are based on observable market inputs, as described in the sections below. On a quarterly basis, the Company compares a sample of these prices to other independent sources for the same and similar securities. Variances are analyzed, and, if appropriate, additional research is conducted with the third-party pricing service. Based on this research, the pricing service may affirm or revise its quoted price. No significant adjustments have been made to the prices provided by the pricing service. The pricing service also provides documentation on an ongoing basis that includes reference data, inputs and methodology by asset class, which is reviewed to ensure that security placement within the fair value hierarchy is appropriate.
Valuation methods and inputs, by class of security:

- U.S. government and federal agency obligations

U.S. treasury bills, bonds and notes, including inflation-protected securities, are valued using live data from active market makers and inter-dealer brokers. Valuations for stripped coupon and principal issues are derived from yield curves generated from various dealer contacts and live data sources.

- Government-sponsored enterprise obligations

Government-sponsored enterprise obligations are evaluated using cash flow valuation models. Inputs used are live market data, cash settlements, Treasury market yields, and floating rate indices such as LIBOR, CMT, and Prime.

- State and municipal obligations, excluding auction rate securities

A yield curve is generated and applied to bond sectors, and individual bond valuations are extrapolated. Inputs used to generate the yield curve are bellwether issue levels, established trading spreads between similar issuers or credits, historical trading spreads over widely accepted market benchmarks, new issue scales, and verified bid information. Bid information is verified by corroborating the data against external sources such as broker-dealers, trustees/paying agents, issuers, or non-affiliated bondholders.

- Mortgage and asset-backed securities

Collateralized mortgage obligations and other asset-backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche-specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/

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default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

Valuation of agency pass-through securities, typically issued under GNMA, FNMA, FHLMC, and SBA programs, are primarily derived from information from the To Be Announced (TBA) market. This market consists of generic mortgage pools which have not been received for settlement. Snapshots of the TBA market, using live data feeds distributed by multiple electronic platforms, and in conjunction with other indices, are used to compute a price based on discounted cash flow models.

• Other debt securities

Other debt securities are valued using active markets and inter-dealer brokers as well as bullet spread scales and option adjusted spreads. The spreads and models use yield curves, terms and conditions of the bonds, and any special features (i.e., call or put options, redemption features, etc.).

• Equity securities

Equity securities are priced using the market prices for each security from the major stock exchanges or other electronic quotation systems. These are generally classified as Level 1 measurements. Stocks which trade infrequently are classified as Level 2.

The available for sale portfolio includes certain auction rate securities. The auction process by which auction rate securities are normally priced has not functioned in recent years, and due to the illiquidity in the market, the fair value of these securities cannot be based on observable market prices. The fair values of the auction rate securities are estimated using a discounted cash flows analysis which is discussed more fully in the Level 3 Inputs section of this note. Because several of the inputs significant to the measurement are not observable, these measurements are classified as Level 3 measurements.

Trading securities

The securities in the Company’s trading portfolio are priced by averaging several broker quotes for similar instruments and are classified as Level 2 measurements.

Private equity investments

These securities are held by the Company’s private equity subsidiaries and are included in non-marketable investment securities in the consolidated balance sheets. Due to the absence of quoted market prices, valuation of these nonpublic investments requires significant management judgment. These fair value measurements, which are discussed in the Level 3 Inputs section of this note, are classified as Level 3.

Derivatives

The Company’s derivative instruments include interest rate swaps, foreign exchange forward contracts, certain credit risk guarantee agreements, and various instruments related to residential loan sale activity. When appropriate, the impact of credit standing, as well as any potential credit enhancements such as collateral, has been considered in the fair value measurement.

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Valuations for interest rate swaps are derived from a proprietary model whose significant inputs are readily observable market parameters, primarily yield curves used to calculate current exposure. Counterparty credit risk is incorporated into the model and calculated by applying a net credit spread over LIBOR to the swap's total expected exposure over time. The net credit spread is comprised of spreads for both the Company and its counterparty, derived from probability of default and other loss estimate information obtained from a third party credit data provider or from the Company's Credit Department when not otherwise available. The credit risk component is not significant compared to the overall fair value of the swaps. The results of the model are constantly validated through comparison to active trading in the marketplace. These fair value measurements are classified as Level 2.

- Fair value measurements for foreign exchange contracts are derived from a model whose primary inputs are quotations from global market makers and are classified as Level 2.

- The Company’s contracts related to credit risk guarantees are valued under a proprietary model which uses unobservable inputs and assumptions about the creditworthiness of the counterparty (generally a Bank customer). Customer credit

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spreads, which are based on probability of default and other loss estimates, are calculated internally by the Company's Credit Department, as mentioned above, and are based on the Company's internal risk rating for each customer. Because these inputs are significant to the measurements, they are classified as Level 3.

- Derivatives relating to residential mortgage loan sale activity include commitments to originate mortgage loans held for sale, forward loan sale contracts, and forward commitments to sell TBA securities. The fair values of loan commitments and sale contracts are estimated using quoted market prices for loans similar to the underlying loans in these instruments. The valuations of loan commitments are further adjusted to include embedded servicing value and the probability of funding. These assumptions are considered Level 3 inputs and are significant to the loan commitment valuation; accordingly, the measurement of loan commitments is classified as Level 3. The fair value measurement of TBA contracts is based on security prices published on trading platforms and is classified as Level 2.

Assets held in trust

Assets held in an outside trust for the Company’s deferred compensation plan consist of investments in mutual funds. The fair value measurements are based on quoted prices in active markets and classified as Level 1. The Company has recorded an asset representing the total investment amount. The Company has also recorded a corresponding nonfinancial liability, representing the Company’s liability to the plan participants.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(In thousands)	State and Municipal Obligations	Private Equity Investments	Derivatives	Total
For the three months ended March 31, 2016				
Balance January 1, 2016	$17,195	$ 63,032	$ 69	$80,296
Total gains or losses (realized/unrealized):				
Included in earnings	—	(914)	473	(441)
Included in other comprehensive income *	101	—	—	101
Investment securities called	(100)	—	—	(100)
Discount accretion	13	—	—	13
Purchases of private equity investments	—	5,266	—	5,266
Capitalized interest/dividends	—	48	—	48
Sale of risk participation agreement	—	—	(36)	(36)
Balance March 31, 2016	$17,209	$ 67,432	$ 506	$85,147
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2016	$—	$ (914)	$ 736	$(178)
For the three months ended March 31, 2015				
Balance January 1, 2015	$95,143	$ 57,581	$ (223)	$152,501
Total gains or losses (realized/unrealized):				
Included in earnings	—	3,300	381	3,681
Included in other comprehensive income *	(2)	—	—	(2)
Investment securities called	(2,000)	—	—	(2,000)
Discount accretion	130	—	—	130
Purchases of private equity investments	—	216	—	216

Capitalized interest/dividends	—	65	—	65
Balance March 31, 2015	$93,271	$ 61,162	$ 158	$154,591
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2015	$—	$ 3,300	$ 381	$3,681

* Included in "net unrealized gains (losses) on other securities" in the consolidated statements of comprehensive income.

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Gains and losses included in earnings for the Level 3 assets and liabilities in the previous table are reported in the following line items in the consolidated statements of income:

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
For the three months ended March 31, 2016				
Total gains or losses included in earnings	$ 508	$ (35)	$ (914)	$ (441)
Change in unrealized gains or losses relating to assets still held at March 31, 2016	$ 771	$ (35)	$ (914)	$ (178)
For the three months ended March 31, 2015				
Total gains or losses included in earnings	$ 408	$ (27)	$ 3,300	$ 3,681
Change in unrealized gains or losses relating to assets still held at March 31, 2015	$ 408	$ (27)	$ 3,300	$ 3,681

Level 3 Inputs

As shown above, the Company's significant Level 3 measurements which employ unobservable inputs that are readily quantifiable pertain to auction rate securities (ARS) held by the Bank, investments in portfolio concerns held by the Company's private equity subsidiaries, and held for sale residential mortgage loan commitments. ARS are included in state and municipal securities and totaled $17.2 million at March 31, 2016, while private equity investments, included in non-marketable securities, totaled $67.4 million.
Information about these inputs is presented in the table and discussions below.

Quantitative Information about Level 3 Fair Value Measurements

	Valuation Technique	Unobservable Input	Range		Weighted Average
Auction rate securities	Discounted cash flow	Estimated market recovery period	5 years		
		Estimated market rate	2.9%	-3.7%	
Private equity investments	Market comparable companies	EBITDA multiple	4.0	-5.5	
Mortgage loan commitments	Discounted cash flow	Probability of funding	61.7%	-97.0%	82.8%
		Embedded servicing value	.9%	-1.0%	1.0%

The fair values of ARS are estimated using a discounted cash flows analysis in which estimated cash flows are based on mandatory interest rates paid under failing auctions and projected over an estimated market recovery period. Under normal conditions, ARS traded in weekly auctions and were considered liquid investments. The Company's estimate of when these auctions might resume is highly judgmental and subject to variation depending on current and projected market conditions. Few auctions of these securities are held, and most sales are privately arranged. Estimated cash flows during the period over which the Company expects to hold the securities are discounted at an estimated market rate. These securities are comprised of bonds issued by various states and municipalities for healthcare and student lending purposes, and market rates are derived for each type. Market rates are calculated at each valuation date using a LIBOR or Treasury based rate plus spreads representing adjustments for liquidity premium and nonperformance risk. The spreads are developed internally by employees in the Company's bond department. An increase in the holding period alone would result in a higher fair value measurement, while an increase in the estimated market rate (the discount rate) alone would result in a lower fair value measurement. The valuation of the ARS portfolio is reviewed on a quarterly basis by the Company's chief investment officers.

The fair values of the Company's private equity investments are based on a determination of fair value of the investee company less preference payments assuming the sale of the investee company. Investee companies are normally non-public entities. The fair value of the investee company is determined by reference to the investee's total earnings before interest, depreciation/amortization, and income taxes (EBITDA) multiplied by an EBITDA factor. EBITDA is normally determined based on a trailing prior period adjusted for specific factors including current economic outlook, investee management, and specific unique circumstances such as sales order information, major customer status, regulatory changes, etc. The EBITDA multiple is based on management's review of published trading multiples for recent private equity transactions and other judgments and is derived for each individual investee. The fair value of the Company's investment (which is usually a partial interest in the investee company) is then calculated based on its ownership percentage in the investee company. On a quarterly basis, these fair value analyses are reviewed by a valuation committee consisting of investment managers and senior Company management.

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The significant unobservable inputs used in the fair value measurement of the Company's derivative commitments to originate residential mortgage loans are the percentage of commitments that are actually funded and the mortgage servicing value that is inherent in the underlying loan value. A significant increase in the rate of loans that fund would result in a larger derivative asset or liability. A significant increase in the inherent mortgage servicing value would result in an increase in the derivative asset or a reduction in the derivative liability. The probability of funding and the inherent mortgage servicing values are directly impacted by changes in market rates and will generally move in the same direction as interest rates.

Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during the first three months of 2016 and 2015, and still held as of March 31, 2016 and 2015, the following table provides the adjustments to fair value recognized during the respective periods, the level of valuation inputs used to determine each adjustment, and the carrying value of the related individual assets or portfolios at March 31, 2016 and 2015.

		Fair Value Measurements Using			
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Recognized During the Three Months Ended March 31
March 31, 2016					
Collateral dependent impaired loans	$4,710	$ —	$ —	$ 4,710	$ (2,043)
Mortgage servicing rights	1,843	—	—	1,843	(1)
Foreclosed assets	62	—	—	62	(36)
March 31, 2015					
Collateral dependent impaired loans	$729	$ —	$ —	$ 729	$ (398)
Mortgage servicing rights	994	—	—	994	15
Foreclosed assets	23	—	—	23	(25)
Long-lived assets	4,996	—	—	4,996	(1,742)

Valuation methods for instruments measured at fair value on a nonrecurring basis

Following is a description of the Company's valuation methodologies used for other financial and nonfinancial instruments measured at fair value on a nonrecurring basis.

Collateral dependent impaired loans

While the overall loan portfolio is not carried at fair value, the Company periodically records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the value of real estate collateral, the Company relies on external and internal appraisals of property values depending on the size and complexity of the real estate collateral. The Company maintains a staff of qualified appraisers who also review third party appraisal reports for reasonableness. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists. Values of all loan collateral are regularly reviewed by credit administration. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. These measurements are classified as Level 3. Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company at March 31, 2016 and 2015 are shown in the table above.

Private equity investments and restricted stock

These assets are included in non-marketable investment securities in the consolidated balance sheets. They include certain investments in private equity concerns held by the Parent company which are carried at cost, reduced by other-than-temporary impairment. These investments are periodically evaluated for impairment based on their estimated fair value as determined by review of available information, most of which is provided as monthly or quarterly internal financial statements, annual audited financial statements, investee tax returns, and in certain situations, through research into and analysis of the assets and investments held by those private equity concerns. Restricted stock consists of stock issued by the Federal Reserve Bank and FHLB and is held by the bank subsidiary as required for regulatory purposes. Generally, there are restrictions on the sale and/or liquidation of these investments, and they are carried at cost, reduced by other-than-temporary impairment. Fair value measurements for these securities are classified as Level 3.

Mortgage servicing rights

The Company initially measures its mortgage servicing rights at fair value and amortizes them over the period of estimated net servicing income. They are periodically assessed for impairment based on fair value at the reporting date. Mortgage servicing rights do not trade in an active market with readily observable prices. Accordingly, the fair value is estimated based on a valuation model which calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, market discount rates, cost to service, float earnings rates, and other ancillary income, including late fees. The fair value measurements are classified as Level 3.

Foreclosed assets

Foreclosed assets consist of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, marine and recreational vehicles. Foreclosed assets are recorded as held for sale initially at the lower of the loan balance or fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods. These measurements are classified as Level 3.

Long-lived assets

Investments in branch facilities and various office buildings are written down to estimated fair value, or if the property is held for sale, they are written down to estimated fair value less cost to sell. Fair value is estimated in a process which considers current local commercial real estate market conditions and the judgment of the sales agent and often involves obtaining third party appraisals from certified real estate appraisers. The carrying amounts of these real estate holdings are regularly monitored by real estate professionals employed by the Company. These fair value measurements are classified as Level 3. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable.

14. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments held by the Company are set forth below. Fair value estimates are made at a specific point in time based on relevant market information. They do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no market exists for many of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, risk characteristics and economic conditions. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The methods and inputs used in the estimation of fair value for the financial instruments in the table below are discussed in the preceding Fair Value Measurements note and in the Fair Value of Financial Instruments note in the Company's 2015 Annual Report on Form 10-K. There have been no significant changes in these methods and inputs since December 31, 2015.

The estimated fair values of the Company's financial instruments and the classification of their fair value measurement within the valuation hierarchy are as follows:

(In thousands)	Fair Value Hierarchy Level	March 31, 2016 Carrying Amount	March 31, 2016 Estimated Fair Value	December 31, 2015 Carrying Amount	December 31, 2015 Estimated Fair Value
Financial Assets					
Loans:					
Business	Level 3	$4,575,081	$4,626,980	$4,397,893	$4,421,237
Real estate - construction and land	Level 3	745,369	754,959	624,070	633,083
Real estate - business	Level 3	2,395,933	2,442,752	2,355,544	2,387,101
Real estate - personal	Level 3	1,903,969	1,948,143	1,915,953	1,940,863
Consumer	Level 3	1,904,320	1,907,623	1,924,365	1,916,747
Revolving home equity	Level 3	423,005	425,568	432,981	434,607
Consumer credit card	Level 3	744,364	760,353	779,744	793,428
Overdrafts	Level 3	5,829	5,829	6,142	6,142
Loans held for sale	Level 2	60,078	60,092	7,607	7,607
Investment securities:					
Available for sale	Level 1	736,527	736,527	747,339	747,339
Available for sale	Level 2	8,798,443	8,798,443	9,012,470	9,012,470
Available for sale	Level 3	17,209	17,209	17,195	17,195
Trading	Level 2	23,130	23,130	11,890	11,890
Non-marketable	Level 3	117,259	117,259	112,786	112,786
Federal funds sold	Level 1	9,075	9,075	14,505	14,505
Securities purchased under agreements to resell	Level 3	825,000	832,942	875,000	879,546
Interest earning deposits with banks	Level 1	171,651	171,651	23,803	23,803
Cash and due from banks	Level 1	375,481	375,481	464,411	464,411
Derivative instruments	Level 2	26,796	26,796	12,507	12,507
Derivative instruments	Level 3	772	772	264	264
Financial Liabilities					
Non-interest bearing deposits	Level 1	$7,065,066	$7,065,066	$7,146,398	$7,146,398
Savings, interest checking and money market deposits	Level 1	11,205,357	11,205,357	10,834,746	10,834,746
Time open and certificates of deposit	Level 3	2,415,886	2,414,609	1,997,709	1,993,521
Federal funds purchased	Level 1	3,885	3,885	556,970	556,970
Securities sold under agreements to repurchase	Level 3	953,503	953,589	1,406,582	1,406,670
Other borrowings	Level 3	103,806	108,456	103,818	108,542
Derivative instruments	Level 2	26,929	26,929	12,534	12,534
Derivative instruments	Level 3	266	266	195	195

15. Legal Proceedings

On August 15, 2014, a customer filed a class action complaint against the Bank in the Circuit Court, Jackson County, Missouri. The case is Cassandra Warren, et al v. Commerce Bank (Case No. 1416-CV19197). In the case, the customer alleges violation of the Missouri usury statute in connection with the Bank charging overdraft fees in connection with point-of-sale/debit and automated-teller machine cards. The class was certified and consists of Missouri customers of the Bank who may have been similarly affected. The case has been stayed pending the final outcome of a similar case in which a ruling has been made in favor of the bank defendant. The Company believes that the stay will remain in effect until any appeals in the similar case have run their course. The Company believes the Warren complaint lacks merit and will defend itself vigorously. The amount of any ultimate exposure cannot be determined with certainty at this time.

The Company has various other legal proceedings pending at March 31, 2016, arising in the normal course of business. While some matters pending against the Company specify damages claimed by plaintiffs, others do not seek a specified amount of damages or are at very early stages of the legal process. The Company records a loss accrual for all legal matters for which it deems a loss is probable and can be reasonably estimated. Some legal matters, which are at early stages in the legal process, have not yet progressed to the point where a loss amount can be determined to be probable and estimable.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as the Company's 2015 Annual Report on Form 10-K. Results of operations for the three month period ended March 31, 2016 are not necessarily indicative of results to be attained for any other period.

Forward-Looking Information

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", variations 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 that 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, competition with other entities that offer financial services, and such other factors as discussed in Part I Item 1A - "Risk Factors" and Part II Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2015 Annual Report on Form 10-K.

Critical Accounting Policies

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 investment securities, and accounting for income taxes. A discussion of these policies can be found in the sections captioned "Critical Accounting Policies" and "Allowance for Loan Losses" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2015 Annual Report on Form 10-K. There have been no changes in the Company's application of critical accounting policies since December 31, 2015.

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Selected Financial Data

	Three Months Ended March 31		
	2016	2015	
Per Share Data			
Net income per common share — basic	$.65	$.58	*
Net income per common share — diluted	.65	.58	*
Cash dividends on common stock	.225	.214	*
Book value per common share	23.85	22.30	*
Market price	44.95	40.30	*
Selected Ratios			
(Based on average balance sheets)			
Loans to deposits (1)	62.81 %	59.71 %	
Non-interest bearing deposits to total deposits	34.44	34.31	
Equity to loans (1)	19.15	20.62	
Equity to deposits	12.03	12.31	
Equity to total assets	9.84	10.05	
Return on total assets	1.07	1.05	
Return on common equity	11.20	10.69	
(Based on end-of-period data)			
Non-interest income to revenue (2)	42.09	42.17	
Efficiency ratio (3)	62.62	64.65	
Tier I common risk-based capital ratio	11.51	12.10	
Tier I risk-based capital ratio	12.32	12.96	
Total risk-based capital ratio	13.27	13.98	
Tangible common equity to tangible assets ratio (4)	8.84	8.83	
Tier I leverage ratio	9.11	9.31	

* Restated for the 5% stock dividend distributed in December 2015.
(1) Includes loans held for sale.
(2) Revenue includes net interest income and non-interest income.
(3) The efficiency ratio is calculated as non-interest expense (excluding intangibles amortization) as a percent of revenue.
(4) The tangible common equity to tangible assets ratio is a measurement which management believes is a useful indicator of capital adequacy and utilization. It provides a meaningful basis for period to period and company to company comparisons, and also assists regulators, investors and analysts in analyzing the financial position of the Company. Tangible common equity and tangible assets are non-GAAP measures and should not be viewed as substitutes for, or superior to, data prepared in accordance with GAAP.

The following table is a reconciliation of the GAAP financial measures of total equity and total assets to the non-GAAP measures of total tangible common equity and total tangible assets.

	March 31	
(Dollars in thousands)	2016	2015
Total equity	$2,447,282	$2,405,407
Less non-controlling interest	5,254	4,793
Less preferred stock	144,784	144,784
Less goodwill	138,921	138,921

Less core deposit premium	4,696	6,149
Total tangible common equity (a)	$2,153,627	$2,110,760
Total assets	$24,506,952	$24,049,483
Less goodwill	138,921	138,921
Less core deposit premium	4,696	6,149
Total tangible assets (b)	$24,363,335	$23,904,413
Tangible common equity to tangible assets ratio (a)/(b)	8.84 %	8.83 %

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Results of Operations

Summary

(Dollars in thousands)	Three Months Ended March 31 2016	2015	Increase (Decrease) Amount	% change
Net interest income	$163,775	$146,138	$17,637	12.1 %
Provision for loan losses	(9,439)	(4,420)	5,019	113.6
Non-interest income	119,024	106,574	12,450	11.7
Investment securities gains (losses), net	(995)	6,035	(7,030)	N.M.
Non-interest expense	(177,473)	(163,845)	13,628	8.3
Income taxes	(29,370)	(28,468)	902	3.2
Non-controlling interest expense	(148)	(959)	(811)	(84.6)
Net income attributable to Commerce Bancshares, Inc.	65,374	61,055	4,319	7.1
Preferred stock dividends	(2,250)	(2,250)	—	—
Net income available to common shareholders	$63,124	$58,805	$4,319	7.3 %

For the quarter ended March 31, 2016, net income attributable to Commerce Bancshares, Inc. (net income) amounted to $65.4 million, an increase of $4.3 million, or 7.1%, compared to the first quarter of the previous year. For the current quarter, the annualized return on average assets was 1.07%, the annualized return on average common equity was 11.20%, and the efficiency ratio was 62.62%. Diluted earnings per common share was $.65, an increase of 12.1% compared to $.58 per share in the first quarter of 2015.

Compared to the first quarter of last year, net interest income increased $17.6 million, or 12.1%, mainly due to growth of $10.5 million in interest income on investment securities and $8.0 million in interest income on loans. The provision for loan losses totaled $9.4 million for the current quarter, representing an increase of $5.0 million over the first quarter of 2015. Non-interest income increased $12.5 million, or 11.7%, mainly due to higher deposit, bank card, trust and swap fees, as well as higher sales of tax credits. Additionally, a former branch property was sold in the first quarter of 2016 for a pre-tax gain of $3.3 million. Non-interest expense increased $13.6 million, or 8.3%, over the first quarter of 2015, primarily due to increases in salaries and benefits, data processing costs, and supplies and communications expense. Net investment securities losses totaled $995 thousand in the current quarter compared to gains of $6.0 million in the same quarter last year. The current quarter losses were mainly comprised of fair value adjustments to the Company's private equity portfolio.

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Net Interest Income

The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates. Changes not solely due to volume or rate changes are allocated to rate.

Analysis of Changes in Net Interest Income

	Three Months Ended March 31, 2016 vs. 2015		
	Change due to		
(In thousands)	Average Volume	Average Rate	Total
Interest income, fully taxable equivalent basis:			
Loans:			
Business	$3,239	$803	$4,042
Real estate - construction and land	2,529	(461)	2,068
Real estate - business	930	9	939
Real estate - personal	304	(142)	162
Consumer	2,049	(745)	1,304
Revolving home equity	(8)	(87)	(95)
Consumer credit card	94	(194)	(100)
Total interest on loans	9,137	(817)	8,320
Loans held for sale	120	(6)	114
Investment securities:			
U.S. government and federal agency securities	(3,275)	9,945	6,670
Government-sponsored enterprise obligations	(1,328)	88	(1,240)
State and municipal obligations	(361)	609	248
Mortgage-backed securities	3,167	(1,308)	1,859
Asset-backed securities	(1,319)	3,294	1,975
Other securities	1,416	(306)	1,110
Total interest on investment securities	(1,700)	12,322	10,622
Federal funds sold and short-term securities purchased under agreements to resell	4	11	15
Long-term securities purchased under agreements to resell	(586)	1,010	424
Interest earning deposits with banks	(43)	134	91
Total interest income	6,932	12,654	19,586
Interest expense:			
Deposits:			
Savings	18	7	25
Interest checking and money market	51	100	151
Time open & C.D.'s of less than $100,000	(90)	(48)	(138)
Time open & C.D.'s of $100,000 and over	(7)	583	576
Total interest on deposits	(28)	642	614
Federal funds purchased and securities sold under agreements to repurchase	(32)	553	521
Other borrowings	2,373	(1,999)	374
Total interest expense	2,313	(804)	1,509
Net interest income, fully taxable equivalent basis	$4,619	$13,458	$18,077

Net interest income in the first quarter of 2016 was $163.8 million, an increase of $17.6 million over the first quarter of 2015. On a tax equivalent (T/E) basis, net interest income totaled $171.4 million in the first quarter of 2016, up $18.1 million over the same period last year and up $1.3 million over the previous quarter. The increase in net interest income compared to the first quarter of 2015 was mainly due to higher interest on investment securities of $10.6 million, coupled with higher interest income on loans of $8.3 million. Securities interest includes inflation-related interest on the Company's holdings of U.S. Treasury inflation-protected securities (TIPS), which is tied to the Consumer Price Index. Interest income related to TIPS increased $5.5 million in the first three months of 2016 compared to the same period in 2015, and totaled negative $1.5 million in the current quarter, negative $1.4 million in the prior quarter and negative $7.0 million in the first quarter of 2015. The Company's net yield on earning assets was 2.95% in the current quarter, compared to 2.94% in the previous quarter and 2.76% in the first quarter of 2015. Excluding the effects of inflation income, the net yield on earning assets would have been 2.98% in the current quarter, 2.97% in the previous quarter and 2.89% in the first quarter of 2015.

Total interest income (T/E) increased $19.6 million over the first quarter of 2015. Interest income on loans (T/E) increased $8.3 million due to an increase of $1.1 billion, or 9.2%, in average loan balances, partly offset by a 10 basis point decrease in average rates earned. The higher balances contributed $9.1 million to interest income; however, the lower rates depressed interest income by $817 thousand, resulting in an $8.3 million net increase in interest income. Most of the increase in interest income occurred in the business, construction, business real estate and consumer loan categories. The largest increase to interest income occurred in business loan interest, which grew $4.0 million due to higher average balances of $459.7 million, or 11.4%, coupled with a five basis point increase in the average rate earned. Construction loan interest grew $2.1 million, as average balances increased $267.6 million, or 64.5%, partly offset by a decline of 30 basis points in the average rate earned. Business real estate and consumer loan interest grew $939 thousand and $1.3 million, respectively, over the same period last year. Average balances of business real estate loans increased $100.3 million, or 4.4%, while the average rate earned declined three basis points. The average balance of consumer loans grew $203.4 million, or 11.8%, partly offset by a decline of 18 basis points in the average rate earned. Most of the increase in average consumer loan balances resulted from growth of $240.4 million in auto loans and other consumer loans, partly offset by a decrease of $48.5 million in marine and recreational vehicle (RV) loans, as that portfolio continues to pay down.

Interest income on investment securities (T/E) was $54.3 million during the first quarter of 2016, which was an increase of $10.6 million over the same quarter last year. The increase resulted mainly from higher TIPS interest of $5.5 million coupled with higher interest on mortgage-backed, asset-backed, and corporate debt securities. Higher interest income on mortgage-backed securities resulted from higher average balances, while growth in interest income on asset-backed securities resulted from higher rates earned, offset by lower balances. The average balance of the total investment portfolio (excluding fair value adjustments) was $9.6 billion in the first quarters of both 2016 and 2015. During the current quarter, adjustments to premium amortization expense due to changes in prepayment speeds on various mortgage and asset-backed securities were not significant.

Interest income on long-term securities purchased under agreements to resell increased $424 thousand over the first quarter of 2015, due to an increase in average rates earned of 46 basis points, partly offset by a decrease in average balances invested of $199.7 million.

The average tax equivalent yield on total interest earning assets was 3.10% in the first quarter of 2016, up from 2.89% in the first quarter of 2015.

Total interest expense increased $1.5 million compared to the first quarter of 2015, due to a $614 thousand increase in interest expense on interest bearing deposits and an $895 thousand increase in interest expense on borrowings. The increase in deposit expense resulted from a slight increase in overall average rates paid, in addition to increases of $284.8 million in average money market account balances and $243.6 million in short-term jumbo C.D. balances. Interest expense on borrowings increased due to higher rates paid on repurchase agreements and higher average FHLB borrowings, partly offset by lower rates paid on the FHLB borrowings. The overall average rate incurred on all interest bearing liabilities was .23% and .19% in the first quarters of 2016 and 2015, respectively.

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

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Non-Interest Income

	Three Months Ended March 31		Increase (Decrease)	
(Dollars in thousands)	2016	2015	Amount	% change
Bank card transaction fees	$44,470	$42,299	$2,171	5.1 %
Trust fees	30,370	29,586	784	2.6
Deposit account charges and other fees	20,691	18,499	2,192	11.8
Capital market fees	2,725	3,002	(277)	(9.2)
Consumer brokerage services	3,509	3,336	173	5.2
Loan fees and sales	2,510	2,089	421	20.2
Other	14,749	7,763	6,986	90.0
Total non-interest income	$119,024	$106,574	$12,450	11.7 %
Non-interest income as a % of total revenue*	42.1 %	42.2 %		

* Total revenue includes net interest income and non-interest income.

For the first quarter of 2016, total non-interest income amounted to $119.0 million compared with $106.6 million in the same quarter last year, which was an increase of $12.5 million, or 11.7%. This increase was mainly due to higher bank card, trust, deposit, swap, and tax credit fee income. Additionally, a former branch property was sold for a pre-tax gain of $3.3 million, while in 2015, write-downs on branch properties held for sale totaled $1.6 million.

Bank card transaction fees for the current quarter increased $2.2 million, or 5.1%, over the same period last year. The increase was mainly the result of growth in merchant, debit, and corporate card interchange fees of 16.8%, 5.3% and 2.0%, respectively. Credit card fees also increased 4.3% this quarter. The table below is a summary of bank card transaction fees for the three month periods ended March 31, 2016 and 2015.

	Three Months Ended March 31		Increase (Decrease)	
(Dollars in thousands)	2016	2015	Amount	% change
Debit card fees	$9,385	$8,915	$470	5.3 %
Credit card fees	5,645	5,412	233	4.3
Merchant fees	7,118	6,092	1,026	16.8
Corporate card fees	22,322	21,880	442	2.0
Total bank card transaction fees	$44,470	$42,299	$2,171	5.1 %

Trust fees for the quarter increased $784 thousand, or 2.6%, over the same quarter last year, resulting mainly from continued growth in personal (1.7%) and institutional (5.8%) trust fees. Deposit account fees increased $2.2 million, or 11.8%, over the same period last year, as deposit account service charges increased $1.4 million, or 38.2%, and overdraft fees increased $468 thousand, or 7.5%. Capital market fees declined $277 thousand to $2.7 million in the current quarter as a result of continued lower sales demand, while consumer brokerage services revenue increased $173 thousand. Loan fees and sales increased $421 thousand this quarter mainly due to higher mortgage banking revenue, which resulted from higher sales of newly originated residential mortgages under the Company's sale program that began in 2015. Other non-interest income increased $7.0 million over the same quarter last year, mainly due to the branch property activity mentioned above. In addition, fees from the sales of interest rate swaps increased $1.0 million and fees from the sales of tax credits increased $678 thousand.

Investment Securities Gains (Losses), Net

	Three Months Ended March 31	
(In thousands)	2016	2015
Available for sale:		
U.S. government bonds	$—	$1,263
Municipal securities	—	1,260
Asset-backed securities	—	3
OTTI losses on non-agency mortgage-backed bonds	(123)	(17)
Non-marketable:		
Common stock	23	—
Private equity investments	(895)	3,526
Total investment securities gains (losses), net	$(995)	$6,035

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Net gains and losses on investment securities which were recognized in earnings during the three months ended March 31, 2016 and 2015 are shown in the table above. Net securities losses amounted to $995 thousand in the first quarter of 2016 compared to net gains of $6.0 million in the first quarter of 2015. Included in these net gains and losses are credit-related impairment losses on certain non-agency guaranteed mortgage-backed securities which have been identified as other-than-temporarily impaired. These identified securities had a total fair value of $39.9 million at March 31, 2016.

Also shown above are net gains and losses relating to non-marketable private equity investments, which are primarily held by the Parent's majority-owned private equity subsidiaries. These include fair value adjustments and gains and losses realized upon disposition. The portion of the private equity activity attributable to minority interests is reported as non-controlling interest in the consolidated statements of income and resulted in income of $154 thousand during the first quarter of 2016 and expense of $704 thousand during the first quarter of 2015.

During the first quarter of 2015, the Company sold $114.4 million of municipal bonds and $48.1 million of U.S. Treasury inflation-protected bonds, as part of plan to extend the duration of the securities portfolio. Gains of $2.5 million were realized on these sales.

Non-Interest Expense

	Three Months Ended March 31		Increase (Decrease)	
(Dollars in thousands)	2016	2015	Amount	% change
Salaries and employee benefits	$106,859	$98,074	$8,785	9.0 %
Net occupancy	11,303	11,561	(258)	(2.2)
Equipment	4,634	4,703	(69)	(1.5)
Supplies and communication	6,829	5,581	1,248	22.4
Data processing and software	22,899	19,506	3,393	17.4
Marketing	3,813	3,918	(105)	(2.7)
Deposit insurance	3,165	3,001	164	5.5
Other	17,971	17,501	470	2.7
Total non-interest expense	$177,473	$163,845	$13,628	8.3 %

Non-interest expense for the first quarter of 2016 amounted to $177.5 million, an increase of $13.6 million, or 8.3%, compared with $163.8 million in the first quarter of last year. Salaries expense increased $6.1 million, or 7.5%, mainly due to higher full-time salaries and incentives expense. Employee benefits expense also increased $2.7 million, or 16.3%, mostly due to higher medical and payroll tax costs. Growth in salaries expense resulted partly from higher staffing costs, mainly in the areas of residential lending, commercial card, trust, information technology and other supporting units, partially offset by lower staffing in branches and deposit operations. Full-time equivalent employees totaled 4,765 at March 31, 2016 compared to 4,769 at March 31, 2015. Compared to the first quarter of last year, occupancy expense decreased 2.2% and equipment expense declined 1.5%, while supplies and communication expense increased $1.2 million, or 22.4%, mainly due to higher reissuance costs for new chip cards distributed to customers. Data processing and software costs increased by $3.4 million, or 17.4%, mainly due to higher bank card processing costs, software expense and outsourced lockbox costs. Other non-interest expense increased $470 thousand, or 2.7%, compared to the previous year. This increase was mainly due to a recovery of $468 thousand in litigation costs recorded in the first quarter of 2015 that did not reoccur. In addition, higher costs were recorded in bank card rewards expense and charitable contribution expense. These increases were partly offset by higher deferrals of loan origination costs and lower costs for operating lease depreciation.

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Provision and Allowance for Loan Losses

	Three Months Ended		
(In thousands)	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2015
Provision for loan losses	$9,439	$9,186	$4,420
Net loan charge-offs (recoveries):			
Commercial:			
Business	463	(133)	159
Real estate-construction and land	(11)	60	(946)
Real estate-business	(242)	(626)	(249)
Personal Banking:			
Real estate-personal	(195)	458	99
Consumer	2,599	2,251	1,743
Revolving home equity	88	210	40
Consumer credit card	5,918	6,479	6,352
Overdrafts	219	487	222
Total net loan charge-offs	$8,839	$9,186	$7,420

	Three Months Ended		
	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2015
Annualized net loan charge-offs (recoveries)*:			
Commercial:			
Business	.04 %	(.01)%	.02 %
Real estate-construction and land	(.01)	.04	(.92)
Real estate-business	(.04)	(.11)	(.04)
Personal Banking:			
Real estate-personal	(.04)	.09	.02
Consumer	.54	.47	.41
Revolving home equity	.08	.19	.04
Consumer credit card	3.16	3.40	3.44
Overdrafts	18.46	30.65	16.04
Total annualized net loan charge-offs	.28 %	.30 %	.26 %

* as a percentage of average loans (excluding loans held for sale)

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 allowances for pools of loans.

Loans subject to individual evaluation generally consist of business, construction, business real estate and personal real estate loans on non-accrual status, and include troubled debt restructurings that are on non-accrual status. These non-accrual loans are evaluated individually for impairment based on factors such as payment history, borrower financial condition and collateral. For collateral dependent loans, appraisals of collateral (including exit costs) are normally obtained annually but discounted based on date last received and market conditions. From these evaluations of expected cash flows and collateral values, specific allowances are determined.

Loans which are not individually evaluated are segregated by loan type and sub-type and are collectively evaluated. These loans include commercial loans (business, construction and business real estate) which have been graded pass, special mention or substandard, and all personal banking loans except personal real estate loans on non-accrual status. Collectively-evaluated loans include certain troubled debt restructurings with similar risk characteristics. Allowances for both personal banking and commercial loans use methods which consider historical and current loss trends, loss emergence periods, delinquencies, industry concentrations

and unique risks. Economic conditions throughout the Company's market place, as monitored by Company credit officers, are also considered in the allowance determination process.
The Company’s estimate of the allowance for loan losses and the corresponding provision for loan losses rest upon various judgments and assumptions made by management. In addition to past loan loss experience, various qualitative factors are considered, such as current loan portfolio composition and characteristics, trends in delinquencies, portfolio risk ratings, levels of non-performing assets, credit concentrations, collateral values, and prevailing regional and national economic conditions. 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. In using this process and the information available, management must consider various assumptions and exercise considerable judgment to determine the overall level of the allowance for loan losses. Because of these subjective factors, actual outcomes of inherent losses can differ from original estimates. The Company’s subsidiary bank continues to be subject to examination by several regulatory agencies, and examinations are conducted throughout the year, targeting various segments of the loan portfolio for review. Note 1 in the 2015 Annual Report on Form 10-K contains additional discussion on the allowance and charge-off policies.

Net loan charge-offs in the first quarter of 2016 amounted to $8.8 million, compared with $9.2 million in the prior quarter and $7.4 million in the first quarter of last year. The decrease in current quarter net charge-offs from the previous quarter was mainly due to declines in personal real estate, consumer credit card, and overdraft net loan charge-offs of $653 thousand, $561 thousand, and $268 thousand, respectively. These decreases in net loan charge-offs were partially offset by an increase of $596 thousand in net loan charge-offs on business loans, as well as increases on net loan charge-offs on business real estate and consumer loans of $384 thousand and $348 thousand, respectively. Compared to the first quarter of 2015, net loan charge-offs grew $1.4 million in the current quarter. The increase in net loan charge-offs this quarter compared to the same quarter last year was primarily due to increases of $935 thousand and $856 thousand in net loan charge-offs on construction and consumer loans, respectively.

For the three months ended March 31, 2016, the ratio of annualized total net loan charge-offs to total average loans was .28%, compared to .30% in the previous quarter and .26% in the same quarter last year. Annualized net charge-offs on average consumer credit card loans were 3.16% in the current quarter, compared with 3.40% in the previous quarter and 3.44% in the same period last year. Consumer loan net charge-offs in the current quarter amounted to .54% of average consumer loans, compared to .47% in the previous quarter and .41% in the same quarter last year.

The provision for loan losses in the current quarter totaled $9.4 million and was $600 thousand higher than net loan charge-offs in the quarter. Compared to the previous quarter, the provision for loan losses for the first quarter of 2016 increased $253 thousand and was $5.0 million higher than the provision for loan losses for the three months ended March 31, 2015. The increase in the provision for loan losses was driven by growth in loans and higher net charge-offs in the first quarter of 2016 compared to the same quarter of the previous year, as described above. Additionally, the allowance for loan losses was lowered by $3.0 million during the first quarter of 2015, which reduced the provision during that period.

At March 31, 2016, the allowance for loan losses amounted to $152.1 million and was 1.20% of total loans and 518% of total non-accrual loans. At December 31, 2015, the allowance for loan losses amounted to $151.5 million and was 1.22% of total loans and 570% of total non-accrual loans.

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Risk Elements of Loan Portfolio

The following table presents non-performing assets and loans which are past due 90 days and still accruing interest. Non-performing assets include non-accruing loans and foreclosed real estate. Loans are placed on non-accrual status when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment. 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 personal banking loans that are exempt under regulatory rules from being classified as non-accrual.

(Dollars in thousands)	March 31, 2016	December 31, 2015
Non-accrual loans	$29,367	$ 26,575
Foreclosed real estate	1,997	2,819
Total non-performing assets	$31,364	$ 29,394
Non-performing assets as a percentage of total loans	.25 %	.24 %
Non-performing assets as a percentage of total assets	.13 %	.12 %
Total loans past due 90 days and still accruing interest	$15,360	$ 16,467

Non-accrual loans, which are also classified as impaired, totaled $29.4 million at March 31, 2016, and increased $2.8 million over balances at December 31, 2015. The increase occurred mainly in business loans, which increased $5.2 million largely due to the addition of a single automobile floor plan loan. At March 31, 2016, non-accrual loans were comprised mainly of business (54.8%), business real estate (21.2%), and personal real estate (14.3%) loans. Foreclosed real estate totaled $2.0 million at March 31, 2016, a decrease of $822 thousand when compared to December 31, 2015. Total loans past due 90 days or more and still accruing interest were $15.4 million as of March 31, 2016, a decrease of $1.1 million when compared to December 31, 2015. Balances by class for non-accrual loans and loans past due 90 days and still accruing interest are shown in the "Delinquent and non-accrual loans" section in Note 2 to the consolidated financial statements.

In addition to the non-performing and past due 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. They are classified as substandard 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 $112.8 million at March 31, 2016 compared with $113.1 million at December 31, 2015, resulting in a decrease of $355 thousand, or .3%.

(In thousands)	March 31, 2016	December 31, 2015
Potential problem loans:		
Business	$58,866	$ 58,860
Real estate – construction and land	1,091	1,159
Real estate – business	50,784	51,107
Real estate – personal	2,047	1,755
Consumer	—	262
Total potential problem loans	$112,788	$ 113,143

At March 31, 2016, the Company had $66.4 million of loans whose terms have been modified or restructured under a troubled debt restructuring. These loans have been extended to borrowers who are experiencing financial difficulty and who have been granted a concession, as defined by accounting guidance, and are further discussed in the

"Troubled debt restructurings" section in Note 2 to the consolidated financial statements. This balance includes certain commercial loans totaling $33.9 million which are classified as substandard and included in the table above because of this classification.

Loans with Special Risk Characteristics

Management relies primarily on an internal risk rating system, in addition to delinquency status, to assess risk in the loan portfolio, and these statistics are presented in Note 2 to the consolidated financial statements. However, certain types of loans are considered at high risk of loss due to their terms, location, or special conditions. Additional information about the major types of loans in these categories and their risk features are provided below. Information based on loan-to-value (LTV) ratios was generally calculated with valuations at loan origination date. The Company does not attempt to obtain updated appraisals or valuations unless the loans become significantly delinquent or are in the process of being foreclosed upon.

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Real Estate – Construction and Land Loans

The Company's portfolio of construction and land loans, as shown in the table below, amounted to 5.9% of total loans outstanding at March 31, 2016.

(Dollars in thousands)	March 31, 2016	% of Total	% of Total Loans	December 31, 2015	% of Total	% of Total Loans
Residential land and land development	$ 79,566	10.7 %	.6 %	$ 72,622	11.6 %	.6 %
Residential construction	144,030	19.3	1.2	131,943	21.2	1.1
Commercial land and land development	63,552	8.5	.5	54,176	8.7	.4
Commercial construction	458,221	61.5	3.6	365,329	58.5	2.9
Total real estate - construction and land loans	$ 745,369	100.0 %	5.9 %	$ 624,070	100.0 %	5.0 %

Real Estate – Business Loans

Total business real estate loans were $2.4 billion at March 31, 2016 and comprised 18.9% of the Company's total loan portfolio. These loans include properties such as manufacturing and warehouse buildings, small office and medical buildings, churches, hotels and motels, shopping centers, and other commercial properties. At March 31, 2016, 42.0% of business real estate loans were for owner-occupied real estate properties, which present lower risk profiles.

(Dollars in thousands)	March 31, 2016	% of Total	% of Total Loans	December 31, 2015	% of Total	% of Total Loans
Owner-occupied	$ 1,007,335	42.0 %	7.9 %	$ 983,844	41.8 %	7.9 %
Retail	325,214	13.6	2.6	322,644	13.7	2.6
Office	230,432	9.6	1.8	218,018	9.3	1.8
Multi-family	212,421	8.9	1.7	196,212	8.3	1.6
Farm	165,488	6.9	1.3	167,344	7.1	1.3
Hotels	155,130	6.5	1.2	157,317	6.7	1.2
Industrial	108,609	4.5	.9	112,261	4.7	.9
Other	191,304	8.0	1.5	197,904	8.4	1.6
Total real estate - business loans	$ 2,395,933	100.0 %	18.9 %	$ 2,355,544	100.0 %	18.9 %

Real Estate – Personal Loans

The Company's $1.9 billion personal real estate loan portfolio is composed mainly of residential first mortgage real estate loans. As shown on page 45, recent loss rates have remained low, and at March 31, 2016, loans past due over 30 days decreased $1.2 million and non-accrual loans decreased $220 thousand compared to December 31, 2015. Also, as shown in Note 2, only 4.2% of this portfolio has FICO scores of less than 660. Approximately $15.9 million, or .8%, of personal real estate loans were structured with interest only payments. These loans are typically made to high net-worth borrowers and generally have low LTV ratios at origination or have additional collateral pledged to secure the loan. Therefore, they are not perceived to represent above normal credit risk. Loans originated with interest only payments were not made to "qualify" the borrower for a lower payment amount. At March 31, 2016, loans with no mortgage insurance and an original LTV higher than 80% totaled $150.9 million compared to $146.8 million at December 31, 2015.

Revolving Home Equity Loans

The Company had $423.0 million in revolving home equity loans at March 31, 2016 that were generally collateralized by residential real estate. Most of these loans (93.8%) 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%. As of March 31, 2016, the outstanding principal of loans with an original LTV higher than 80% was $67.9 million, or 16.1% of the portfolio, compared to $68.1 million as of December 31, 2015. Total revolving home equity loan balances over 30 days past due or on non-accrual status were $3.9 million at March 31, 2016 compared to $5.0 million at December 31, 2015. The weighted average FICO score for the total current portfolio balance is 770. At maturity, the accounts are re-underwritten, and if they qualify under the Company's credit, collateral and capacity policies, the borrower is given the option to renew the line of credit or convert the outstanding balance to an amortizing loan. If criteria are not met, amortization is required, or the borrower may pay off the loan. During the remainder of 2016 through 2018, approximately 30% of the Company's current outstanding balances are expected to mature. Of these balances, approximately 81% have a FICO score of 700 or higher. The Company does not expect a significant increase in losses as these loans mature, due to their high FICO scores, low LTVs, and low historical loss levels.

Fixed Rate Home Equity Loans
In addition to the residential real estate mortgage and the revolving home equity products mentioned above, the Company offers a third choice to those consumers desiring a fixed rate home equity loan with a fixed maturity date and a determined amortization schedule. The fixed rate home equity loan is typically used to finance a specific home repair or remodeling project. This portfolio of loans approximated $305.8 million and $304.5 million at March 31, 2016 and December 31, 2015, respectively. At March 31, 2016, $81.6 million of this portfolio had an LTV higher than 80% compared to a balance of $83.0 million at the end of 2015.

At times, these loans are written with interest only monthly payments and a balloon payoff at maturity; however, such loans totaled less than 1% of the outstanding balance of fixed rate home equity loans at March 31, 2016. The Company limits the offering of fixed rate home equity loans with LTV ratios over 90%, and only $591 thousand in new fixed rate home equity loans were written with these LTV ratios during the first three months of 2016.

Management does not believe these loans collateralized by real estate (personal real estate, revolving home equity, and fixed rate home equity) represent any unusual concentrations of risk, as evidenced by the net charge-offs (recoveries) on these loans in the first three months of 2016 of ($195 thousand), $88 thousand, and ($7 thousand), respectively. 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 Company currently offers no subprime first mortgage or home equity loans, which are characterized as new loans to customers with FICO scores below 660. The Company does not purchase brokered loans.

Other Consumer Loans
Within the consumer loan portfolio are several direct and indirect product lines, which include loans for the purchase of automobiles, marine and RVs. Outstanding balances for auto loans were $962.1 million and $996.0 million at March 31, 2016 and December 31, 2015, respectively. The balances over 30 days past due amounted to $8.3 million at March 31, 2016 compared to $10.8 million at the end of 2015, and comprised .9% and 1.1% of the outstanding balances of these loans at March 31, 2016 and December 31, 2015, respectively. For the three months ended March 31, 2016, $120.9 million of new auto loans were originated, compared to $497.2 million during the full year of 2015. At March 31, 2016, the automobile loan portfolio had a weighted average FICO score of 728.
The Company's balance of marine and RV loans totaled $131.8 million at March 31, 2016, compared to $143.1 million at December 31, 2015, and the balances over 30 days past due amounted to $4.0 million at March 31, 2016 compared to $5.1 million at the end of 2015. The net charge-offs on marine and RV loans declined from $459 thousand in the first three months of 2015, to $140 thousand in the first three months of the current year.

Additionally, the Company offers low promotional rates on selected consumer credit card products. Out of a portfolio at March 31, 2016 of $744.4 million in consumer credit card loans outstanding, approximately $174.5 million, or 23.4%, carried a low promotional rate. Within the next six months, $53.6 million of these loans are scheduled to convert to the ongoing higher contractual rate. To mitigate some of the risk involved with this credit card product, the Company performs credit checks and detailed analysis of the customer borrowing profile before approving the loan application. Management believes that the risks in the consumer loan portfolio are reasonable and the anticipated loss ratios are within acceptable parameters.

Energy Lending
The Company's energy lending portfolio was comprised of lending to the petroleum and natural gas sectors and totaled $144.8 million at March 31, 2016, as shown in the table below. As of March 31, 2016, there were $11.0 million energy loans, or 7.6% of the energy portfolio, with a "substandard" rating or on non-accrual status, and there were no energy loans 90 days past due and still accruing interest.
(In thousands)

	March 31, 2016	December 31, 2015	Unfunded commitments at March 31, 2016
Extraction	$75,387	$ 65,649	$ 14,164
Mid-stream shipping and storage	25,258	28,678	49,539
Downstream distribution and refining	29,105	27,246	16,026
Support activities	15,061	14,946	7,302
Total energy lending portfolio	$144,811	$ 136,519	$ 87,031

Shared National Credits
The Company participates in credits of large, publicly traded companies which are defined by regulation as shared national credits, or SNCs. Regulations define SNCs as loans exceeding $20 million that are shared by three or more financial institutions. The Company typically participates in these loans when business operations are maintained in the local communities or regional markets and opportunities to provide other banking services are present. The balance of SNC loans totaled $784.9 million at March 31, 2016, compared to $656.0 million at December 31, 2015. Additional unfunded commitments at March 31, 2016 totaled $1.2 billion.

Income Taxes
Income tax expense was $29.4 million in the first quarter of 2016, compared to $27.7 million in the fourth quarter of 2015 and $28.5 million in the first quarter of 2015. The Company's effective tax rate, including the effect of non-controlling interest, was 31.0% in the first quarter of 2016, compared to 30.3% in the fourth quarter of 2015 and 31.8% in the first quarter of 2015.

Financial Condition

Balance Sheet

Total assets of the Company were $24.5 billion at March 31, 2016 and $24.6 billion December 31, 2015. Earning assets (excluding fair value adjustments on investment securities) amounted to $23.3 billion at March 31, 2016 and $23.2 billion at December 31, 2015, and consisted of 55% in loans and 41% in investment securities.

During the first quarter of 2016, average total loans increased $313.1 million, or 10% annualized, compared to the previous quarter and increased $1.1 billion, or 9.2%, compared to the same period last year. Compared to the previous quarter, the increase in average loans resulted mainly from growth in business of $139.8 million, construction of $98.4 million, business real estate of $61.7 million, and consumer loans of $26.0 million. The increase in business loans came from continued growth in commercial and industrial, leasing and tax-free lending activities, while commercial construction projects continued to drive growth in construction loans. Average consumer loan growth was largely the result of continued demand for automobile and other consumer type loans, which grew $36.4 million, partly offset by a decline of $9.6 million in marine and RV loans. Average personal real estate loans declined $6.7 million this quarter; however, the Company also sold certain fixed rate loans totaling $22.0 million during the quarter, as part of an origination initiative that began in 2015. In March 2016, the Company identified certain automobile loans totaling $50.4 million which it intends to sell, and reclassified these loans as held for sale.

During the first quarter of 2016, total average available for sale investment securities, at fair value, increased $90.0 million to $9.7 billion. Purchases of securities totaled $215.1 million in the first quarter of 2016 and were offset by sales, maturities and pay downs of $541.9 million. U.S. government and federal agency securities increased on average by $122.4 million, while mortgage-backed securities increased $89.1 million. At March 31, 2016, the duration of the investment portfolio was 2.8 years, and maturities and pay downs of approximately $1.6 billion are expected to occur during the next 12 months.

Total average deposits increased $499.8 million, or 2.6%, this quarter compared to the previous quarter. The increase in average deposits resulted mainly from increases in money market, savings, and short-term jumbo certificate of deposit accounts, which increased $324.6 million, $24.2 million, and $264.7 million, respectively. Business demand deposits declined $159.6 million this quarter. Compared to the previous quarter, total average commercial, consumer and private banking deposits increased $250.7 million, $172.4 million, and $80.7 million, respectively. The average loans to deposits ratio was 62.8% in both the current quarter and in the prior quarter.

The Company’s average borrowings totaled $1.8 billion in the current quarter, and declined $28.8 million compared to the prior quarter. The decline resulted from a decrease of $302.7 million in average balances of federal funds purchased and repurchase agreements, partly offset by an increase in average FHLB borrowings of $272.5 million. The additional FHLB borrowings were repaid as of March 31, 2016.

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Liquidity and Capital Resources

Liquidity Management

The Company’s most liquid assets are comprised of available for sale investment securities, federal funds sold, securities purchased under agreements to resell (resale agreements), and balances at the Federal Reserve Bank, as follows:

(In thousands)	March 31, 2016	March 31, 2015	December 31, 2015
Liquid assets:			