

COMMERCE BANCSHARES INC /MO/
Form 10-K
February 23, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended December 31, 2016 — 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
(Zip Code)
(Address of principal executive offices) (Zip Code)

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

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

Title of class	Name of exchange on which registered
\$5 Par Value Common Stock	NASDAQ Global Select Market
Depository Shares, each representing a 1/1000th interest in a share of 6.0% Series B Non-Cumulative Perpetual Preferred Stock	NASDAQ Global Select Market

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

NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of June 30, 2016, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$4,160,000,000.

As of February 8, 2017, there were 101,616,184 shares of Registrant's \$5 Par Value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2017 annual meeting of shareholders, which will be filed within 120 days of December 31, 2016, are incorporated by reference into Part III of this Report.

Commerce
Bancshares, Inc.

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PART I

Item 1. BUSINESS

General

Commerce Bancshares, Inc., a bank holding company as defined in the Bank Holding Company Act of 1956, as amended, was incorporated under the laws of Missouri on August 4, 1966. Through a second tier wholly-owned bank holding company, it owns all of the outstanding capital stock of Commerce Bank (the "Bank"), which is headquartered in Missouri. The Bank engages in general banking business, providing a broad range of retail, mortgage banking, corporate, investment, trust, and asset management products and services to individuals and businesses. Commerce Bancshares, Inc. also owns, directly or through the Bank, various non-banking subsidiaries. Their activities include private equity investment, securities brokerage, insurance agency, and leasing activities. A list of Commerce Bancshares, Inc.'s subsidiaries is included as Exhibit 21.

Commerce Bancshares, Inc. and its subsidiaries (collectively, the "Company") is one of the nation's top 50 bank holding companies, based on asset size. At December 31, 2016, the Company had consolidated assets of \$25.6 billion, loans of \$13.4 billion, deposits of \$21.1 billion, and equity of \$2.5 billion. All of the Company's operations conducted by its subsidiaries are consolidated for purposes of preparing the Company's consolidated financial statements. The Company's principal markets, which are served by 184 branch facilities, are located throughout Missouri, Kansas, and central Illinois, as well as Tulsa and Oklahoma City, Oklahoma and Denver, Colorado. Its two largest markets include St. Louis and Kansas City, which serve as the central hubs for the entire Company. The Company also has commercial loan production offices in Dallas, Nashville, Cincinnati, Des Moines, Grand Rapids, and Indianapolis, and operates a national payments business with sales representatives covering 48 states.

The Company's goal is to be the preferred provider of targeted financial services in its communities, based on strong customer relationships. It believes in building long-term relationships based on top quality service, a strong risk management culture, and a strong balance sheet with industry-leading capital levels. The Company operates under a super-community banking format which incorporates large bank product offerings coupled with deep local market knowledge, augmented by experienced, centralized support in select critical areas. The Company's focus on local markets is supported by an experienced team of managers assigned to each market and is also reflected in its financial centers and regional advisory boards, which are comprised of local business persons, professionals and other community representatives, who assist the Company in responding to local banking needs. In addition to this local market, community-based focus, the Company offers sophisticated financial products available at much larger financial institutions.

The markets the Bank serves, being mainly located in the lower Midwest, provide natural sites for production and distribution facilities and also serve as transportation hubs. The economy has been well-diversified in these markets with many major industries represented, including telecommunications, automobile, technology, financial services, aircraft and general manufacturing, health care, numerous service industries, and food and agricultural production. The real estate lending operations of the Bank are centered in its lower Midwestern markets. Historically, these markets have tended to be less volatile than in other parts of the country. Management believes the diversity and nature of the Bank's markets has a mitigating effect on real estate loan losses in these markets.

From time to time, the Company evaluates the potential acquisition of various financial institutions. In addition, the Company regularly considers the potential disposition of certain assets and branches. The Company seeks merger or acquisition partners that are culturally similar, have experienced management and either possess significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The Company has not completed any significant transactions or sales during the past several years.

Employees

The Company employed 4,482 persons on a full-time basis and 395 persons on a part-time basis at December 31, 2016. The Company provides a variety of benefit programs including a 401(k) savings plan with a company matching contribution, as well as group life, health, accident, and other insurance. The Company also maintains training and educational programs designed to address the significant and changing regulations facing the financial services industry and prepare employees for positions of increasing responsibility. None of the Company's employees are represented by collective bargaining agreements.

Competition

The Company faces intense competition from hundreds of financial service providers in its markets and around the United States. It competes with national and state banks for deposits, loans and trust accounts, and with savings and loan associations and credit unions for deposits and consumer lending products. In addition, the Company competes with other financial intermediaries such as securities brokers and dealers, personal loan companies, insurance companies, finance companies, and

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certain governmental agencies. Some of these competitors are not subject to the same regulatory restrictions as domestic banks and bank holding companies. The Company generally competes by providing sophisticated financial products with a strong commitment to customer service, convenience of locations, reputation, and price of service, including interest rates on loan and deposit products. In its two largest markets, the Company has approximately 13% of the deposit market share in Kansas City and approximately 9% of the deposit market share in St. Louis.

Operating Segments

The Company is managed in three operating segments. The Consumer segment includes the retail branch network, consumer installment lending, personal mortgage banking, and consumer debit and credit bank card activities. It provides services through a network of 184 full-service branches, a widespread ATM network of 378 machines, and the use of alternative delivery channels such as extensive online banking, mobile, and telephone banking services. In 2016, this retail segment contributed 21% of total segment pre-tax income. The Commercial segment provides a full array of corporate lending, merchant and commercial bank card products, leasing, and international services, as well as business and government deposit and cash management services. Fixed-income investments are sold to individuals and institutional investors through the Capital Markets Group, which is also included in this segment. In 2016, the Commercial segment contributed 59% of total segment pre-tax income. The Wealth segment provides traditional trust and estate planning services, brokerage services, and advisory and discretionary investment portfolio management services to both personal and institutional corporate customers. At December 31, 2016, the Trust group managed investments with a market value of \$25.4 billion and administered an additional \$17.7 billion in non-managed assets. This segment also manages the Company's family of proprietary mutual funds, which are available for sale to both trust and general retail customers. Additional information relating to operating segments can be found on pages 46 and 93.

Government Policies

The Company's operations are affected by federal and state legislative changes, by the United States government, and by policies of various regulatory authorities, including those of the numerous states in which they operate. These include, for example, the statutory minimum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, international currency regulations and monetary policies, the U.S. Patriot Act, and capital adequacy and liquidity constraints imposed by federal and state bank regulatory agencies.

Supervision and Regulation

The following information summarizes existing laws and regulations that materially affect the Company's operations. It does not discuss all provisions of these laws and regulations, and it does not include all laws and regulations that affect the Company presently or may affect the Company in the future.

General

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

communities, including providing credit to individuals residing in low- and moderate-income areas. The Bank has a current CRA rating of “outstanding”.

The Company is required to file with the Federal Reserve Board various reports and additional information the Federal Reserve Board may require. The Federal Reserve Board also makes regular examinations of the Company and its subsidiaries. The Company’s banking subsidiary is a state chartered Federal Reserve member bank and is subject to regulation, supervision and examination by the Federal Reserve Bank of Kansas City and the State of Missouri Division of Finance. The Bank is also subject to regulation by the Federal Deposit Insurance Corporation (FDIC). In addition, there are numerous other federal and state laws and regulations which control the activities of the Company and the Bank, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with affiliates, loan limits, mergers and acquisitions, issuance of securities, dividend payments, and extensions of credit. The Bank is subject to a number of federal and state consumer protection laws, including laws designed to protect customers and promote lending to various sectors of the economy

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and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and their respective state law counterparts. If the Company fails to comply with these or other applicable laws and regulations, it may be subject to civil monetary penalties, imposition of cease and desist orders or other written directives, removal of management and, in certain circumstances, criminal penalties. This regulatory framework is intended primarily for the protection of depositors and the preservation of the federal deposit insurance funds, not for the protection of security holders. Statutory and regulatory controls increase a bank holding company's cost of doing business and limit the options of its management to employ assets and maximize income.

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

The financial industry operates under laws and regulations that are under constant review by various agencies and legislatures and are subject to sweeping change. The Company currently operates as a bank holding company, as defined by the Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act), and the Bank qualifies as a financial subsidiary under the Act, which allows it to engage in investment banking, insurance agency, brokerage, and underwriting activities that were not available to banks prior to the GLB Act. The GLB Act also included privacy provisions that limit banks' abilities to disclose non-public information about customers to non-affiliated entities.

The Company must also comply with the requirements of the Bank Secrecy Act (BSA). The BSA is designed to help fight drug trafficking, money laundering, and other crimes. Compliance is monitored by the Federal Reserve. The BSA was enacted to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, criminal activity. Since its passage, the BSA has been amended several times. These amendments include the Money Laundering Control Act of 1986 which made money laundering a criminal act, as well as the Money Laundering Suppression Act of 1994 which required regulators to develop enhanced examination procedures and increased examiner training to improve the identification of money laundering schemes in financial institutions.

The USA PATRIOT Act, established in 2001, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent, and report money laundering and terrorist financing. The regulations include significant penalties for non-compliance.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011 (Dodd-Frank Act) was sweeping legislation intended to overhaul regulation of the financial services industry. Among its many provisions, the Dodd-Frank Act established a new council of "systemic risk" regulators, empowers the Federal Reserve to supervise the largest, most complex financial companies, allows the government to seize and liquidate failing financial companies, and gives regulators new powers to oversee the derivatives market. The Dodd-Frank Act also established the Consumer Financial Protection Bureau (CFPB) and authorized it to supervise certain consumer financial services

companies and large depository institutions and their affiliates for consumer protection purposes. Subject to the provisions of the Act, the CFPB has responsibility to implement, examine for compliance with, and enforce “Federal consumer financial law.” As a depository institution, the Company is subject to examinations by the CFPB, which focus on the Company’s ability to detect, prevent, and correct practices that present a significant risk of violating the law and causing consumer harm. Title VI of the Dodd-Frank Act, commonly known as the Volcker Rule, placed trading restrictions on financial institutions and separated investment banking, private equity and proprietary trading (hedge fund) sections of financial institutions from their consumer lending arms. Key provisions restrict banks from simultaneously entering into advisory and creditor roles with their clients, such as with private equity firms. The Volcker Rule also restricts financial institutions from investing in and sponsoring certain types of investments, which must be divested by July 21, 2017. The Company withdrew from a private equity fund investment to comply with the Volcker Rule requirement in 2016 and realized a gain of \$1.8 million upon divestiture. The Company does not hold other significant investments requiring disposal.

While the Company remains subject to regulation under the Dodd-Frank Act and related regulatory requirements, the current presidential administration has instructed federal agencies to consider ways to reduce the impact of federal regulation on financial

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institutions. It is not possible at this time to determine the extent to which this goal will be accomplished nor its impact on the Company.

Subsidiary Bank

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

Deposit Insurance

Substantially all of the deposits of the Bank are insured up to the applicable limits by the Deposit Insurance Fund of the FDIC, generally up to \$250,000 per depositor, for each account ownership category. The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC for Deposit Insurance Fund member institutions. The FDIC classifies institutions under a risk-based assessment system based on their perceived risk to the federal deposit insurance funds. The current assessment base is defined as average total assets minus average tangible equity, with other adjustments for heavy use of unsecured liabilities, secured liabilities, brokered deposits, and holdings of unsecured bank debt. For banks with more than \$10 billion in assets, the FDIC uses a scorecard designed to measure financial performance and ability to withstand stress, in addition to measuring the FDIC's exposure should the bank fail. FDIC insurance expense also includes assessments to fund the interest on outstanding bonds issued in the 1980s in connection with the failures in the thrift industry. The Company's FDIC insurance expense was \$13.3 million in 2016, \$12.1 million in 2015, and \$11.6 million in 2014.

Payment of Dividends

The Federal Reserve Board may prohibit the payment of cash dividends to shareholders by bank holding companies if their actions constitute unsafe or unsound practices. The principal source of the Parent's cash revenues is cash dividends paid by the Bank. The amount of dividends paid by the Bank in any calendar year is limited to the net profit of the current year combined with the retained net profits of the preceding two years, and permission must be obtained from the Federal Reserve Board for dividends exceeding these amounts. The payment of dividends by the Bank may also be affected by factors such as the maintenance of adequate capital.

Capital Adequacy

The Company is required to comply with the capital adequacy standards established by the Federal Reserve, which are based on the risk levels of assets and off-balance sheet financial instruments. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to judgments by regulators regarding qualitative components, risk weightings, and other factors.

In July 2013, the FDIC, the Office of the Comptroller of the Currency and the Federal Reserve Board approved a final rule to implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. A key goal of the Basel III agreement is to strengthen the capital resources of banking organizations during normal and challenging business environments. The Basel III final rule increases minimum requirements for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The capital conservation buffer, which is being phased in during 2016-2019, is intended to absorb losses during periods of economic stress. Failure to maintain the buffer will result in constraints on dividends, equity repurchases and

executive compensation. The final rule also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. At December 31, 2016, the Company met all capital adequacy requirements under Basel III on a fully phased-in basis as if such requirements had been in effect.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the prompt corrective action provisions of FDICIA, an insured depository institution generally will be classified as well-capitalized (under

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the Basel III rules mentioned above) if it has a Tier 1 capital ratio of at least 8%, a common equity Tier 1 capital ratio of at least 6.5%, a Total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. An institution that, based upon its capital levels, is classified as “well-capitalized,” “adequately capitalized,” or “undercapitalized,” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the federal bank regulator, and the holding company must guarantee the performance of that plan. The Bank has consistently maintained regulatory capital ratios at or above the “well-capitalized” standards.

Stress Testing

In October 2012, the Federal Reserve, as required by the Dodd-Frank Act, approved new stress testing regulations applicable to certain financial companies with total consolidated assets of more than \$10 billion but less than \$50 billion. The rule requires that these financial companies, including the Company, conduct annual stress tests based on factors provided by the Federal Reserve, supplemented by institution-specific factors. The Company submitted its first regulatory report on its stress test results to the Federal Reserve in March 2014, and in June 2015, the Company made its first public disclosure of the results of the 2015 stress tests performed under the severely adverse scenario. In 2016, the Company submitted its stress test report to the Federal Reserve in July and publicly disclosed the results in October.

Executive and Incentive Compensation

Guidelines adopted by federal banking agencies prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. The Federal Reserve Board has issued comprehensive guidance on incentive compensation intended to ensure that the incentive compensation policies do not undermine safety and soundness by encouraging excessive risk taking. This guidance covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, based on key principles that (i) incentives do not encourage risk-taking beyond the organization's ability to identify and manage risk, (ii) compensation arrangements are compatible with effective internal controls and risk management, and (iii) compensation arrangements are supported by strong corporate governance, including active and effective board oversight. Deficiencies in compensation practices may affect supervisory ratings and enforcement actions may be taken if incentive compensation arrangements pose a risk to safety and soundness.

Transactions with Affiliates

The Federal Reserve Board regulates transactions between the Company and its subsidiaries. Generally, the Federal Reserve Act and Regulation W, as amended by the Dodd-Frank Act, limit the Company's banking subsidiary and its subsidiaries to lending and other “covered transactions” with affiliates. The aggregate amount of covered transactions a banking subsidiary or its subsidiaries may enter into with an affiliate may not exceed 10% of the capital stock and surplus of the banking subsidiary. The aggregate amount of covered transactions with all affiliates may not exceed 20% of the capital stock and surplus of the banking subsidiary.

Covered transactions with affiliates are also subject to collateralization requirements and must be conducted on arm's length terms. Covered transactions include (a) a loan or extension of credit by the banking subsidiary, including derivative contracts, (b) a purchase of securities issued to a banking subsidiary, (c) a purchase of assets by the banking subsidiary unless otherwise exempted by the Federal Reserve, (d) acceptance of securities issued by an affiliate to the banking subsidiary as collateral for a loan, and (e) the issuance of a guarantee, acceptance or letter of credit by the banking subsidiary on behalf of an affiliate.

Certain transactions with our directors, officers or controlling persons are also subject to conflicts of interest regulations. Among other things, these regulations require that loans to such persons and their related interests be made on terms substantially the same as for loans to unaffiliated individuals and must not create an abnormal risk of repayment or other unfavorable features for the financial institution. See Note 2 to the consolidated financial statements for additional information on loans to related parties.

Available Information

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

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Statistical Disclosure

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

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Item 1a. RISK FACTORS

Making or continuing an investment in securities issued by Commerce Bancshares, Inc., including its common and preferred stock, involves certain risks that you should carefully consider. If any of the following risks actually occur, its business, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause the Company’s actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Commerce Bancshares, Inc.

Difficult market conditions may affect the Company’s industry.

The concentration of the Company’s banking business in the United States particularly exposes it to downturns in the U.S. economy. While current economic conditions are favorable, there remain risks in that environment.

In particular, the Company may face the following risks in connection with market conditions:

In the current national environment, accelerated job growth, lower unemployment levels, high consumer confidence, and improving credit conditions are expected to continue. However, the U.S. economy is also affected by foreign economic events and conditions. Although the Company does not hold foreign debt, the slowing global economy, a strong U.S. dollar, and low oil prices may ultimately affect interest rates, business export activity, capital expenditures by businesses, and investor confidence. Unfavorable changes in these factors may result in declines in consumer credit usage, adverse changes in payment patterns, reduced loan demand, and higher loan delinquencies and default rates. These could impact the Company’s future loan losses and provision for loan losses, as a significant part of the Company’s business includes consumer and credit card lending.

In addition to the results above, reduced levels of economic activity may cause declines in financial services activity, including declines in bank card, corporate cash management and other fee businesses, as well as the fees earned by the Company on such transactions.

The process used to estimate losses inherent in the Company’s loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of its borrowers to repay their loans. If an instance occurs that renders these predictions no longer capable of accurate estimation, this may in turn impact the reliability of the process.

Competition in the industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, thereby reducing market prices for various products and services which could in turn reduce Company revenues.

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

The Company's success is heavily influenced by the general economic conditions of the specific markets in which it operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides financial services primarily throughout the states of Missouri, Kansas, and central Illinois, and in its expansion markets in Oklahoma, Colorado and other surrounding states. As the Company does not have a significant banking presence in other parts of the country, a prolonged economic downturn in these markets could have a material adverse effect on the Company's financial condition and results of operations.

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

The Company operates in the financial services industry and has numerous competitors including other banks and insurance companies, securities dealers, brokers, trust and investment companies and mortgage bankers.

Consolidation among financial service providers and new changes in technology, product offerings and regulation continue to challenge the Company's marketplace position. As consolidation occurs, larger regional and national banks may enter our markets and add to existing competition. Large national financial institutions have substantial capital, technology and marketing resources. These new banks may lower fees in an effort to grow market share, which could result in a loss of customers and lower fee revenue for the Company. They may have greater access to capital at a lower cost than the Company, which may adversely affect the Company's ability to compete effectively. The Company must continue to make investments in its products and delivery systems to stay competitive with the industry as a whole, or its financial performance may suffer.

The soundness of other financial institutions could adversely affect the Company.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institution counterparties. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Transactions with these institutions include overnight and term borrowings, interest rate swap agreements, securities purchased and sold, short-term investments, and other such transactions. As a result of this exposure, defaults by, or rumors or questions about, one or more financial services institutions or the financial services industry in general, could lead to market-wide liquidity problems and defaults by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client, while other transactions expose the Company to liquidity risks should funding sources quickly disappear. In addition, the Company's credit risk may be exacerbated when the collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the exposure due to the Company. Any such losses could materially and adversely affect results of operations.

The Company is subject to increasingly extensive government regulation and supervision.

As part of the financial services industry, the Company has been subject to increasingly extensive federal and state regulation and supervision over the past several years. While a goal of the Trump administration is to loosen some of these regulations, it is not possible at this time to determine the extent to which this goal will be accomplished nor its impact on the Company. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole, not shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products it may offer, and / or increase the ability of nonbanks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and / or

reputation damage, which could have a material adverse effect on the Company's business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Significant changes in federal monetary policy could materially affect the Company's business.

The Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and interest rates earned on loans and paid on borrowings and interest bearing deposits. Credit conditions are influenced by its open market operations in U.S. government securities, changes in the member bank discount rate, and bank reserve requirements. Changes in Federal Reserve Board policies are beyond the Company's control and difficult to predict, and such changes may result in lower interest margins and a continued lack of demand for credit products.

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The Company is subject to both interest rate and liquidity risk.

With oversight from its Asset-Liability Management Committee, the Company devotes substantial resources to monitoring its liquidity and interest rate risk on a monthly basis. The Company's net interest income is the largest source of overall revenue to the Company, representing 59% of total revenue for the year ended at December 31, 2016. The interest rate environment in which the Company operates fluctuates in response to general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence loan originations, deposit generation, demand for investments and revenues and costs for earning assets and liabilities.

In the fourth quarter of 2016, the Federal Reserve Board raised the benchmark interest rate by 25 basis points, marking the second increase in 10 years. Further rate increases are expected in 2017. Such increases may result in customer deposit withdrawals which, if significant, may affect the Company's source of funds for future loan growth. These actions may include reductions in its investment portfolio or higher borrowings, and could reduce net interest income and related margins.

The Company's asset valuation may include methodologies, models, estimations and assumptions which are subject to differing interpretations and could result in changes to asset valuations that may materially adversely affect its results of operations or financial condition.

The Company uses estimates, assumptions, and judgments when certain financial assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party sources, when available. When such third-party information is not available, fair value is estimated primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact the Company's future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, certain asset valuations may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of assets as reported within the Company's consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on results of operations or financial condition.

The processes the Company uses to estimate the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's financial condition and results of operations, depend upon the use of analytical and forecasting models. If these models are inadequate or inaccurate due to flaws in their design or implementation, the fair value of such financial instruments may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments, or the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures. Any such failure in the Company's analytical or forecasting models could have a material adverse effect on the Company business, financial condition and results of operations.

The Company's investment portfolio values may be adversely impacted by deterioration in the credit quality of underlying collateral within the various categories of investment securities it owns.

The Company generally invests in securities issued by municipal entities, government-backed agencies or privately issued securities that are highly rated and evaluated at the time of purchase, however, these securities are subject to changes in market value due to changing interest rates and implied credit spreads. While the Company maintains

rigorous risk management practices over bonds issued by municipalities, credit deterioration in these bonds could occur and result in losses. Certain mortgage and asset-backed securities (which are collateralized by residential mortgages, credit cards, automobiles, mobile homes or other assets) may decline in value due to actual or expected deterioration in the underlying collateral. Under accounting rules, when the impairment is due to declining expected cash flows, some portion of the impairment, depending on the Company's intent to sell and the likelihood of being required to sell before recovery, must be recognized in current earnings. This could result in significant non-cash losses.

Future loan losses could increase.

The Company maintains an allowance for loan losses that represents management's best estimate of probable losses that have been incurred at the balance sheet date within the existing portfolio of loans. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience including emergence periods, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Although the loan losses have been stable during the past several years, an unforeseen deterioration of financial market

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conditions could result in larger loan losses, which may negatively affect the Company's results of operations and could further increase levels of its allowance. In addition, the Company's allowance level is subject to review by regulatory agencies, and that review could result in adjustments to the allowance. See the section captioned "Allowance for Loan Losses" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report for further discussion related to the Company's process for determining the appropriate level of the allowance for probable loan loss.

New lines of business or new products and services may subject the Company to additional risk.

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and new products or services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and new products or services could have a material adverse effect on the Company's financial condition and results of operations.

The Company's reputation and future growth prospects could be impaired if cyber-security attacks or other computer system breaches occur.

The Company relies heavily on communications and information systems to conduct its business, and as part of its business, the Company maintains significant amounts of data about its customers and the products they use. Information security risks for financial institutions have increased recently due to new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions, and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, and others. While the Company has policies and procedures and safeguards designed to prevent or limit the effect of failure, interruption or security breach of its information systems, there can be no assurances that any such failures, interruptions or security breaches will not occur; or if they do occur, that they will be adequately addressed. In addition to unauthorized access, denial-of-service attacks could overwhelm Company Web sites and prevent the Company from adequately serving customers. Should any of the Company's systems become compromised, the reputation of the Company could be damaged, relationships with existing customers may be impaired, the compromise could result in lost business, and as a result, the Company could incur significant expenses trying to remedy the incident.

The Company's operations rely on certain external vendors.

The Company relies on third-party vendors to provide products and services necessary to maintain day-to-day operations. For example, the Company outsources a portion of its information systems, communication, data management and transaction processing to third parties. Accordingly, the Company is exposed to the risk that these vendors might not perform in accordance with the contracted arrangements or service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services, or strategic focus. Such failure to perform could be disruptive to the Company's operations, which could have a materially adverse impact on its business, results of operations and financial condition. These third parties are also sources of risk associated with operational errors, system interruptions or breaches and unauthorized disclosure of confidential information. If the vendors encounter any of these issues, the Company could be exposed to disruption of service, damage to reputation and litigation. Because the Company is an issuer of both debit and credit cards, it is periodically exposed to losses related to security breaches which occur at retailers that are unaffiliated with the Company (e.g., customer card data being compromised at retail stores). These include, but are not limited to, costs

and expenses for card reissuance as well as losses resulting from fraudulent card transactions.

The Company continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services, including the entrance of financial technology companies offering new financial service products. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on the Company's business, financial condition and results of operations.

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Commerce Bancshares, Inc. relies on dividends from its subsidiary bank for most of its revenue.

Commerce Bancshares, Inc. is a separate and distinct legal entity from its banking and other subsidiaries. It receives substantially all of its revenue from dividends from its subsidiary bank. These dividends, which are limited by various federal and state regulations, are the principal source of funds to pay dividends on its preferred and common stock and to meet its other cash needs. In the event the subsidiary bank is unable to pay dividends to it, Commerce Bancshares, Inc. may not be able to pay dividends or other obligations, which would have a material adverse effect on the Company's financial condition and results of operations.

The Company may not attract and retain skilled employees.

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

Item 1b. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

The main offices of the Bank are located in the larger metropolitan areas of its markets in various multi-story office buildings. The Bank owns its main offices and leases unoccupied premises to the public. The larger office buildings include:

Building	Net rentable square footage	% occupied in total	% occupied by Bank
922 Walnut Kansas City, MO	256,000	95 %	93 %
1000 Walnut Kansas City, MO	391,000	80	39
811 Main Kansas City, MO	237,000	100	100
8000 Forsyth Clayton, MO	178,000	100	100
1551 N. Waterfront Pkwy Wichita, KS	124,000	96	34

The Company has an additional 179 branch locations in Missouri, Illinois, Kansas, Oklahoma and Colorado which are owned or leased, and 152 off-site ATM locations.

Item 3. LEGAL PROCEEDINGS

The information required by this item is set forth in Item 8 under Note 19, Commitments, Contingencies and Guarantees on page 110.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Executive Officers of the Registrant

The following are the executive officers of the Company as of February 23, 2017, each of whom is designated annually. There are no arrangements or understandings between any of the persons so named and any other person pursuant to which such person was designated an executive officer.

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Name and Age	Positions with Registrant
Jeffery D. Aberdeen, 62	Controller of the Company since December 1995. He is also Controller of the Company's subsidiary bank, Commerce Bank.
Kevin G. Barth, 56	Executive Vice President of the Company since April 2005 and Executive Vice President of Commerce Bank since October 1998. Senior Vice President of the Company and Officer of Commerce Bank prior thereto.
Jeffrey M. Burik, 58	Senior Vice President of the Company since February 2013. Executive Vice President of Commerce Bank since November 2007.
Daniel D. Callahan, 60	Executive Vice President and Chief Credit Officer of the Company since December 2010 and Senior Vice President of the Company prior thereto. Executive Vice President of Commerce Bank since May 2003.
Sara E. Foster, 56	Executive Vice President of the Company since February 2012 and Senior Vice President of the Company prior thereto. Executive Vice Present of Commerce Bank since January 2016 and Senior Vice President of Commerce Bank prior thereto.
Robert S. Holmes, 53	Executive Vice President of the Company since April 2015 and Executive Vice President of Commerce Bank since January 2016. Prior to his employment with Commerce Bank in March 2015, he was employed at a Midwest regional bank where he served as managing director and head of Regional Banking.
Patricia R. Kellerhals, 59	Senior Vice President of the Company since February 2016 and Vice President of the Company prior thereto. Executive Vice President of Commerce Bank since 2005.
David W. Kemper, 66	Chairman of the Board of Directors of the Company since November 1991, and Chief Executive Officer of the Company since June 1986. He was President of the Company from April 1982 until February 2013. He is Chairman of the Board and Chief Executive Officer of Commerce Bank. He is the brother of Jonathan M. Kemper, Vice Chairman of the Company, and father of John W. Kemper, President and Chief Operating Officer of the Company.
John W. Kemper, 39	President and Chief Operating Officer of the Company since February 2013, and President of Commerce Bank since March 2013. Prior thereto, and since October 2010, he was Executive Vice President and Chief Administrative Officer of the Company and Senior Vice President of Commerce Bank. Member of Board of Directors since September 2015. He is the son of David W. Kemper, Chairman and Chief Executive Officer of the Company and nephew of Jonathan M. Kemper, Vice Chairman of the Company.
Jonathan M. Kemper, 63	Vice Chairman of the Company since November 1991 and Vice Chairman of Commerce Bank since December 1997. Prior thereto, he was Chairman of the Board, Chief Executive Officer, and President of Commerce Bank. He is the brother of David W. Kemper, Chairman and Chief Executive Officer of the Company, and uncle of John W. Kemper, President and Chief Operating Officer of the Company.
Charles G. Kim, 56	Chief Financial Officer of the Company since July 2009. Executive Vice President of the Company since April 1995 and Executive Vice President of Commerce Bank since January 2004. Prior thereto, he was Senior Vice President of Commerce Bank.

Paula S. Petersen, 50 Senior Vice President of the Company since July 2016 and Executive Vice President of Commerce Bank since March 2012.

Michael J. Petrie, 60 Senior Vice President of the Company since April 1995. Prior thereto, he was Vice President of the Company.

David L. Roller, 46 Senior Vice President of the Company since July 2016 and Senior Vice President of the Bank since September 2010.

V. Raymond Stranghoener, 65 Executive Vice President of the Company since July 2005 and Senior Vice President of the Company prior thereto.

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PART II

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

Commerce Bancshares, Inc.

Common Stock Data

The following table sets forth the high and low prices of actual transactions in the Company's common stock and cash dividends paid for the periods indicated (restated for the 5% stock dividend distributed in December 2016).

	Quarter	High	Low	Cash Dividends
2016	First	\$43.77	\$35.66	\$.214
	Second	47.06	40.93	.214
	Third	48.86	43.56	.214
	Fourth	59.22	45.37	.214
2015	First	\$39.86	\$35.85	\$.204
	Second	43.54	37.67	.204
	Third	44.17	38.50	.204
	Fourth	44.86	39.43	.204
2014	First	\$40.87	\$35.99	\$.194
	Second	40.99	36.36	.194
	Third	41.16	38.30	.194
	Fourth	40.18	34.56	.194

Commerce Bancshares, Inc. common shares are listed on the Nasdaq Global Select Market (NASDAQ) under the symbol CBSH. The Company had 3,809 common shareholders of record as of December 31, 2016. Certain of the Company's shares are held in "nominee" or "street" name and the number of beneficial owners of such shares is approximately 45,000.

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Performance Graph

The following graph presents a comparison of Company (CBSH) performance to the indices named below. It assumes \$100 invested on December 31, 2011 with dividends invested on a cumulative total shareholder return basis.

	2011	2012	2013	2014	2015	2016
Commerce (CBSH)	100.00	102.61	140.89	146.08	153.04	222.38
NASDAQ OMX Global-Bank	100.00	134.74	184.08	205.85	210.40	266.24
S&P 500	100.00	115.95	153.48	174.48	176.88	197.96

The following table sets forth information about the Company's purchases of its \$5 par value common stock, its only class of common stock registered pursuant to Section 12 of the Exchange Act, during the fourth quarter of 2016.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number that May Yet Be Purchased Under the Program
October 1—31, 2016	552	\$49.89	552	3,773,964
November 1—30, 2016	13,304	\$57.28	13,304	3,760,660
December 1—31, 2016	1,985	\$58.03	1,985	3,758,675
Total	15,841	\$57.12	15,841	3,758,675

The Company's stock purchases shown above were made under authorizations by the Board of Directors. Under the most recent authorization in October 2015 of 5,000,000 shares, 3,758,675 shares remained available for purchase at December 31, 2016.

Item 6. SELECTED FINANCIAL DATA

The required information is set forth below in Item 7.

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

Forward-Looking Statements

This report may contain "forward-looking statements" that are subject to risks and uncertainties and include information about possible or assumed future results of operations. Many possible events or factors could affect the future financial results and performance of Commerce Bancshares, Inc. and its subsidiaries (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 which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed throughout this report. Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. Such possible events or factors include the risk factors identified in Item 1a Risk Factors and the following: 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; failure of litigation settlement agreements to become final in accordance with their terms; and competition with other entities that offer financial services.

Overview

The Company operates as a super-community bank and offers a broad range of financial products to consumer and commercial customers, delivered with a focus on high-quality, personalized service. It is the largest bank holding company headquartered in Missouri, with its principal offices in Kansas City and St. Louis, Missouri. Customers are served from 336 locations in Missouri, Kansas, Illinois, Oklahoma and Colorado and commercial offices throughout the nation's midsection. A variety of delivery platforms are utilized, including an extensive network of branches and ATM machines, full-featured online banking, and a central contact center.

The core of the Company's competitive advantage is its focus on the local markets in which it operates, its offering of competitive, sophisticated financial products, and its concentration on relationship banking and high-touch service. In order to enhance shareholder value, the Company targets core revenue growth. To achieve this growth, the Company focuses on strategies that will expand new and existing customer relationships, offer opportunities for controlled expansion in additional markets, utilize improved technology, and enhance customer satisfaction.

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

Net income and earnings per share — Net income attributable to Commerce Bancshares, Inc. was \$275.4 million, an increase of 4.4% compared to the previous year. The return on average assets was 1.12% in 2016, and the return on average common equity was 11.33%. Diluted earnings per share increased 7.4% in 2016 compared to 2015.

Total revenue — Total revenue is comprised of net interest income and non-interest income. Total revenue in 2016 increased \$72.0 million over 2015, due to growth in net interest income of \$45.7 million and growth in non-interest income of \$26.3 million. Net interest income increased over 2015 due in part to higher average loan balances, which grew 9.1%, and higher average rates earned on investment securities, which increased 19 basis points over 2015. Overall, the net interest margin (tax equivalent) increased to 3.04% in 2016, a 10 basis point increase over 2015.

Growth in non-interest income resulted principally from increases in deposit fees, cash sweep commissions, trust fees, and loan fees and sales.

Non-interest expense — Total non-interest expense grew 6.0% this year compared to 2015, mainly as a result of higher costs for salaries and employee benefits and an increase in data processing and software costs. Smaller increases

occurred in occupancy, supplies and communication, and deposit insurance expense.

Asset quality — Net loan charge-offs in 2016 decreased \$1.8 million from those recorded in 2015 and averaged .25% of loans compared to .28% in the previous year. Total non-performing assets, which include non-accrual loans and foreclosed real estate, amounted to \$14.6 million at December 31, 2016, a decrease of \$14.7 million from balances at the previous year end, and represented .11% of loans outstanding.

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Shareholder return — Total shareholder return, including the change in stock price and dividend reinvestment, was 45.3% over the past year, compared to the S&P 500 return of 12.0%. The Company's shareholder return was 17.3% over the past 5 years and 9.7% over the past 10 years. During 2016, the Company paid cash dividends of \$.857 per share on its common stock, representing an increase of 5% over the previous year, and paid dividends of 6% on its preferred stock. In 2016, the Company issued its 23rd consecutive annual 5% common stock dividend, and in February 2017, the Company's Board of Directors authorized a 5% increase in the common cash dividend, which is its 49th consecutive annual increase.

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

Key Ratios

	2016	2015	2014	2013	2012
(Based on average balances)					
Return on total assets	1.12	% 1.11	% 1.15	% 1.19	% 1.30
Return on common equity	11.33	11.43	11.65	11.99	12.00
Equity to total assets	10.16	10.00	10.10	9.95	10.84
Loans to deposits ⁽¹⁾	63.71	61.44	59.91	57.12	55.80
Non-interest bearing deposits to total deposits	34.67	35.12	33.73	33.01	32.82
Net yield on interest earning assets (tax equivalent basis)	3.04	2.94	3.00	3.11	3.41
(Based on end of period data)					
Non-interest income to revenue ⁽²⁾	41.09	41.40	41.31	40.34	38.47
Efficiency ratio ⁽³⁾	61.98	62.34	61.96	60.42	59.19
Tier I common risk-based capital ratio ⁽⁴⁾	11.62	11.52	NA	NA	NA
Tier I risk-based capital ratio ⁽⁴⁾	12.38	12.33	13.74	14.06	13.60
Total risk-based capital ratio ⁽⁴⁾	13.32	13.28	14.86	15.28	14.93
Tier I leverage ratio ⁽⁴⁾	9.55	9.23	9.36	9.43	9.14
Tangible common equity to tangible assets ratio ⁽⁵⁾	8.66	8.48	8.55	9.00	9.25
Common cash dividend payout ratio	32.69	33.35	32.69	31.46	78.57

(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.

Risk-based capital information at December 31, 2016 and 2015 was prepared under Basel III requirements, which (4) were effective January 1, 2015. Risk-based capital information for prior years was prepared under Basel I requirements.

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 (5) company comparisons, and also assist 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.

(Dollars in thousands)	2016	2015	2014	2013	2012
Total equity	\$2,501,132	\$2,367,418	\$2,334,246	\$2,214,397	\$2,171,574

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Less non-controlling interest	5,349	5,428	4,053	3,755	4,447	
Less preferred stock	144,784	144,784	144,784	—	—	
Less goodwill	138,921	138,921	138,921	138,921	125,585	
Less core deposit premium	3,841	5,031	6,572	8,489	4,828	
Total tangible common equity (a)	\$2,208,237	\$2,073,254	\$2,039,916	\$2,063,232	\$2,036,714	
Total assets	\$25,641,424	\$24,604,962	\$23,994,280	\$23,072,036	\$22,159,589	
Less goodwill	138,921	138,921	138,921	138,921	125,585	
Less core deposit premium	3,841	5,031	6,572	8,489	4,828	
Total tangible assets (b)	\$25,498,662	\$24,461,010	\$23,848,787	\$22,924,626	\$22,029,176	
Tangible common equity to tangible assets ratio (a)/(b)	8.66	% 8.48	% 8.55	% 9.00	% 9.25	%

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Selected Financial Data

(In thousands, except per share data)

	2016	2015	2014	2013	2012
Net interest income	\$680,049	\$634,320	\$620,204	\$619,372	\$639,906
Provision for loan losses	36,318	28,727	29,531	20,353	27,287
Non-interest income	474,392	448,139	436,506	418,865	400,047
Investment securities gains (losses), net	(53)6,320	14,124	(4,425)4,828
Non-interest expense	717,065	676,487	656,870	629,147	618,015
Net income attributable to Commerce Bancshares, Inc.	275,391	263,730	261,754	260,961	269,329
Net income available to common shareholders	266,391	254,730	257,704	260,961	269,329
Net income per common share-basic*	2.62	2.44	2.38	2.36	2.40
Net income per common share-diluted*	2.61	2.43	2.37	2.35	2.39
Cash dividends on common stock	87,070	84,961	84,241	82,104	211,608
Cash dividends per common share*	.857	.816	.777	.740	1.896
Market price per common share*	57.81	40.51			