COMMERCE BANCSHARES INC /MO/
Form 10-K
February 24, 2016
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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, 2015 — 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 |
| Depositary 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 þ No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by 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 þ | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of June 30, 2015, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $3,888,000,000.
As of February 9, 2016, there were 96,744,198 shares of Registrant’s $5 Par Value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant’s definitive proxy statement for its 2016 annual meeting of shareholders, which will be filed within 120 days of December 31, 2015, 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, 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, mortgage banking, 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, 2015, the Company had consolidated assets of $24.6 billion, loans of $12.4 billion, deposits of $20.0 billion, and equity of $2.4 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 191 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, and Cincinnati, 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 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's latest acquisition was Summit Bancshares Inc. (Summit) in 2013. The Company's acquisition of Summit added $261.6 million in assets (including $207.4 million in loans), $232.3 million in deposits and two branch locations in Tulsa and Oklahoma City, Oklahoma.

Employees
The Company employed 4,391 persons on a full-time basis and 468 persons on a part-time basis at December 31, 2015. 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

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intermediaries such as securities brokers and dealers, personal loan companies, insurance companies, finance companies, and 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. 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 191 full-service branches, a widespread ATM network of 387 machines, and the use of alternative delivery channels such as extensive online banking, mobile, and telephone banking services. In 2015, 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 2015, the Commercial segment contributed 60% 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, 2015, the Trust group managed investments with a market value of $22.6 billion and administered an additional $15.8 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 48 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

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state consumer protection laws, including laws designed to protect customers and promote lending to various sectors of the economy 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, 2016. The Federal Reserve has announced its intention to grant an additional one-year extension to July 21, 2017. The Company does not believe it will be significantly affected by the Volcker Rule provisions. However, the Company was required to develop new policies and procedures to ensure ongoing compliance with the Volcker Rule which resulted in additional operating and compliance costs.

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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 $12.1 million in 2015, $11.6 million in 2014, and $11.2 million in 2013.

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 will be 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. Beginning January 1, 2015, the Company was compliant with revised minimum regulatory capital ratios and began the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the final rule. The Company was also compliant with the required risk-weighted asset calculations effective January 1, 2015. At December 31, 2015, 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 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

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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 will submit its stress test results to the Federal Reserve in July and will disclose the results to the public 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 3 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.



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.
- Reduced levels of economic activity may cause declines in financial services activity, including lower loan demand, 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.

Significant changes in banking laws and regulations could materially affect the Company's business.

A significant increase in bank regulation has occurred over the past several years and is likely to continue. These new laws and regulations have reduced overdraft fees and credit card revenues, eliminated the guaranteed student loan business and affected lending transparency, risk-based FDIC insurance assessments, and derivative clearing processes. Most recently, the regulatory focus has been on stress-testing and Basel III regulatory capital reform. These regulations generally resulted in lower revenues and higher compliance burdens.

Future regulation, along with possible changes in tax laws and accounting rules, may have a significant impact on the way the Company conducts business, implements strategic initiatives, engages in tax planning and makes financial disclosures. Compliance with such regulation may divert resources from other areas of the business and limit the ability to pursue other opportunities.

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.

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, 2015. The interest rate environment in which the Company operates fluctuates in response to general economic conditions and policies of various governmental and regulatory

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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.

Additionally the Company manages its balance sheet in order to maximize its net interest income from its net earning assets while ensuring that there is ample liquidity to meet fluctuating cash flows coming from either funding sources or its earning assets.

Since the financial crisis of 2008, there has been significant growth in deposits from both consumers and businesses, and much of this growth has been invested in the investment securities portfolio. Until its recent initiative to raise rates, the Federal Reserve has maintained interest rates at unprecedented low levels, and as the securities portfolio has grown, interest margins have been pressured. The securities portfolio, which has averaged approximately 43% of total earning assets over the past three years, generally carries lower rates than loans. Furthermore, the Company attempts to diversify its securities portfolio while keeping duration short, in order to ensure it is always able to meet liquidity needs for future changes in loans or deposit balances. Loan demand has recently been strong, growing 5% on average in 2015, 9% in 2014, and 10% in 2013. During these years, growth in loans was mainly funded by maturities of investment securities, and growth in deposits was mostly reinvested in the securities portfolio. At December 31, 2015, the Company's loan to deposit rate was 61.4%, a sign of strong liquidity.

While further loan growth is expected as the economy continues to slowly expand, if demand for loans increases in the future while deposit balances decline significantly, the Company may have to take actions to reduce its investment portfolio or obtain new borrowings to fund loan growth. These actions could reduce net interest income and related interest 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.

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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 in 2015 and 2014, an unforeseen deterioration of financial market 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.

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 outsources a portion of its information systems, communication, data management and transaction processing to third parties. These third parties are sources of risk associated with operational errors, system interruptions or breaches and unauthorized disclosure of confidential information. If the service providers 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. 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.

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

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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 offices include:

| Building | Net rentable square footage | % occupied in total | % occupied by Bank |
|---|---|---|---|
| 922 Walnut<br>Kansas City, MO | 256,000 | 95 % | 93 % |
| 1000 Walnut<br>Kansas City, MO | 390,000 | 79 | 39 |
| 811 Main<br>Kansas City, MO | 237,000 | 100 | 98 |
| 8000 Forsyth<br>Clayton, MO | 178,000 | 100 | 100 |
| 1551 N. Waterfront Pkwy<br>Wichita, KS | 124,000 | 95 | 34 |

Various installment loan, credit card, trust and safe deposit functions operate out of leased offices in downtown Kansas City, Missouri. The Company has an additional 186 branch locations in Missouri, Illinois, Kansas, Oklahoma and Colorado which are owned or leased, and 156 off-site ATM locations.

Item 3. LEGAL PROCEEDINGS
The information required by this item is set forth in Item 8 under Note 20, 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 24, 2016, 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.

| Name and Age | Positions with Registrant |
|---|---|
| Jeffery D. Aberdeen, 61 | Controller of the Company since December 1995. He is also Controller of the Company's subsidiary bank, Commerce Bank. |
| Kevin G. Barth, 55 | 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, 57 | Senior Vice President of the Company since February 2013. Executive Vice President of Commerce Bank since November 2007. |

| | |
|---|---|
| Daniel D. Callahan, 59 | 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. |

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| Name and Age | Positions with Registrant |
|---|---|
| Sara E. Foster, 55 | 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, 52 | 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, 58 | 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, 65 | Chairman of the Board of Directors of the Company since November 1991, 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 son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company), 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, 38 | President and Chief Operating Officer of the Company since February 2013, and Executive Vice President and Chief Administrative Officer of the Company prior thereto. President of Commerce Bank since March 2013 and Senior Vice President of Commerce Bank prior thereto. Member of Board of Directors since September 2015. Prior to his employment with Commerce Bank in August 2007, he was employed as an engagement manager with a global management consulting firm, managing strategy and operations projects primarily focused in the financial service industry. 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, 62 | 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 son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company), 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, 55 | 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. |
| Michael J. Petrie, 59 | Senior Vice President of the Company since April 1995. Prior thereto, he was Vice President of the Company. |
| Robert J. Rauscher, 58 | Senior Vice President of the Company since October 1997. Senior Vice President of Commerce Bank prior thereto. |

| | |
|---|---|
| V. Raymond Stranghoener, 64 | 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 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Commerce Bancshares, Inc.
Common Stock Data
The following table sets forth the high and low prices of actual transactions in the Company's common stock and cash dividends paid for the periods indicated (restated for the 5% stock dividend distributed in December 2015).

| | Quarter | High | Low | Cash Dividends |
|---|---|---|---|---|
| 2015 | First | $41.86 | $37.65 | $.214 |
| | Second | 45.71 | 39.55 | .214 |
| | Third | 46.38 | 40.43 | .214 |
| | Fourth | 47.10 | 41.40 | .214 |
| 2014 | First | $42.91 | $37.79 | $.204 |
| | Second | 43.04 | 38.18 | .204 |
| | Third | 43.22 | 40.22 | .204 |
| | Fourth | 42.19 | 36.29 | .204 |
| 2013 | First | $35.32 | $30.58 | $.194 |
| | Second | 38.54 | 33.22 | .194 |
| | Third | 41.05 | 36.32 | .194 |
| | Fourth | 41.51 | 37.01 | .194 |

Commerce Bancshares, Inc. common shares are listed on the Nasdaq Global Select Market (NASDAQ) under the symbol CBSH. The Company had 3,968 common shareholders of record as of December 31, 2015.

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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, 2010 with dividends invested on a cumulative total shareholder return basis.

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Commerce (CBSH) | 100.00 | 103.15 | 105.84 | 145.32 | 150.67 | 157.85 |
| NASDAQ OMX Global-Bank | 100.00 | 74.57 | 100.48 | 137.27 | 153.50 | 156.89 |
| S&P 500 | 100.00 | 102.11 | 118.39 | 156.72 | 178.15 | 180.60 |

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 2015.

| 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, 2015 | 45,775 | $44.52 | 45,775 | 5,000,000 |
| November 1—30, 2015 | 7,907 | $47.27 | 7,907 | 4,992,093 |
| December 1—31, 2015 | 274,149 | $42.38 | 274,149 | 4,717,944 |
| Total | 327,831 | $42.79 | 327,831 | 4,717,944 |

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, 4,717,944 shares remained available for purchase at December 31, 2015.

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 346 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 $263.7 million, an increase of .8% compared to the previous year. The return on average assets was 1.11% in 2015, and the return on average common equity was 11.43%. Diluted earnings per share increased 2.8% in 2015 compared to 2014.
- Total revenue — Total revenue is comprised of net interest income and non-interest income. Total revenue in 2015 increased $25.7 million over 2014, due to growth in non-interest income of $11.6 million and growth in net interest income of $14.1 million. Growth in non-interest income resulted principally from increases in trust fees, bank card transaction fees, and mortgage banking revenue. Net interest income increased over 2014 due in part to higher average earning assets, including growth of 5.4% in average loans and 4.7% in average investment securities. Despite this growth, continuing low interest rates depressed the net interest margin, which declined to 2.94% in 2015, a 6 basis point decline from 2014.
- Non-interest expense — Total non-interest expense grew 3.0% this year compared to 2014, mainly as a result of higher costs for salaries and employee benefits and an increase in data processing and software costs. Costs for occupancy

declined in 2015, while smaller increases occurred in equipment, supplies and communication, marketing and deposit insurance expense.

- Asset quality — Net loan charge-offs in 2015 decreased $804 thousand from those recorded in 2014 and averaged .28% of loans compared to .31% in the previous year. Total non-performing assets, which include non-accrual loans and foreclosed real estate, amounted to $29.4 million at December 31, 2015, a decrease of $16.9 million from balances at the previous year end, and represented .24% of loans outstanding.

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Shareholder return — Total shareholder return, including the change in stock price and dividend reinvestment, was 4.8% over the past year, compared to the S&P 500 return of 1.4%. Shareholder return was 9.6% over the past 5 years and 5.6% over the past 10 years. During 2015, 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 2015, the Company issued its 22nd consecutive annual 5% common stock dividend.

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| (Based on average balances) | | | | | |
| Return on total assets | 1.11 % | 1.15 % | 1.19 % | 1.30 % | 1.32 % |
| Return on common equity | 11.43 | 11.65 | 11.99 | 12.00 | 12.15 |
| Equity to total assets | 10.00 | 10.10 | 9.95 | 10.84 | 10.87 |
| Loans to deposits (1) | 61.44 | 59.91 | 57.12 | 55.80 | 59.15 |
| Non-interest bearing deposits to total deposits | 35.12 | 33.73 | 33.01 | 32.82 | 30.26 |
| Net yield on interest earning assets (tax equivalent basis) | 2.94 | 3.00 | 3.11 | 3.41 | 3.65 |
| (Based on end of period data) | | | | | |
| Non-interest income to revenue (2) | 41.37 | 41.28 | 40.32 | 38.44 | 37.82 |
| Efficiency ratio (3) | 62.32 | 61.95 | 60.40 | 59.18 | 59.02 |
| Tier I common risk-based capital ratio (4) | 11.52 | NA | NA | NA | NA |
| Tier I risk-based capital ratio (4) | 12.33 | 13.74 | 14.06 | 13.60 | 14.71 |
| Total risk-based capital ratio (4) | 13.28 | 14.86 | 15.28 | 14.93 | 16.04 |
| Tier I leverage ratio (4) | 9.23 | 9.36 | 9.43 | 9.14 | 9.55 |
| Tangible common equity to tangible assets ratio (5) | 8.48 | 8.55 | 9.00 | 9.25 | 9.91 |
| Common cash dividend payout ratio | 33.35 | 32.69 | 31.46 | 78.57 | 30.87 |

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

(5) 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 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) | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Total equity | $2,367,418 | $2,334,246 | $2,214,397 | $2,171,574 | $2,170,361 |
| Less non-controlling interest | 5,428 | 4,053 | 3,755 | 4,447 | 4,314 |
| Less preferred stock | 144,784 | 144,784 | — | — | — |

| | | | | | |
|---|---|---|---|---|---|
| Less goodwill | 138,921 | 138,921 | 138,921 | 125,585 | 125,585 |
| Less core deposit premium | 5,031 | 6,572 | 8,489 | 4,828 | 6,970 |
| Total tangible common equity (a) | $2,073,254 | $2,039,916 | $2,063,232 | $2,036,714 | $2,033,492 |
| Total assets | $24,604,962 | $23,994,280 | $23,072,036 | $22,159,589 | $20,649,367 |
| Less goodwill | 138,921 | 138,921 | 138,921 | 125,585 | 125,585 |
| Less core deposit premium | 5,031 | 6,572 | 8,489 | 4,828 | 6,970 |
| Total tangible assets (b) | $24,461,010 | $23,848,787 | $22,924,626 | $22,029,176 | $20,516,812 |
| Tangible common equity to tangible assets ratio (a)/(b) | 8.48 % | 8.55 % | 9.00 % | 9.25 % | 9.91 % |

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Selected Financial Data

| (In thousands, except per share data) | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net interest income | $634,320 | $620,204 | $619,372 | $639,906 | $646,070 |
| Provision for loan losses | 28,727 | 29,531 | 20,353 | 27,287 | 51,515 |
| Non-interest income | 447,555 | 435,978 | 418,386 | 399,630 | 392,917 |
| Investment securities gains (losses), net | 6,320 | 14,124 | (4,425) | 4,828 | 10,812 |
| Non-interest expense | 675,903 | 656,342 | 628,668 | 617,598 | 616,440 |
| Net income attributable to Commerce Bancshares, Inc. | 263,730 | 261,754 | 260,961 | 269,329 | 256,343 |
| Net income available to common shareholders | 254,730 | 257,704 | 260,961 | 269,329 | 256,343 |
| Net income per common share-basic* | 2.56 | 2.50 | 2.47 | 2.52 | 2.33 |
| Net income per common share-diluted* | 2.56 | 2.49 | 2.46 | 2.51 | 2.32 |
| Cash dividends on common stock | 84,961 | 84,241 | 82,104 | 211,608 | 79,140 |
| Cash dividends per common share* | .857 | .816 | .777 | 1.991 | .721 |
| Market price per common share* | 42.54 | 41.42 | 40.73 | 30.29 | 31.36 |
| Book value per common share* | 22.86 | 21.65 | 20.95 | 20.52 | 20.07 |
| Common shares outstanding* | 97,226 | 101,144 | 105,709 | 105,823 | 108,122 |
| Total assets | 24,604,962 | 23,994,280 | 23,072,036 | 22,159,589 | 20,649,367 |
| Loans, including held for sale | 12,444,299 | 11,469,238 | 10,956,836 | 9,840,211 | 9,208,554 |
| Investment securities | 9,901,680 | 9,645,792 | 9,042,997 | 9,669,735 | 9,358,387 |
| Deposits | 19,978,853 | 19,475,778 | 19,047,348 | 18,348,653 | 16,799,883 |
| Long-term debt | 103,818 | 104,058 | 455,310 | 503,710 | 511,817 |
| Equity | 2,367,418 | 2,334,246 | 2,214,397 | 2,171,574 | 2,170,361 |
| Non-performing assets | 29,394 | 46,251 | 55,439 | 64,863 | 93,803 |

*Restated for the 5% stock dividend distributed in December 2015.

Results of Operations

| | | | | $ Change | | % Change | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2013 | '15-'14 | '14-'13 | '15-'14 | '14-'13 |
| Net interest income | $634,320 | $620,204 | $619,372 | $14,116 | $832 | 2.3 % | .1 % |
| Provision for loan losses | (28,727) | (29,531) | (20,353) | (804) | 9,178 | (2.7) | 45.1 |
| Non-interest income | 447,555 | 435,978 | 418,386 | 11,577 | 17,592 | 2.7 | 4.2 |
| Investment securities gains (losses), net | 6,320 | 14,124 | (4,425) | (7,804) | 18,549 | (55.3) | N.M. |
| Non-interest expense | (675,903) | (656,342) | (628,668) | 19,561 | 27,674 | 3.0 | 4.4 |
| Income taxes | (116,590) | (121,649) | (123,195) | (5,059) | (1,546) | (4.2) | (1.3) |
| Non-controlling interest expense | (3,245) | (1,030) | (156) | 2,215 | 874 | N.M. | N.M. |
| Net income attributable to Commerce Bancshares, Inc. | 263,730 | 261,754 | 260,961 | 1,976 | 793 | .8 | .3 |
| Preferred stock dividends | (9,000) | (4,050) | — | (4,950) | (4,050) | N.M. | N.M. |
| Net income available to common shareholders | $254,730 | $257,704 | $260,961 | $(2,974) | $(3,257) | (1.2)% | (1.2)% |

Net income attributable to Commerce Bancshares, Inc. for 2015 was $263.7 million, an increase of $2.0 million compared to $261.8 million in 2014. Diluted income per common share was $2.56 in 2015 compared to $2.49 in 2014. The increase in net income resulted from increases of $14.1 million in net interest income and $11.6 million in non-interest income. These increases in net income were partly offset by a $19.6 million increase in non-interest expense, as well as a $7.8 million decrease in investment securities gains. The return on average assets was 1.11% in

2015 compared to 1.15% in 2014, and the return on average common equity was 11.43% in 2015 compared to 11.65% in 2014. At December 31, 2015, the ratio of tangible common equity to assets declined to 8.48%, compared to 8.55% at year end 2014.

During 2015, net interest income increased $14.1 million compared to 2014. This increase reflected growth of $9.5 million in interest on loans and $3.8 million in interest on investment securities. Both increases were due to higher average balances which were partly offset by lower rates earned; however, interest on investment securities also declined due to lower inflation income of $7.9 million earned on its portfolio of U.S. Treasury inflation-protected securities (TIPS). In addition, deposit interest expense declined $924 thousand due to slightly lower rates paid. The provision for loan losses decreased $804 thousand from the previous year, totaling $28.7 million in 2015, and was $5.0 million lower than net loan charge-offs. Net charge-offs decreased by $804 thousand in 2015 compared to 2014, mainly in business, business real estate, and consumer loans.

Non-interest income in 2015 was $447.6 million, an increase of $11.6 million compared to $436.0 million in 2014. This increase resulted mainly from growth in trust fees, loan fees and sales, and bank card fees, which increased $7.6 million, $3.1 million, and $3.1 million, respectively. Non-interest expense in 2015 was $675.9 million, an increase of $19.6 million over $656.3 million in 2014. The increase in non-interest expense was largely due to a $16.6 million, or 4.3%, increase in salaries and benefits expense due to higher full-time salaries, incentives, stock-based compensation and 401(k) expense.

During 2015, investment securities net gains totaled $6.3 million, compared to $14.1 million during 2014. Gains in both years resulted mainly from activity in the private equity investment portfolio, and included fair value adjustments and gains/losses realized upon sale or disposition.

Net income attributable to Commerce Bancshares, Inc. for 2014 was $261.8 million, an increase of $793 thousand, or .3%, compared to $261.0 million in 2013. Diluted income per common share was $2.49 in 2014 compared to $2.46 in 2013. The increase in net income resulted from increases of $17.6 million in non-interest income and $18.5 million in investment securities gains. These increases in net income were partly offset by a $27.7 million increase in non-interest expense, as well as an increase of $9.2 million in the provision for loan losses. The return on average assets was 1.15% in 2014 compared to 1.19% in 2013, and the return on average common equity was 11.65% compared to 11.99% in 2013. At December 31, 2014, the ratio of tangible common equity to assets was 8.55% compared to 9.00% at year end 2013.

During 2014, net interest income increased $832 thousand compared to 2013. This slight increase reflected growth of $8.1 million in loan interest income, due to higher loan balances which were partly offset by lower rates earned, coupled with a decline in deposit interest expense of $3.2 million due to lower rates paid. These increases were mostly offset by an $8.6 million decline in interest income on long-term securities purchased under agreements to resell. The provision for loan losses increased $9.2 million over the previous year, totaling $29.5 million in 2014, and was $5.0 million lower than net loan charge-offs. Net charge-offs increased by $3.2 million in 2014 compared to 2013, mainly in consumer, construction and business loans.

Non-interest income during 2014 was $436.0 million, an increase of $17.6 million, or 4.2%, compared to $418.4 million in 2013. This increase was mainly due to growth in trust fees and bank card fees, which increased $9.6 million and $9.2 million, respectively. Non-interest expense during 2014 was $656.3 million, an increase of $27.7 million over $628.7 million in 2013. Salaries and benefits expense, which grew $17.2 million, was the largest contributor to this increase, mainly due to higher full-time salaries expense and medical costs.

During 2014, investment securities net gains totaled $14.1 million, compared to net losses of $4.4 million during 2013. Gains and losses in both years resulted mainly from activity in the private equity investment portfolio, and included fair value adjustments and gains/losses realized upon sale or disposition. Gains in 2014 included $19.6 million related to the sale of a private equity investment, partly offset by a loss of $5.2 million on the sale of TIPS.

In June 2014, the Company issued $150.0 million in perpetual preferred stock with a 6% dividend; its first issuance of preferred stock. During 2015, the Company purchased $123.2 million in shares of its common stock, compared to $271.0 million in 2014. The Company also distributed a 5% stock dividend for the 22nd consecutive year on December 14, 2015. All per share and average share data in this report has been restated to reflect the 2015 stock dividend.

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Critical Accounting Policies

The Company's consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 to the consolidated financial statements. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or be subject to variations which may significantly affect the Company's reported results and financial position for the current period or future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Current economic conditions may require the use of additional estimates, and some estimates may be subject to a greater degree of uncertainty due to the current instability of the economy. 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.

Allowance for Loan Losses

The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects the Company's estimate of the losses inherent in the loan portfolio at any point in time. While these estimates are based on substantive methods for determining allowance requirements, actual outcomes may differ significantly from estimated results, especially when determining allowances for business, construction and business real estate loans. These loans are normally larger and more complex, and their collection rates are harder to predict. Personal banking loans, including personal real estate, credit card and consumer loans, are individually smaller and perform in a more homogenous manner, making loss estimates more predictable. Further discussion of the methodology used in establishing the allowance is provided in the Allowance for Loan Losses section of Item 7 and in Note 1 to the consolidated financial statements.

Valuation of Investment Securities

The Company carries its investment securities at fair value and employs valuation techniques which utilize observable inputs when those inputs are available. These observable inputs reflect assumptions market participants would use in pricing the security and are developed based on market data obtained from sources independent of the Company. When such information is not available, the Company employs valuation techniques which utilize unobservable inputs, or those which reflect the Company’s own assumptions about market participants, based on the best information available in the circumstances. These valuation methods typically involve cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, estimates, or other inputs to the valuation techniques could have a material impact on the Company's future financial condition and results of operations. Assets and liabilities carried at fair value inherently result in more financial statement volatility. Under the fair value measurement hierarchy, fair value measurements are classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable, internally-derived inputs), as discussed in more detail in Note 16 on Fair Value Measurements. Most of the available for sale investment portfolio is priced utilizing industry-standard models that consider various assumptions observable in the marketplace or which can be derived from observable data. Such securities totaled approximately $9.0 billion, or 92.2% of the available for sale portfolio at December 31, 2015, and were classified as Level 2 measurements. The Company also holds $17.2 million in auction rate securities. These were classified as Level 3 measurements, as no liquid market currently exists for these securities, and fair values were derived from internally generated cash flow valuation models which used unobservable inputs significant to the overall measurement.

Changes in the fair value of available for sale securities, excluding credit losses relating to other-than-temporary impairment, are reported in other comprehensive income. The Company periodically evaluates the available for sale portfolio for other-than-temporary impairment. Evaluation for other-than-temporary impairment is based on the Company’s intent to sell the security and whether it is likely that it will be required to sell the security before the anticipated recovery of its amortized cost basis. If either of these conditions is met, the entire loss (the amount by which the amortized cost exceeds the fair value) must be recognized in current earnings. If neither condition is met, but the Company does not expect to recover the amortized cost basis, the Company must determine whether a credit loss has occurred. This credit loss is the amount by which the amortized cost basis exceeds the present value of cash flows expected to be collected from the security. The credit loss, if any, must be recognized in current earnings, while the remainder of the loss, related to all other factors, is recognized in other comprehensive income.

The estimation of whether a credit loss exists and the period over which the security is expected to recover requires significant judgment. The Company must consider available information about the collectability of the security, including information about past events, current conditions, and reasonable forecasts, which includes payment structure, prepayment speeds, expected defaults, and collateral values. Changes in these factors could result in additional impairment, recorded in current earnings, in future periods.

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At December 31, 2015, certain non-agency guaranteed mortgage-backed securities with a fair value of $44.0 million were identified as other-than-temporarily impaired. The cumulative credit-related impairment loss recorded on these securities amounted to $14.1 million, which was recorded in the consolidated statements of income.

The Company, through its direct holdings and its private equity subsidiaries, has numerous private equity investments, categorized as non-marketable securities in the accompanying consolidated balance sheets. These investments are reported at fair value and totaled $65.6 million at December 31, 2015. Changes in fair value are reflected in current earnings and reported in investment securities gains (losses), net, in the consolidated statements of income. Because there is no observable market data for these securities, fair values are internally developed using available information and management’s judgment, and the securities are classified as Level 3 measurements. Although management believes its estimates of fair value reasonably reflect the fair value of these securities, key assumptions regarding the projected financial performance of these companies, the evaluation of the investee company’s management team, and other economic and market factors may affect the amounts that will ultimately be realized from these investments.

Accounting for Income Taxes

Accrued income taxes represent the net amount of current income taxes which are expected to be paid attributable to operations as of the balance sheet date. Deferred income taxes represent the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. Current and deferred income taxes are reported as either a component of other assets or other liabilities in the consolidated balance sheets, depending on whether the balances are assets or liabilities. Judgment is required in applying generally accepted accounting principles in accounting for income taxes. The Company regularly monitors taxing authorities for changes in laws and regulations and their interpretations by the judicial systems. The aforementioned changes, as well as any changes that may result from the resolution of income tax examinations by federal and state taxing authorities, may impact the estimate of accrued income taxes and could materially impact the Company’s financial position and results of operations.

Net Interest Income

Net interest income, the largest source of revenue, results from the Company’s lending, investing, borrowing, and deposit gathering activities. It is affected by both changes in the level of interest rates and changes in the amounts and mix of interest earning assets and interest bearing liabilities. The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates. Changes not solely due to volume or rate changes are allocated to rate.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Change due to | | | Change due to | | |
| (In thousands) | Average Volume | Average Rate | Total | Average Volume | Average Rate | Total |
| Interest income, fully taxable equivalent basis | | | | | | |
| Loans: | | | | | | |
| Business | $7,569 | $(1,905) | $5,664 | $17,332 | $(9,388) | $7,944 |
| Real estate- construction and land | 2,216 | (967) | 1,249 | 1,580 | (790) | 790 |
| Real estate - business | (269) | (2,186) | (2,455) | 2,044 | (6,393) | (4,349) |
| Real estate - personal | 3,082 | (470) | 2,612 | 4,816 | (2,115) | 2,701 |
| Consumer | 9,004 | (4,813) | 4,191 | 8,480 | (7,345) | 1,135 |
| Revolving home equity | 163 | (1,089) | (926) | 94 | (728) | (634) |
| Consumer credit card | (913) | 777 | (136) | 226 | 1,229 | 1,455 |
| Total interest on loans | 20,852 | (10,653) | 10,199 | 34,572 | (25,530) | 9,042 |
| Loans held for sale | 191 | — | 191 | (176) | — | (176) |
| Investment securities: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| U.S. government and federal agency obligations | (862) | (7,708) | (8,570) | 2,105 | 2,870 | 4,975 |
| Government-sponsored enterprise obligations | 2,388 | 1,720 | 4,108 | 5,100 | (547) | 4,553 |
| State and municipal obligations | 2,540 | (1,079) | 1,461 | 3,533 | (462) | 3,071 |
| Mortgage-backed securities | 4,929 | (4,222) | 707 | (5,677) | (1,617) | (7,294) |
| Asset-backed securities | (536) | 5,118 | 4,582 | (2,047) | (452) | (2,499) |
| Other securities | 3,324 | (1,215) | 2,109 | (2,376) | (916) | (3,292) |
| Total interest on investment securities | 11,783 | (7,386) | 4,397 | 638 | (1,124) | (486) |
| Federal funds sold and short-term securities purchased under agreements to resell | (50) | 9 | (41) | 31 | (36) | (5) |
| Long-term securities purchased under agreements to resell | 214 | 485 | 699 | (3,409) | (5,237) | (8,646) |
| Interest earning deposits with banks | (37) | 10 | (27) | 162 | 6 | 168 |
| Total interest income | 32,953 | (17,535) | 15,418 | 31,818 | (31,921) | (103) |
| Interest expense | | | | | | |
| Interest bearing deposits: | | | | | | |
| Savings | 76 | (55) | 21 | 54 | 35 | 89 |
| Interest checking and money market | 324 | (493) | (169) | 442 | (1,364) | (922) |
| Time open and C.D.'s of less than $100,000 | (430) | (471) | (901) | (530) | (1,335) | (1,865) |
| Time open and C.D.'s of $100,000 and over | (299) | 424 | 125 | 688 | (1,145) | (457) |
| Federal funds purchased and securities sold under agreements to repurchase | 323 | 519 | 842 | (74) | 284 | 210 |
| Other borrowings | (36) | 126 | 90 | 328 | (208) | 120 |
| Total interest expense | (42) | 50 | 8 | 908 | (3,733) | (2,825) |
| Net interest income, fully taxable equivalent basis | $32,995 | $(17,585) | $15,410 | $30,910 | $(28,188) | $2,722 |

Net interest income totaled $634.3 million in 2015, increasing $14.1 million, or 2.3%, compared to $620.2 million in 2014. On a tax equivalent (T/E) basis, net interest income totaled $664.0 million, and increased $15.4 million over 2014. This increase included growth of $10.2 million in loan interest, resulting from higher loan balances offset by lower rates earned. In addition, interest earned on investment securities increased $4.4 million, due to higher average balances that were offset by lower inflation-adjusted interest on the Company's holdings of TIPS. Interest expense on deposits and borrowings combined was static at $28.1 million for both 2015 and 2014. The net yield on earning assets (T/E) was 2.94% in 2015 compared with 3.00% in the previous year.

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During 2015, loan interest income (T/E) grew $10.2 million over 2014 due to average loan growth of $609.0 million, or 5.4%, partly offset by lower rates earned, which declined 12 basis points. The average tax equivalent rate earned on the loan portfolio was 3.92% in 2015 compared to 4.04% in 2014. The higher average balances contributed interest income of $20.9 million; however, the lower rates depressed interest income by $10.7 million, which together resulted in a $10.2 million net increase in interest income. The largest increase occurred in business loan interest, which was higher by $5.7 million as a result of growth in average balances of $266.7 million, or 6.8%, partly offset by a decline in rates of 5 basis points. Consumer loan interest grew $4.2 million due to a $212.8 million, or 13.2%, increase in average balances coupled with a 26 basis point decrease in average rates. The increase in average consumer loan balances was mainly the result of increases of $181.2 million in loans secured by passenger vehicles and $14.3 million in fixed rate home equity loans. These increases were partially offset by a $55.3 million decrease in marine and recreational vehicle (RV) loans as that portfolio continues to pay down. Higher levels of interest were earned on personal real estate and construction and land loans, which increased $2.6 million and $1.2 million, respectively. These increases were due to higher average balances, which increased 4.5% in personal real estate and 14.0% in construction and land loans, partly offset by lower average rates earned. Partially offsetting the increases in interest earned was lower interest on business real estate loans. Interest on these loans decreased $2.5 million due to a decline in average balances of $7.0 million coupled with a 9 basis point decline in rates. In addition, interest on revolving home equity loans decreased $926 thousand due to a 25 basis point decrease in average rates, while interest on consumer credit card loans decreased slightly due to lower average balances.

Tax equivalent interest income on total investment securities increased $4.4 million during 2015, as average balances increased by $427.5 million, or 4.7%, while the average rate earned declined 6 basis points from 2014. The average balance of the total investment securities portfolio (at amortized cost) was $9.5 billion and the average rate earned was 2.24% in 2015, compared to an average balance of $9.1 billion and an average rate earned of 2.30% in 2014. The increase in interest income was mainly due to higher interest earned on most security types, except for a decline of $7.9 million in TIPS inflation-adjusted interest. Interest earned on government-sponsored enterprise obligations grew by $4.1 million, as average balances rose $143.8 million, or 18.1%, and the average rate earned increased 19 basis points. Interest earned on asset-backed securities increased $4.6 million, mainly due to an increase of 19 basis points in the average rate earned, partly offset by a decline in the average balance of $60.9 million. Interest income on state and municipal obligations increased $1.5 million, mainly due to growth of $70.7 million in average balances, partly offset by a rate decline of 6 basis points. The overall increase in state and municipal interest included $516 thousand of discount accretion on auction rate securities that were called by the issuer in the fourth quarter of 2015. In addition, interest on corporate debt issues increased $2.9 million due to an increase of $114.3 million in the average balance and higher rates earned, while interest on mortgage-backed securities increased $707 thousand, due to higher average balances, partly offset by lower rates earned. However, these overall increases in income were partly offset by the decline in TIPS interest mentioned above and a $1.2 million decline in interest on non-marketable investments due to lower rates earned, partly offset by higher average balances. Interest on long-term securities purchased under resell agreements increased $699 thousand in 2015 compared to the prior year due to a $16.8 million increase the average balances of these instruments, coupled with an increase in the average rate earned from 1.27% in the previous year to 1.31% in 2015.

During 2015, interest expense on deposits declined $924 thousand from 2014. This decline was largely due to lower interest on certificates of deposit of $776 thousand and lower interest expense on money market and interest checking accounts of $169 thousand. The decline in certificate of deposit expense was largely due to a $251.2 million, or 10.9%, decline in average balances from the prior year. However, this overall decline was partly offset by a $23.3 million increase in long-term jumbo certificates of deposit, which carry higher rates. The decline in money market and interest checking expense resulted from a slight decline in average rates paid, partly offset by the effect of higher balances, which increased $274.8 million, or 2.9% over 2014. The overall rate paid on total deposits declined from .19% in 2014 to .18% in the current year. Interest expense on borrowings increased $932 thousand, mainly due to higher average balances and rates paid on repurchase agreements. The overall average rate incurred on all interest bearing liabilities was .20% in both 2015 and 2014.

During 2014, net interest income totaled $620.2 million, increasing slightly compared to $619.4 million in 2013. On a tax equivalent basis, net interest income totaled $648.6 million in 2014 and increased $2.7 million over the previous year. This increase was mainly the result of higher interest earned on loans, due to higher loan balances, and lower rates paid on deposits. In addition, inflation-adjusted interest on TIPS was higher by $4.3 million compared to 2013, while interest earned on long-term securities purchased under agreements to resell declined $8.6 million due to lower balances and lower rates earned. The net yield on earning assets (T/E) was 3.00% in 2014 compared with 3.11% in the previous year.

Interest income on loans (T/E) grew $9.0 million over 2013 due to an increase of $948.6 million, or 9.2%, in average balances, partly offset by a decrease in average rates earned, which declined from 4.32% in 2013 to 4.04% in 2014. The higher average balances generated interest income of $34.6 million which was offset by a $25.5 million decline in income due to lower rates, combining for a $9.0 million net increase in interest income. The largest increase occurred in business loan interest, which was higher by $7.9 million as a result of growth in average balances of $552.9 million, or 16.4%, partly offset by a decline in rates of 22 basis points. Interest on personal real estate loans grew $2.7 million due to a $123.2 million increase in average balances

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coupled with an 11 basis point decrease in average rates. Higher levels of interest were earned on consumer and construction and land loans, which increased $1.1 million and $790 thousand, respectively. These increases were due to higher average balances, which increased 12.5% in consumer and 10.5% in construction and land loans, partly offset by lower average rates earned. Average consumer loan balances increased $179.8 million, which was mainly the result of increases of $180.8 million in loans secured by passenger vehicles and $33.5 million in fixed rate home equity loans, partly offset by a $67.2 million decrease in marine and RV loans. Interest earned on consumer credit card loans increased by $1.5 million due to a 16 basis point increase in the average rate earned and a slight increase in average balances. Partially offsetting the increases in interest earned was lower interest earned on business real estate loans. Interest on these loans decreased $4.3 million due to a 28 basis point decline in rates, partly offset by growth in average balances of $49.7 million, or 2.2%.

Interest income on total investment securities (T/E) during 2014 was flat compared to 2013, as the total average balance and the average rate earned in 2014 were relatively unchanged from 2013. The average rate earned on the total investment securities portfolio was 2.30% and the total portfolio balance averaged $9.1 billion in both 2014 and 2013. Interest income on U.S. government securities increased $5.0 million over 2013, largely due to growth of $4.3 million in inflation-adjusted interest earned on TIPS. Interest income on state and municipal obligations and government-sponsored enterprise obligations increased $3.1 million and $4.6 million, respectively, due to higher average invested balances, partly offset by declines in rates earned. State and municipal average balances rose $97.7 million, or 6.0%, partly offset by a rate decline of 3 basis points. Average balances of government-sponsored enterprise obligations rose $294.8 million, or 59.0%, offset by a rate decline of 7 basis points. Interest income on mortgage-backed securities decreased $7.3 million in 2014 mainly due to a $206.4 million, or 6.5%, decline in average balances, in addition to a rate decline of 6 basis points. Interest income on asset-backed securities was down by $2.5 million, largely due to a 7.4% decline in average balances. Other declines occurred in interest on corporate debt issues and non-marketable investments, which declined $1.7 million and $1.5 million, respectively, due to lower average balances and lower rates earned. Interest on long-term securities purchased under resell agreements decreased $8.6 million in 2014 compared to the prior year due to a $189.4 million decrease in average balances, in addition to a decrease in the average rate of 53 basis points.

During 2014, interest expense on deposits declined $3.2 million from 2013. This was largely due to lower overall rates paid on total deposits, which declined 3 basis points in 2014 to .19% The average rate paid on total certificates of deposit declined 7 basis points. Total average certificates of deposit declined $107.1 million, or 4.4%, but included an increase in long-term jumbo certificate of deposit balances of $159.4 million. Average rates paid on money market accounts also declined, partly offset by the impact of higher average balances, which increased $371.9 million, or 4.3% over 2013. Interest expense on borrowings increased $330 thousand, as the average rate paid grew by 3 basis points. The average rate paid on total interest bearing liabilities fell to .20% in 2014, compared to .23% in 2013.

Provision for Loan Losses

The provision for loan losses totaled $28.7 million in 2015, which represented a decline of $804 thousand from the 2014 provision of $29.5 million. Net loan charge-offs for the year totaled $33.7 million; also a decline of $804 thousand compared to $34.5 million in 2014. The decrease in net loan charge-offs from the previous year was mainly the result of lower business, business real estate, and consumer loan losses, which decreased $853 thousand, $560 thousand and $527 thousand, respectively. These decreases were partly offset by higher losses on revolving home equity, construction, and consumer credit card loans. The allowance for loan losses totaled $151.5 million at December 31, 2015, a decrease of $5.0 million compared to the prior year, and represented 1.22% of outstanding loans at year end 2015 compared to 1.36% at year end 2014. The provision for loan losses is recorded to bring the allowance for loan losses to a level deemed adequate by management based on the factors mentioned in the following "Allowance for Loan Losses" section of this discussion.

Non-Interest Income

| | | | | % Change | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2013 | '15-'14 | '14-'13 |

| | | | | | |
|---|---|---|---|---|---|
| Bank card transaction fees | $178,926 | $175,806 | $166,627 | 1.8 % | 5.5 % |
| Trust fees | 119,801 | 112,158 | 102,529 | 6.8 | 9.4 |
| Deposit account charges and other fees | 80,416 | 78,680 | 79,017 | 2.2 | (.4 ) |
| Capital market fees | 11,476 | 12,667 | 14,133 | (9.4 ) | (10.4 ) |
| Consumer brokerage services | 13,200 | 12,006 | 11,006 | 9.9 | 9.1 |
| Loan fees and sales | 8,228 | 5,108 | 5,865 | 61.1 | (12.9 ) |
| Other | 35,508 | 39,553 | 39,209 | (10.2 ) | .9 |
| Total non-interest income | $447,555 | $435,978 | $418,386 | 2.7 % | 4.2 % |
| Non-interest income as a % of total revenue* | 41.4 % | 41.3 % | 40.3 % | | |
| Total revenue per full-time equivalent employee | $226.8 | $222.6 | $219.5 | | |

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

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Non-interest income totaled $447.6 million, an increase of $11.6 million, or 2.7%, compared to $436.0 million in 2014. Bank card fees increased $3.1 million, or 1.8%, over the prior year, as a result of a $1.8 million, or 2.1%, increase in corporate card fees, which totaled $89.6 million this year. Debit card fees grew $1.1 million, or 3.1%, to $38.3 million, while credit card fees increased 1.0% over last year and totaled $24.2 million. The table below is a summary of bank card transaction fees for the last three years.

| | | | | % Change | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2013 | '15-'14 | '14-'13 |
| Debit card fees | $38,330 | $37,195 | $35,499 | 3.1 % | 4.8 % |
| Credit card fees | 24,202 | 23,959 | 23,424 | 1.0 | 2.3 |
| Merchant fees | 26,784 | 26,862 | 27,075 | (.3 ) | (.8 ) |
| Corporate card fees | 89,610 | 87,790 | 80,629 | 2.1 | 8.9 |
| Total bank card transaction fees | $178,926 | $175,806 | $166,627 | 1.8 % | 5.5 % |

Trust fee income increased $7.6 million, or 6.8%, as a result of continued growth in both personal (up 7.0%) and institutional (up 5.9%) trust fees. New asset management sales generated $10.5 million in annualized revenue, while client attrition remained low at 5%. The market value of total customer trust assets totaled $38.4 billion at year end 2015, which was a decline of 1.6% from year end 2014. Deposit account fees increased $1.7 million, or 2.2%, partly due to growth in corporate cash management fees of $1.2 million, or 3.6%. In addition, other deposit service charges increased $1.1 million, or 7.0%, while overdraft fees declined $540 thousand, or 1.8%. In 2015, overdraft fees comprised 36.2% of total deposit fees, while corporate cash management fees comprised 43.2% of total deposit fees. Capital market fees declined $1.2 million, or 9.4%, due to continued lower sales volumes, while consumer brokerage services revenue increased $1.2 million, or 9.9%, due to growth in advisory and annuity fees. Loan fees and sales increased $3.1 million this year mainly due to higher mortgage banking revenue, resulting from sales of newly originated residential mortgages, as the Company began a new program of selling longer-term fixed rate mortgages in 2015. Total mortgage banking revenue totaled $3.8 million in 2015 compared to $274 thousand in 2014. Other non-interest income declined $4.0 million, or 10.2%, from the prior year. This decrease was partly due to a gain of $2.1 million on the sales of three retail branches and fee revenue of $885 thousand related to the settlement of previous litigation, which were both recorded in 2014. In addition, lower net gains were recorded in 2015 on bank properties sold or held for sale during the current period, which decreased by $2.3 million. These declines in revenue were partly offset by growth of $2.6 million in interest rate swap fees.

During 2014, non-interest income increased $17.6 million, or 4.2%, over 2013 to $436.0 million. Bank card fees increased $9.2 million, or 5.5%, over 2013, as a result of a $7.2 million, or 8.9%, increase in corporate card fees, which totaled $87.8 million in 2014. Debit card fees grew $1.7 million, or 4.8%, to $37.2 million, while credit card fees increased 2.3% over 2013 and totaled $24.0 million in 2014. Trust fee income increased $9.6 million, or 9.4%, as a result of solid growth in both personal and institutional trust fees. The market value of total customer trust assets totaled $39.0 billion at year end 2014 and grew 10.8% over year end 2013. Deposit account fees declined $337 thousand, or .4%, due to lower overdraft and return item fees of $1.3 million, mostly offset by higher account service charges and corporate cash management fees of $635 thousand and $332 thousand, respectively. Capital market fees decreased $1.5 million, or 10.4%, as a result of weak demand, while loan fees and sales declined $757 thousand, or 12.9%, due to lower loan commitment fees. Consumer brokerage services revenue increased $1.0 million, or 9.1%, due to growth in advisory fees. Other income increased $344 thousand, and included the $2.1 million gain on branch sales and litigation-related fee revenue mentioned above, coupled with higher operating lease revenue. These increases were partly offset by lower net gains on bank properties sold or held for sale during the period, in addition to lower tax credit sales revenue.

Investment Securities Gains (Losses), Net

| (In thousands) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Available for sale: | | | |
| Common stock | $— | $1,570 | $1,375 |
| U.S. government bonds | 1,263 | (5,197) | — |
| Municipal bonds | 1,262 | — | 126 |
| Corporate bonds | 118 | — | — |
| Asset-backed bonds | 282 | — | — |
| OTTI losses on non-agency mortgage-backed bonds | (483) | (1,365) | (1,284) |
| Non-marketable: | | | |
| Private equity investments | 3,878 | 19,116 | (4,642) |
| Total investment securities gains (losses), net | $6,320 | $14,124 | $(4,425) |

Net gains and losses on investment securities during 2015, 2014 and 2013 are shown in the table above. Included in these amounts are gains and losses arising from sales of bonds from the Company's available for sale portfolio, including credit-related losses on debt securities identified as other-than-temporarily impaired. Also shown are 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, in addition to gains and losses realized upon disposition. The portions of private equity investment gains and losses that are attributable to minority interests are reported as non-controlling interest in the consolidated statements of income, and resulted in expense of $2.3 million in 2015, expense of $180 thousand in 2014 and income of $1.1 million in 2013.

Net securities gains of $6.3 million were recorded in 2015, which included $3.9 million in net gains relating to the private equity investment portfolio. In addition, during the first half of 2015, the Company sold $114.6 million of municipal securities, $48.1 million of TIPS and $506.4 million of asset-backed bonds, realizing gains of $2.8 million. Most of these sales were part of a plan to extend the duration of the securities portfolio and improve net interest margins. Credit-related impairment losses of $483 thousand were recorded during 2015 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 $44.0 million at December 31, 2015, compared to $54.6 million at December 31, 2014.

Net securities gains of $14.1 million were recorded in 2014, compared to net losses of $4.4 million in 2013. The 2014 gains included a gain of $19.6 million relating to the sale of a private equity investment which had been held by the Company for many years. In both years, gains were also recorded on the donation of appreciated common stock.

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Non-Interest Expense

| (Dollars in thousands) | 2015 | 2014 | 2013 | % Change '15-'14 | '14-'13 |
|---|---|---|---|---|---|
| Salaries | $340,521 | $322,631 | $310,179 | 5.5 % | 4.0 % |
| Employee benefits | 60,180 | 61,469 | 56,688 | (2.1) | 8.4 |
| Net occupancy | 44,788 | 45,825 | 45,639 | (2.3) | .4 |
| Equipment | 19,086 | 18,375 | 18,425 | 3.9 | (.3) |
| Supplies and communication | 22,970 | 22,432 | 22,511 | 2.4 | (.4) |
| Data processing and software | 83,944 | 78,980 | 78,245 | 6.3 | .9 |
| Marketing | 16,107 | 15,676 | 14,176 | 2.7 | 10.6 |
| Deposit insurance | 12,146 | 11,622 | 11,167 | 4.5 | 4.1 |
| Other | 76,161 | 79,332 | 71,638 | (4.0) | 10.7 |
| Total non-interest expense | $675,903 | $656,342 | $628,668 | 3.0 % | 4.4 % |
| Efficiency ratio | 62.3 % | 62.0 % | 60.4 % | | |
| Salaries and benefits as a % of total non-interest expense | 59.3 % | 58.5 % | 58.4 % | | |
| Number of full-time equivalent employees | 4,770 | 4,744 | 4,727 | | |

Non-interest expense was $675.9 million in 2015, an increase of $19.6 million, or 3.0%, over the previous year. Salaries and benefits expense increased $16.6 million, or 4.3%, mainly due to higher full-time salaries, incentives, stock-based compensation and 401(k) plan corporate contributions, partly offset by lower medical plan costs and pension expense. Growth in salaries expense resulted partly from staffing additions in residential lending, commercial banking, trust, information technology and other support units. Full-time equivalent employees totaled 4,770 at December 31, 2015, an increase of .5% over 2014. Occupancy expense decreased $1.0 million, mainly due to lower building depreciation, utilities and building services, and real estate tax expense, while equipment expense was higher by $711 thousand, due to higher equipment depreciation and service contract expense. Supplies and communication expense increased by $538 thousand, or 2.4%, mainly due to reissuance costs for new chip cards distributed to customers. Data processing and software expense increased $5.0 million, or 6.3%, mainly due to higher software license costs, online subscription services and bank card processing costs. Marketing expense increased by $431 thousand, or 2.7%, while deposit insurance expense was higher by $524 thousand, or 4.5%, mainly due to continuing growth in average assets. Other non-interest expense decreased $3.2 million, or 4.0%, from the prior year and included a recovery of $2.8 million in 2015 related to a letter of credit exposure which had been drawn upon and subsequently paid off. In addition, lower costs were recorded for bank card rewards expense (down $1.2 million), legal fees (down $1.4 million) and impairment losses on surplus branch sites (down $1.5 million). These decreases were partly offset by higher bank card fraud losses of $3.7 million in the current year, coupled with a loss recovery of $1.7 million in 2014 from the settlement of past litigation.

In 2014, non-interest expense was $656.3 million, an increase of $27.7 million, or 4.4%, over 2013. Salaries and benefits expense increased $17.2 million, or 4.7%, mainly due to higher full-time salaries expense and medical plan costs. Full-time equivalent employees totaled 4,744 at December 31, 2014, an increase of .4% over 2013. Occupancy expense increased $186 thousand, while equipment expense and supplies and communication expense both declined slightly. Data processing and software expense increased $735 thousand mainly due to higher software licensing and bank card processing expense. Marketing expense increased $1.5 million, or 10.6%, mainly due to lower advertising activities during 2013, and deposit insurance expense increased $455 thousand, or 4.1% due to higher average assets. Other non-interest expense increased $7.7 million, or 10.7%, over 2013. The increase resulted from a $2.1 million increase in bank card rewards costs and higher costs for operating lease depreciation, coupled with a $2.0 million reimbursement from the Company's bank card processor in 2013 and gains of $3.1 million on sales of foreclosed properties during 2013. These effects were partly offset by the 2014 litigation recovery of $1.7 million mentioned above and letter of credit provisions in 2013 totaling $2.8 million. The Summit acquisition in September 2013 also contributed to the overall increase in total non-interest expense, as costs relating to those operations rose $1.7 million in 2014 (the first full year of such costs) compared to 2013.

Income Taxes

Income tax expense was $116.6 million in 2015, compared to $121.6 million in 2014 and $123.2 million in 2013. The effective tax rate, including the effect of non-controlling interest, was 30.7% in 2015 compared to 31.7% in 2014 and 32.1% in 2013. The Company’s effective tax rates in the years noted above were lower than the federal statutory rate of 35% mainly due to tax-exempt interest on state and local municipal obligations. Additional information about income tax expense is provided in Note 9 to the consolidated financial statements.

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Financial Condition

Loan Portfolio Analysis

Classifications of consolidated loans by major category at December 31 for each of the past five years are shown in the table below. This portfolio consists of loans which were acquired or originated with the intent of holding to their maturity. Loans held for sale are separately discussed in a following section. A schedule of average balances invested in each loan category below appears on page 54.

| | Balance at December 31 | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Commercial: | | | | | |
| Business | $4,397,893 | $3,969,952 | $3,715,319 | $3,134,801 | $2,808,265 |
| Real estate — construction and land | 624,070 | 403,507 | 406,197 | 355,996 | 386,598 |
| Real estate — business | 2,355,544 | 2,288,215 | 2,313,550 | 2,214,975 | 2,180,100 |
| Personal banking: | | | | | |
| Real estate — personal | 1,915,953 | 1,883,092 | 1,787,626 | 1,584,859 | 1,428,777 |
| Consumer | 1,924,365 | 1,705,134 | 1,512,716 | 1,289,650 | 1,114,889 |
| Revolving home equity | 432,981 | 430,873 | 420,589 | 437,567 | 463,587 |
| Consumer credit card | 779,744 | 782,370 | 796,228 | 804,245 | 788,701 |
| Overdrafts | 6,142 | 6,095 | 4,611 | 9,291 | 6,561 |
| Total loans | $12,436,692 | $11,469,238 | $10,956,836 | $9,831,384 | $9,177,478 |

The contractual maturities of loan categories at December 31, 2015, and a breakdown of those loans between fixed rate and floating rate loans are as follows:

| | Principal Payments Due | | | |
|---|---|---|---|---|
| (In thousands) | In One Year or Less | After One Year Through Five Years | After Five Years | Total |
| Business | $2,191,233 | $1,832,997 | $373,663 | $4,397,893 |
| Real estate — construction and land | 300,957 | 253,497 | 69,616 | 624,070 |
| Real estate — business | 506,783 | 1,387,005 | 461,756 | 2,355,544 |
| Real estate — personal | 172,566 | 506,758 | 1,236,629 | 1,915,953 |
| Total business and real estate loans | $3,171,539 | $3,980,257 | $2,141,664 | 9,293,460 |
| Consumer (1) | | | | 1,924,365 |
| Revolving home equity (2) | | | | 432,981 |
| Consumer credit card (3) | | | | 779,744 |
| Overdrafts | | | | 6,142 |
| Total loans | | | | $12,436,692 |
| Loans with fixed rates | $719,069 | $2,239,212 | $1,241,160 | $4,199,441 |
| Loans with floating rates | 2,452,470 | 1,741,045 | 900,504 | 5,094,019 |
| Total business and real estate loans | $3,171,539 | $3,980,257 | $2,141,664 | $9,293,460 |

(1) Consumer loans with floating rates totaled $308.0 million.

(2) Revolving home equity loans with floating rates totaled $425.6 million.

(3) Consumer credit card loans with floating rates totaled $686.1 million.

Total loans at December 31, 2015 were $12.4 billion, an increase of $967.5 million, or 8.4%, over balances at December 31, 2014. The growth in loans during 2015 occurred in all loan categories, with the exception of consumer credit card loans, which declined slightly from the prior year. Business loans increased $427.9 million, or 10.8%, reflecting growth in commercial and industrial loans, lease loans, corporate card loans and tax-advantaged lending. Business real estate loans increased $67.3 million, or 2.9%, due to higher totals of non-owner-occupied loans during

2015. Construction loans increased $220.6 million, or 54.7% due to growth in commercial construction projects. Personal real estate loans retained by the Company increased $32.9 million, or 1.7%, as low rates during the year contributed to a stable market. However, the Company also sold $95.7 million in 30-year fixed rate loans under a new initiative in 2015. Consumer loans were higher by $219.2 million, or 12.9%, which was largely

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driven by continued demand for automobile loans, while marine and recreational vehicle loan balances continued to run off during the year. Revolving home equity and consumer credit card loan balances saw only slight changes compared to balances at year end 2014.

The Company currently generates approximately 28% of its loan portfolio in the St. Louis market, 30% in the Kansas City market, and 42% in other regional markets. The portfolio is diversified from a business and retail standpoint, with 59% in loans to businesses and 41% in loans to consumers. A balanced approach to loan portfolio management and an historical aversion toward credit concentrations, from an industry, geographic and product perspective, have contributed to low levels of problem loans and loan losses.

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. At December 31, 2015, the balance of SNC loans totaled approximately $656.0 million, with an additional $1.2 billion in unfunded commitments, compared to $508.0 million in loans and $1.2 billion in unfunded commitments at December 31, 2014.

Commercial Loans

Business

Total business loans amounted to $4.4 billion at December 31, 2015 and include loans used mainly to fund customer accounts receivable, inventories, and capital expenditures. The business loan portfolio includes tax-advantaged financings which carry tax free interest rates. These loans totaled $822.9 million at December 31, 2015, which was a $95.4 million, or 13.1%, increase over December 31, 2014 balances, and comprised 6.6% of the Company's total loan portfolio. The business loan portfolio also includes direct financing and sales type leases totaling $463.1 million, which are used by commercial customers to finance capital purchases ranging from computer equipment to office and transportation equipment. These leases increased $50.2 million, or 12.1%, over 2014 and comprised 3.7% of the Company’s total loan portfolio. The Company has outstanding energy-related loans totaling $136.5 million at December 31, 2015. Also included in this portfolio are corporate card loans, which totaled $223.9 million at December 31, 2015. These loans, which increased by $11.7 million, or 5.5% in 2015, are made in conjunction with the Company’s corporate card business. They are generally for corporate trade purchases and are short-term, with outstanding balances averaging between 7 to 13 days in duration, which helps to limit risk in these loans.

Business loans, excluding corporate card loans, are made primarily to customers in the regional trade area of the Company, generally the central Midwest, encompassing the states of Missouri, Kansas, Illinois, and nearby Midwestern markets, including Iowa, Oklahoma, Colorado and Ohio. This portfolio is diversified from an industry standpoint and includes businesses engaged in manufacturing, wholesaling, retailing, agribusiness, insurance, financial services, public utilities, healthcare, and other service businesses. Emphasis is upon middle-market and community businesses with known local management and financial stability. Consistent with management’s strategy and emphasis upon relationship banking, most borrowing customers also maintain deposit accounts and utilize other banking services. Net loan recoveries in this category totaled $388 thousand in 2015, while net loan charge-offs of $465 thousand were recorded in 2014. Non-accrual business loans were $10.9 million (.2% of business loans) at December 31, 2015 compared to $11.6 million December 31, 2014.

Real Estate-Construction and Land

The portfolio of loans in this category amounted to $624.1 million at December 31, 2015, which was an increase of $220.6 million, or 54.7%, over the prior year and comprised 5.0% of the Company’s total loan portfolio. These loans are mostly made to businesses in and around the Company's local markets. Commercial construction and land development loans totaled $419.5 million, or 67.2% of total construction loans at December 31, 2015. These commercial loans increased $206.1 million over 2014 year end balances; driving the growth in the total construction portfolio. Commercial construction loans are made during the construction phase for small and medium-sized office and medical buildings, manufacturing and warehouse facilities, apartment complexes, shopping centers, hotels and motels, and other commercial properties. Exposure to larger, speculative commercial properties remains low. Commercial land development loans relate to land owned or developed for use in conjunction with business properties. Residential construction and land development loans at December 31, 2015 totaled $204.6 million, or 32.8% of total construction loans. A stable market has contributed to improved loss trends, with net loan recoveries of $1.3 million and $1.5 million recorded in 2015 and 2014, respectively. Construction and land loans on non-accrual status declined to $3.1 million at year end 2015 compared to $5.2 million at year end 2014.

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Real Estate-Business

Total business real estate loans were $2.4 billion at December 31, 2015 and comprised 18.9% of the Company's total loan portfolio. This category includes mortgage loans for small and medium-sized office and medical buildings, manufacturing and warehouse facilities, shopping centers, hotels and motels, churches, and other commercial properties. Emphasis is placed on owner-occupied lending (41.8% of this portfolio), which presents lower risk levels. The borrowers and/or the properties are generally located in local and regional markets. Additional information about loans by category is presented on page 35. At December 31, 2015, non-accrual balances amounted to $7.9 million, or .3% of the loans in this category, down from $17.9 million at year end 2014. The Company experienced net recoveries of $133 thousand in 2015 compared to net charge-offs of $427 thousand in 2014.

Personal Banking Loans

Real Estate-Personal

At December 31, 2015, there were $1.9 billion in outstanding personal real estate loans, which comprised 15.4% of the Company's total loan portfolio. The mortgage loans in this category are mainly for owner-occupied residential properties. The Company originates both adjustable rate and fixed rate mortgage loans, and at December 31, 2015, 32% of the portfolio was comprised of adjustable rate loans and 68% was comprised of fixed rate loans. The Company does not purchase any loans from outside parties or brokers, and has never maintained or promoted subprime or reduced-document products. The Company retains adjustable rate mortgage loans, and until recently has retained fixed rate loans as directed by its Asset/Liability Management Committee. In 2015, an initiative to originate and sell certain long-term fixed rate loans was begun, under which $95.7 million were sold during 2015. Levels of mortgage loan origination activity increased in 2015 compared to 2014, with originations of $401 million in 2015 compared with $344 million in 2014. The Company has experienced lower loan losses in this category than many others in the industry and believes this is partly because of its conservative underwriting culture, stable markets, and the fact that it does not offer subprime lending products or purchase loans from brokers. Net loan charge-offs for 2015 amounted to $441 thousand, compared to $527 thousand in the previous year. The non-accrual balances of loans in this category decreased to $4.4 million at December 31, 2015, compared to $6.2 million at year end 2014.

Consumer

Consumer loans consist of automobile, motorcycle, marine, tractor/trailer, recreational vehicle (RV), fixed rate home equity, and other consumer loans. These loans totaled $1.9 billion at year end 2015. Approximately 59% of consumer loans outstanding were originated indirectly from auto and other dealers, while the remaining 41% were direct loans made to consumers. Approximately 58% of the consumer portfolio consists of loans secured by passenger vehicles, 16% in fixed rate home equity loans, and 7% in marine and RV loans. As mentioned above, total consumer loans increased by $219.2 million in 2015, mainly the result of growth in loans collateralized by passenger vehicles (mainly automobiles) of $154.2 million, or 16.1%. Growth of $101.6 million in other consumer loans and $12.6 million in fixed rate home equity loans was offset by the run-off of $49.1 million in marine and RV loans. Net charge-offs on consumer loans were $8.3 million in 2015 compared to $8.8 million in 2014, averaging .5% of consumer loans in both years. Consumer loan net charge-offs included marine and RV loan net charge-offs of $2.2 million, which were 1.3% of average marine and RV loans in 2015, compared to 1.1% in 2014.

Revolving Home Equity

Revolving home equity loans, of which 98% are adjustable rate loans, totaled $433.0 million at year end 2015. An additional $668.6 million was available in unused lines of credit, which can be drawn at the discretion of the borrower. Home equity loans are secured mainly by second mortgages (and less frequently, first mortgages) on residential property of the borrower. The underwriting terms for the home equity line product permit borrowing availability, in the aggregate, generally up to 80% or 90% of the appraised value of the collateral property at the time of origination. Net charge-offs totaled $402 thousand in 2015, compared to $40 thousand in 2014.

Consumer Credit Card

Total consumer credit card loans amounted to $779.7 million at December 31, 2015 and comprised 6.3% of the Company's total loan portfolio. The credit card portfolio is concentrated within regional markets served by the Company. The Company offers a variety of credit card products, including affinity cards, rewards cards, and standard and premium credit cards, and emphasizes its credit card relationship product, Special Connections. Approximately 37% of the households that own a Commerce credit card product also maintain a deposit relationship with the subsidiary bank. At December 31, 2015, approximately 88% of the outstanding credit card loan balances had a floating interest rate, compared to 85% in the prior year. Net charge-offs amounted to $25.0 million in 2015, an increase of $317 thousand over $24.7 million in 2014. The ratio of credit card loan net charge-offs to total average credit card loans was 3.4% in 2015 compared to 3.3% in 2014.

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Loans Held for Sale
Loans held for sale are comprised of certain long-term fixed rate personal real estate loans and loans extended to students while attending colleges and universities. The personal real estate loans are carried at fair value and totaled $5.0 million at December 31, 2015. The student loans, carried at the lower of cost or fair value, totaled $2.6 million at December 31, 2015. Both of these portfolios are further discussed in Note 3 to the consolidated financial statements.

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

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. Refer to Note 1 to the consolidated financial statements for additional discussion on the allowance and charge-off policies.

At December 31, 2015, the allowance for loan losses was $151.5 million compared to $156.5 million at December 31, 2014. Total loans delinquent 90 days or more and still accruing were $16.5 million at December 31, 2015, an increase of $2.8 million compared to year end 2014. Non-accrual loans at December 31, 2015 were $26.6 million, a decrease of $14.2 million (mainly in business real estate non-accrual loans) from the prior year. The 2015 year end balance was comprised of $10.9 million of business loans, $7.9 million of business real estate loans, $4.4 million of personal real estate loans, and $3.1 million of construction loans. The percentage of allowance to loans decreased to 1.22% at December 31, 2015 compared to 1.36% at year end 2014 as a result of loan growth and a decline of $5.0 million in the allowance. The percentage of allowance to non-accrual loans was 570% at December 31, 2015, compared to 384% at December 31, 2014.

Net loan charge-offs totaled $33.7 million in 2015, representing an $804 thousand decrease compared to net charge-offs of $34.5 million in 2014. Declines in net charge-offs occurred in business, business real estate, and consumer loans. Business loans experienced net recoveries of $388 thousand in 2015, compared to net charge-offs of $465 thousand in 2014. Net recoveries of $133 thousand occurred in business real estate loans in 2015, compared to net charge-offs of $427 thousand in 2014. Net charge-offs on consumer loans decreased $527 thousand to $8.3 million in 2015, compared to net charge-offs of $8.8 million in 2014. Lower net charge-offs also occurred in personal real estate loans, which declined $86 thousand. These decreases in net charge-offs were partly offset by higher charge-offs in other loan categories. Net recoveries on construction and land loans declined $267 thousand to $1.3 million in 2015, compared to $1.5 million in 2014. Net charge-offs on consumer credit card loans increased $317 thousand to $25.0 million in 2015, compared to $24.7 million in 2014, and consumer credit card net charge-offs grew to 3.35% of average consumer credit card loans in 2015 compared to 3.28% in 2014. Consumer credit card loan net charge-offs as a percentage of total net charge-offs increased to 74.2% in 2015 compared to 71.6% in 2014, as slightly higher consumer credit card charge-offs offset lower overall net charge-offs in other loan categories. Revolving home equity loans also experienced higher net charge-offs, which increased by $362 thousand over the previous year.

The ratio of net charge-offs to total average loans outstanding in 2015 was .28% compared to .31% in 2014 and .30% in 2013. The provision for loan losses in 2015 was $28.7 million, compared to provisions of $29.5 million in 2014 and $20.4 million in 2013.

The Company considers the allowance for loan losses of $151.5 million adequate to cover losses inherent in the loan portfolio at December 31, 2015.

The schedules which follow summarize the relationship between loan balances and activity in the allowance for loan losses:

| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Loans outstanding at end of year(A) | $12,436,692 | $11,469,238 | $10,956,836 | $9,831,384 | $9,177,478 |
| Average loans outstanding(A) | $11,869,276 | $11,260,233 | $10,311,654 | $9,379,316 | $9,222,568 |
| Allowance for loan losses: | | | | | |
| Balance at beginning of year | $156,532 | $161,532 | $172,532 | $184,532 | $197,538 |
| Additions to allowance through charges to expense | 28,727 | 29,531 | 20,353 | 27,287 | 51,515 |
| Loans charged off: | | | | | |
| Business | 2,295 | 2,646 | 1,869 | 2,809 | 6,749 |
| Real estate — construction and land | 499 | 794 | 621 | 1,244 | 7,893 |
| Real estate — business | 1,263 | 1,108 | 2,680 | 7,041 | 4,176 |
| Real estate — personal | 1,037 | 844 | 1,570 | 2,416 | 3,217 |
| Consumer | 11,708 | 12,214 | 11,029 | 12,288 | 16,052 |
| Revolving home equity | 722 | 783 | 1,200 | 2,044 | 1,802 |
| Consumer credit card | 31,326 | 32,424 | 33,206 | 33,098 | 39,242 |
| Overdrafts | 2,200 | 1,960 | 2,024 | 2,221 | 2,254 |
| Total loans charged off | 51,050 | 52,773 | 54,199 | 63,161 | 81,385 |
| Recoveries of loans previously charged off: | | | | | |
| Business | 2,683 | 2,181 | 2,736 | 5,306 | 1,761 |
| Real estate — construction and land | 1,761 | 2,323 | 5,313 | 1,527 | 943 |
| Real estate — business | 1,396 | 681 | 1,728 | 1,933 | 613 |
| Real estate — personal | 596 | 317 | 343 | 990 | 445 |
| Consumer | 3,430 | 3,409 | 3,489 | 4,161 | 3,896 |
| Revolving home equity | 320 | 743 | 214 | 240 | 135 |
| Consumer credit card | 6,287 | 7,702 | 8,085 | 8,623 | 7,625 |
| Overdrafts | 850 | 886 | 938 | 1,094 | 1,446 |
| Total recoveries | 17,323 | 18,242 | 22,846 | 23,874 | 16,864 |
| Net loans charged off | 33,727 | 34,531 | 31,353 | 39,287 | 64,521 |
| Balance at end of year | $151,532 | $156,532 | $161,532 | $172,532 | $184,532 |
| Ratio of allowance to loans at end of year | 1.22% | 1.36% | 1.47% | 1.75% | 2.01% |
| Ratio of provision to average loans outstanding | .24% | .26% | .20% | .29% | .56% |

(A) Net of unearned income, before deducting allowance for loan losses, excluding loans held for sale.

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| | Years Ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Ratio of net charge-offs (recoveries) to average loans outstanding, by loan category: | | | | | |
| Business | (.01)% | .01% | (.03)% | (.08)% | .17% |
| Real estate — construction and land | (.26) | (.37) | (1.24) | (.08) | 1.66 |
| Real estate — business | (.01) | .02 | .04 | .23 | .17 |
| Real estate — personal | .02 | .03 | .07 | .09 | .19 |
| Consumer | .45 | .54 | .52 | .69 | 1.09 |
| Revolving home equity | .09 | .01 | .23 | .40 | .36 |
| Consumer credit card | 3.35 | 3.28 | 3.34 | 3.35 | 4.23 |
| Overdrafts | 24.93 | 21.97 | 18.04 | 18.40 | 11.62 |
| Ratio of total net charge-offs to total average loans outstanding | .28% | .31% | .30% | .42% | .70% |

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

| (Dollars in thousands) | 2015 | | 2014 | | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Loan Loss Allowance Allocation | % of Loans to Total Loans | Loan Loss Allowance Allocation | % of Loans to Total Loans | Loan Loss Allowance Allocation | % of Loans to Total Loans | Loan Loss Allowance Allocation | % of Loans to Total Loans | Loan Loss Allowance Allocation | % of Loans to Total Loans |
| Business | $43,617 | 35.4% | $40,881 | 34.6% | $43,146 | 33.9% | $47,729 | 31.9% | $49,217 | 30.5% |
| RE — construction and land | 16,312 | 5.0 | 13,584 | 3.5 | 18,617 | 3.7 | 20,555 | 3.6 | 28,280 | 4.2 |
| RE — business | 22,157 | 18.9 | 35,157 | 20.0 | 32,426 | 21.1 | 37,441 | 22.5 | 45,000 | 23.8 |
| RE — personal | 6,680 | 15.4 | 7,343 | 16.4 | 4,490 | 16.3 | 3,937 | 16.1 | 3,701 | 15.6 |
| Consumer | 21,717 | 15.5 | 16,822 | 14.9 | 15,440 | 13.8 | 15,165 | 13.1 | 15,369 | 12.1 |
| Revolving home equity | 1,393 | 3.5 | 2,472 | 3.7 | 3,152 | 3.8 | 4,861 | 4.5 | 2,220 | 5.1 |
| Consumer credit card | 38,764 | 6.3 | 39,541 | 6.8 | 43,360 | 7.3 | 41,926 | 8.2 | 39,703 | 8.6 |
| Overdrafts | 892 | — | 732 | .1 | 901 | .1 | 918 | .1 | 1,042 | .1 |
| Total | $151,532 | 100.0% | $156,532 | 100.0% | $161,532 | 100.0% | $172,532 | 100.0% | $184,532 | 100.0% |

Risk Elements of Loan Portfolio

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

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

| | December 31 | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Total non-accrual loans | $26,575 | $40,775 | $48,814 | $51,410 | $75,482 |
| Real estate acquired in foreclosure | 2,819 | 5,476 | 6,625 | 13,453 | 18,321 |
| Total non-performing assets | $29,394 | $46,251 | $55,439 | $64,863 | $93,803 |
| Non-performing assets as a percentage of total loans | .24 % | .40 % | .51 % | .66 % | 1.02 % |
| Non-performing assets as a percentage of total assets | .12 % | .19 % | .24 % | .29 % | .45 % |
| Loans past due 90 days and still accruing interest | $16,467 | $13,658 | $13,966 | $15,347 | $14,958 |

The table below shows the effect on interest income in 2015 of loans on non-accrual status at year end.

| (In thousands) | |
|---|---|
| Gross amount of interest that would have been recorded at original rate | $2,335 |
| Interest that was reflected in income | 239 |
| Interest income not recognized | $2,096 |

Non-accrual loans, which are also classified as impaired, totaled $26.6 million at year end 2015, a decrease of $14.2 million from the balance at year end 2014. The decline from December 31, 2014 occurred mainly in business real estate loans, which decreased $10.0 million largely due to the payoff of a single loan. At December 31, 2015, non-accrual loans were comprised primarily of business (40.9%), business real estate (29.6%) and personal real estate (16.7%) loans. Foreclosed real estate totaled $2.8 million at December 31, 2015, a decrease of $2.7 million when compared to December 31, 2014. Total non-performing assets remain low compared to the overall banking industry in 2015, with the non-performing loans to total loans ratio at .21% at December 31, 2015. Total loans past due 90 days or more and still accruing interest were $16.5 million as of December 31, 2015, an increase of $2.8 million when compared to December 31, 2014. 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 of Note 3 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 $113.1 million at December 31, 2015 compared with $81.2 million at December 31, 2014, resulting in an increase of $32.0 million, or 39.4%. The change in potential problem loans was largely comprised of an increase of $34.9 million in business loans, mainly due to the downgrade of several large commercial and industrial loans.

| | December 31 | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Potential problem loans: | | |
| Business | $58,860 | $23,919 |
| Real estate – construction and land | 1,159 | 8,654 |
| Real estate – business | 51,107 | 45,140 |
| Real estate – personal | 1,755 | 3,469 |
| Consumer | 262 | — |
| Total potential problem loans | $113,143 | $81,182 |

At December 31, 2015, the Company had $53.7 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 3 to the consolidated financial statements. This balance includes certain commercial loans totaling $21.9 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 3 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. Construction and land loans and business real

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estate loans are subject to higher risk because of the impact that low rates and the economy can have on real estate value, and because of the potential volatility of the real estate industry. Certain personal real estate products (residential first mortgages and home equity loans) have contractual features that could increase credit exposure in a market of declining real estate prices, when interest rates are steadily increasing, or when a geographic area experiences an economic downturn. For these personal real estate loans, higher risks could exist when 1) loan terms require a minimum monthly payment that covers only interest, or 2) loan-to-collateral value (LTV) ratios at origination are above 80%, with no private mortgage insurance. Information presented below for personal real estate and home equity loans is based on LTV ratios which were 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. For credit monitoring purposes, the Company relies on delinquency monitoring along with obtaining refreshed FICO scores, and in the case of home equity loans, reviewing line utilization and credit bureau information annually. This has remained an effective means of evaluating credit trends and identifying problem loans, partly because the Company offers standard, conservative lending products.

Real Estate - Construction and Land Loans

The Company's portfolio of construction loans, as shown in the table below, amounted to 5.0% of total loans outstanding at December 31, 2015.

| (Dollars in thousands) | December 31, 2015 | % of Total | | % of Total Loans | | December 31, 2014 | % of Total | | % of Total Loans | |
|---|---|---|---|---|---|---|---|---|---|---|
| Residential land and land development | $72,622 | 11.6 | % | .6 | % | $82,072 | 20.3 | % | .7 | % |
| Residential construction | 131,943 | 21.2 | | 1.1 | | 108,058 | 26.8 | | 1.0 | |
| Commercial land and land development | 54,176 | 8.7 | | .4 | | 62,379 | 15.5 | | .5 | |
| Commercial construction | 365,329 | 58.5 | | 2.9 | | 150,998 | 37.4 | | 1.3 | |
| Total real estate – construction and land loans | $624,070 | 100.0 | % | 5.0 | % | $403,507 | 100.0 | % | 3.5 | % |

Real Estate – Business Loans

Total business real estate loans were $2.4 billion at December 31, 2015 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. Approximately 42% of these loans were for owner-occupied real estate properties, which present lower risk profiles.

| (Dollars in thousands) | December 31, 2015 | % of Total | | % of Total Loans | | December 31, 2014 | % of Total | | % of Total Loans | |
|---|---|---|---|---|---|---|---|---|---|---|
| Owner-occupied | $983,844 | 41.8 | % | 7.9 | % | $1,017,099 | 44.4 | % | 8.9 | % |
| Retail | 322,644 | 13.7 | | 2.6 | | 305,296 | 13.3 | | 2.7 | |
| Office | 218,018 | 9.3 | | 1.8 | | 230,798 | 10.1 | | 2.1 | |
| Multi-family | 196,212 | 8.3 | | 1.6 | | 200,295 | 8.8 | | 1.7 | |
| Farm | 167,344 | 7.1 | | 1.3 | | 151,788 | 6.6 | | 1.3 | |
| Hotels | 157,317 | 6.7 | | 1.2 | | 158,348 | 6.9 | | 1.4 | |
| Industrial | 112,261 | 4.7 | | .9 | | 94,266 | 4.2 | | .8 | |
| Other | 197,904 | 8.4 | | 1.6 | | 130,325 | 5.7 | | 1.1 | |
| Total real estate - business loans | $2,355,544 | 100.0 | % | 18.9 | % | $2,288,215 | 100.0 | % | 20.0 | % |

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. The majority of this portfolio is comprised of approximately $1.7 billion of loans made to the retail customer base and includes both adjustable rate and fixed rate mortgage loans. As shown in Note 3 to the consolidated financial statements, 4.5% of this portfolio has FICO scores of less than 660, and delinquency levels have been low. Loans of approximately $15.5 million in this personal real estate portfolio were structured with interest only payments. Interest only 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. A small portion of the total portfolio is comprised of personal real estate loans made to commercial customers which totaled $257.8 million at December 31, 2015.

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The following table presents information about the retail-based personal real estate loan portfolio for 2015 and 2014.

| (Dollars in thousands) | 2015 Principal Outstanding at December 31 | % of Loan Portfolio | | 2014 Principal Outstanding at December 31 | % of Loan Portfolio | |
|---|---|---|---|---|---|---|
| Loans with interest only payments | $15,516 | .9 | % | $17,159 | 1.0 | % |
| Loans with no insurance and LTV: | | | | | | |
| Between 80% and 90% | 85,438 | 5.1 | | 80,897 | 4.9 | |
| Between 90% and 95% | 28,284 | 1.7 | | 27,707 | 1.7 | |
| Over 95% | 33,119 | 2.0 | | 35,233 | 2.1 | |
| Over 80% LTV with no insurance | 146,841 | 8.8 | | 143,837 | 8.7 | |
| Total loan portfolio from which above loans were identified | 1,667,713 | | | 1,643,227 | | |

Revolving Home Equity Loans

The Company also has revolving home equity loans that are generally collateralized by residential real estate. Most of these loans (93.5%) 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 shown in the following tables, the percentage of loans with LTV ratios greater than 80% has remained a small segment of this portfolio, and delinquencies have been low and stable. The weighted average FICO score for the total current portfolio balance is 772. 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 to convert the outstanding balance to an amortizing loan. If criteria are not met, amortization is required, or the borrower may pay off the loan. Over the next three years, approximately 34% of the Company's current outstanding balances are expected to mature. Of these balances, 82% have a FICO score above 700. 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.

| (Dollars in thousands) | Principal Outstanding at December 31, 2015 | * | | New Lines Originated During 2015 | * | | Unused Portion of Available Lines at December 31, 2015 | * | | Balances Over 30 Days Past Due | * | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans with interest only payments | $404,758 | 93.5 | % | $193,606 | 44.7 | % | $654,919 | 151.3 | % | $4,143 | 1.0 | % |
| Loans with LTV: | | | | | | | | | | | | |
| Between 80% and 90% | 45,061 | 10.4 | | 23,293 | 5.4 | | 40,482 | 9.3 | | 443 | .1 | |
| Over 90% | 23,000 | 5.3 | | 6,357 | 1.4 | | 9,272 | 2.2 | | 232 | .1 | |
| Over 80% LTV | 68,061 | 15.7 | | 29,650 | 6.8 | | 49,754 | 11.5 | | 675 | .2 | |
| Total loan portfolio from which above loans were identified | 432,981 | | | 206,934 | | | 686,976 | | | | | |

* Percentage of total principal outstanding of $433.0 million at December 31, 2015.

| (Dollars in thousands) | Principal Outstanding at December 31, 2014 | * | | New Lines Originated During 2014 | * | | Unused Portion of Available Lines at December 31, 2014 | * | | Balances Over 30 Days Past Due | * | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $405,298 | 94.1 | % | $156,286 | 36.3 | % | $664,160 | 154.1 | % | $1,798 | .4 | % |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Loans with interest only payments | | | | | | | | |
| Loans with LTV: | | | | | | | | |
| Between 80% and 90% | 40,301 | 9.4 | 18,257 | 4.2 | 38,592 | 9.0 | 238 | .1 |
| Over 90% | 22,799 | 5.2 | 14,353 | 3.4 | 9,246 | 2.1 | 81 | — |
| Over 80% LTV | 63,100 | 14.6 | 32,610 | 7.6 | 47,838 | 11.1 | 319 | .1 |
| Total loan portfolio from which above loans were identified | 430,873 | | 166,397 | | 688,541 | | | |

* Percentage of total principal outstanding of $430.9 million at December 31, 2014.

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. This fixed rate home equity loan, typically for home repair or remodeling, is an alternative for individuals who want to finance a specific project or purchase and decide to lock in a specific monthly payment over a defined period.

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Outstanding balances for these loans were $304.5 million and $291.9 million at December 31, 2015 and 2014, respectively. At times, these loans are written with interest only monthly payments and a balloon payoff at maturity; however, less than 2% of this portfolio was comprised of interest only loans at both December 31, 2015 and 2014. The delinquency history on this product has been low, as balances over 30 days past due totaled only $1.0 million, or .3% of the portfolio, at year end 2015 and $1.3 million, or .4% of the portfolio, at year end 2014.

| (Dollars in thousands) | 2015 Principal Outstanding at December 31 | * | | New Loans Originated | * | | 2014 Principal Outstanding at December 31 | * | | New Loans Originated | * | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans with interest only payments | $1,905 | .6 | % | $3,474 | 1.1 | % | $3,400 | 1.2 | % | $2,015 | .7 | % |
| Loans with LTV: | | | | | | | | | | | | |
| Between 80% and 90% | 65,643 | 21.6 | | 23,133 | 7.6 | | 60,924 | 20.9 | | 23,397 | 8.0 | |
| Over 90% | 17,402 | 5.7 | | 6,175 | 2.0 | | 19,472 | 6.6 | | 6,129 | 2.1 | |
| Over 80% LTV | 83,045 | 27.3 | | 29,308 | 9.6 | | 80,396 | 27.5 | | 29,526 | 10.1 | |
| Total loan portfolio from which above loans were identified | 304,456 | | | | | | 291,891 | | | | | |

* Percentage of total principal outstanding of $304.5 million and $291.9 million at December 31, 2015 and 2014, respectively.

Management does not believe these loans collateralized by real estate (fixed rate home equity, personal real estate, and revolving home equity) represent any unusual concentrations of risk, as evidenced by net charge-offs in 2015 of $112 thousand, $441 thousand and $402 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 comprised mainly of loans secured by passenger vehicles (mainly automobiles and motorcycles), marine, and RVs. During 2015, $650.7 million of new vehicle loans were originated, compared to $617.0 million during 2014. Marine and RV loan production has been significantly curtailed since 2008 with few new originations. The loss ratios experienced for marine and RV loans have been higher than for other consumer loan products, at 1.3% and 1.1% in 2015 and 2014, respectively. Balances over 30 days past due for marine and RV loans decreased $530 thousand at year end 2015 compared to 2014. The table below provides the total outstanding principal and other data for this group of direct and indirect lending products at December 31, 2015 and 2014.

| (In thousands) | 2015 Principal Outstanding at December 31 | New Loans Originated | Balances Over 30 Days Past Due | 2014 Principal Outstanding at December 31 | New Loans Originated | Balances Over 30 Days Past Due |
|---|---|---|---|---|---|---|
| Passenger vehicles | $1,112,434 | $650,738 | $12,475 | $958,270 | $616,994 | $8,801 |
| Marine | 36,895 | 2,173 | 1,248 | 49,722 | 810 | 2,049 |
| RV | 106,180 | 1,678 | 3,883 | 142,492 | 1,445 | 3,612 |
| Total | $1,255,509 | $654,589 | $17,606 | $1,150,484 | $619,249 | $14,462 |

Additionally, the Company offers low promotional rates on selected consumer credit card products. Out of a portfolio at December 31, 2015 of $779.7 million in consumer credit card loans outstanding, approximately $180.3 million, or 23.1%, carried a low promotional rate. Within the next six months, $50.3 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 totaled $136.5 million at December 31, 2015. The portfolio was comprised of lending to the petroleum and natural gas sectors and included $65.6 million in loans related to extraction, $28.7 million of loans in the mid-stream shipping and storage sector, $27.2 million of loans in the downstream distribution and refining sector, and $14.9 million of loans for support activities.

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Investment Securities Analysis

Investment securities are comprised of securities which are classified as available for sale, non-marketable, or trading. During 2015, total investment securities increased $307.6 million, or 3.2%, to $9.8 billion (excluding unrealized gains/losses) compared to $9.5 billion at the previous year end. During 2015, securities of $3.5 billion were purchased in the available for sale and non-marketable portfolios, which included $1.2 billion in asset-backed securities, $560.9 million in agency mortgage-backed securities and $585.6 million in non-agency mortgage-backed securities. Total sales, maturities and pay downs in these portfolios were $3.2 billion during 2015. During 2016, maturities and pay downs of approximately $1.6 billion are expected to occur. The average tax equivalent yield earned on total investment securities was 2.24% in 2015 and 2.30% in 2014.

At December 31, 2015, the fair value of available for sale securities was $9.8 billion, including a net unrealized gain in fair value of $85.6 million, compared to a net unrealized gain of $137.3 million at December 31, 2014. The overall unrealized gain in fair value at December 31, 2015 included gains of $39.3 million in agency mortgage-backed securities, $35.3 million in state and municipal obligations, and $35.3 million in equity securities held by the Parent, partially offset by a loss of $15.8 million in asset-backed securities.

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

| | December 31 | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Amortized Cost | | |
| U.S. government and federal agency obligations | $729,846 | $497,336 |
| Government-sponsored enterprise obligations | 794,912 | 968,574 |
| State and municipal obligations | 1,706,635 | 1,789,215 |
| Agency mortgage-backed securities | 2,579,031 | 2,523,377 |
| Non-agency mortgage-backed securities | 879,186 | 372,911 |
| Asset-backed securities | 2,660,201 | 3,090,174 |
| Other debt securities | 335,925 | 140,784 |
| Equity securities | 5,678 | 3,931 |
| Total available for sale investment securities | $9,691,414 | $9,386,302 |
| Fair Value | | |
| U.S. government and federal agency obligations | $727,076 | $501,407 |
| Government-sponsored enterprise obligations | 793,023 | 963,127 |
| State and municipal obligations | 1,741,957 | 1,813,201 |
| Agency mortgage-backed securities | 2,618,281 | 2,593,708 |
| Non-agency mortgage-backed securities | 879,963 | 382,744 |
| Asset-backed securities | 2,644,381 | 3,091,993 |
| Other debt securities | 331,320 | 139,161 |
| Equity securities | 41,003 | 38,219 |
| Total available for sale investment securities | $9,777,004 | $9,523,560 |

The available for sale portfolio includes agency mortgage-backed securities, which are collateralized bonds issued by agencies, including FNMA, GNMA, FHLMC, FHLB, Federal Farm Credit Banks and FDIC. Non-agency mortgage-backed securities totaled $880.0 million, at fair value, at December 31, 2015, and included Alt-A type mortgage-backed securities of $44.0 million and prime/jumbo loan type securities of $237.5 million. Certain non-agency mortgage-backed securities are other-than-temporarily impaired, and the processes for determining impairment and the related losses are discussed in Note 4 to the consolidated financial statements.

At December 31, 2015, U.S. government obligations included $416.8 million in TIPS, and state and municipal obligations included $17.2 million in auction rate securities, at fair value. Other debt securities include corporate bonds, notes and commercial paper. Available for sale equity securities are mainly comprised of common stock held by the Parent which totaled $38.3 million at December 31, 2015.

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The types of debt securities held in the available for sale security portfolio at year end 2015 are presented in the table below. Additional detail by maturity category is provided in Note 4 to the consolidated financial statements.

| | December 31, 2015 | | |
|---|---|---|---|
| | Percent of Total Debt Securities | Weighted Average Yield | Estimated Average Maturity* |
| Available for sale debt securities: | | | |
| U.S. government and federal agency obligations | 7.5 % | 1.29 % | 4.6 years |
| Government-sponsored enterprise obligations | 8.1 | 1.79 | 4.1 |
| State and municipal obligations | 17.9 | 2.46 | 5.5 |
| Agency mortgage-backed securities | 26.9 | 2.62 | 3.5 |
| Non-agency mortgage-backed securities | 9.0 | 2.54 | 3.5 |
| Asset-backed securities | 27.2 | 1.33 | 2.4 |
| Other debt securities | 3.4 | 2.54 | 5.9 |

*Based on call provisions and estimated prepayment speeds.

Non-marketable securities totaled $112.8 million at December 31, 2015 and $106.9 million at December 31, 2014. These include Federal Reserve Bank stock and Federal Home Loan Bank (Des Moines) stock held by the bank subsidiary in accordance with debt and regulatory requirements. These are restricted securities and are carried at cost. Also included are private equity investments, most of which are held by a subsidiary qualified as a Small Business Investment Company. These investments are carried at estimated fair value, but are not readily marketable. While the nature of these investments carries a higher degree of risk than the normal lending portfolio, this risk is mitigated by the overall size of the investments and oversight provided by management, and management believes the potential for long-term gains in these investments outweighs the potential risks.

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

| | December 31 | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Federal Reserve Bank stock | $32,634 | $32,383 |
| Federal Home Loan Bank stock | 14,191 | 14,203 |
| Private equity investments in debt securities | 30,262 | 32,793 |
| Private equity investments in equity securities | 35,354 | 27,371 |
| Other equity securities | 345 | 125 |
| Total non-marketable investment securities | $112,786 | $106,875 |

In addition to its holdings in the investment securities portfolio, the Company invests in long-term securities purchased under agreements to resell, which totaled $875.0 million at December 31, 2015 and $1.1 billion at December 31, 2014. These investments mature in 2016 through 2018 and may have fixed rates, variable rates, or rates that fluctuate with published indices within a fixed range. The counterparties to these agreements are other financial institutions from whom the Company has accepted collateral of $906.3 million in marketable investment securities at December 31, 2015. The average rate earned on these agreements during 2015 was 1.11%.

The Company also holds offsetting repurchase and resale agreements totaling $550.0 million and $450.0 million at December 31, 2015 and 2014, respectively, which are further discussed in Note 19 to the consolidated financial statements. 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 been offset against each other in the balance sheet, as permitted under current accounting guidance. The agreements mature in 2016 through 2019 and earned an average of 52 basis points during 2015.

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Deposits and Borrowings

Deposits are the primary funding source for the Bank and are acquired from a broad base of local markets, including both individual and corporate customers. Total deposits were $20.0 billion at December 31, 2015, compared to $19.5 billion last year, reflecting an increase of $503.1 million, or 2.6%. Most of this growth occurred in the fourth quarter of 2015.

Average deposits grew by $529.9 million, or 2.8%, in 2015 compared to 2014 with most of this growth occurring in business demand deposits, which increased $387.7 million, or 8.0%, and in money market deposits, which grew $280.1 million, or 3.1%. Total certificates of deposit fell on average by $251.2 million, or 10.9%, but personal demand deposits and savings grew $68.2 million, or 5.4%, and $58.7 million, or 8.7%, respectively.

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

| | December 31 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Non-interest bearing | 35.8 | % | 35.0 | % |
| Savings, interest checking and money market | 54.2 | | 54.1 | |
| Time open and C.D.'s of less than $100,000 | 3.9 | | 4.5 | |
| Time open and C.D.'s of $100,000 and over | 6.1 | | 6.4 | |
| Total deposits | 100.0 | % | 100.0 | % |

Core deposits, which include non-interest bearing, interest checking, savings, and money market deposits, supported 76% of average earning assets in both 2015 and 2014. Average balances by major deposit category for the last six years appear on page 54. A maturity schedule of time deposits outstanding at December 31, 2015 is included in Note 7 on Deposits in the consolidated financial statements.

The Company's primary sources of overnight borrowings are federal funds purchased and securities sold under agreements to repurchase (repurchase agreements). Balances in these accounts can fluctuate significantly on a day-to-day basis and generally have one day maturities. Total balances of federal funds purchased and repurchase agreements outstanding at December 31, 2015 were $2.0 billion, a $101.0 million increase over the $1.9 billion balance outstanding at year end 2014. On an average basis, these borrowings increased $397.2 million, or 31.6%, during 2015, with an increase of $53.1 million in federal funds purchased coupled with an increase of $344.1 million in repurchase agreements. The average rate paid on total federal funds purchased and repurchase agreements was .11% during 2015 and .08% during 2014.

The Company's long-term debt is currently comprised of fixed rate advances from the FHLB. These borrowings decreased to $103.8 million at December 31, 2015, from $104.1 million outstanding at December 31, 2014. The average rate paid on FHLB advances was 3.50% and 3.51% during 2015 and 2014, respectively. Most of the remaining balance outstanding at December 31, 2015 is due in 2017.

Liquidity and Capital Resources

Liquidity Management

Liquidity is managed within the Company in order to satisfy cash flow requirements of deposit and borrowing customers while at the same time meeting its own cash flow needs. The Company has taken numerous steps to address liquidity risk and has developed a variety of liquidity sources which it believes will provide the necessary funds for future growth. The Company manages its liquidity position through a variety of sources including:

- A portfolio of liquid assets including marketable investment securities and overnight investments,
- A large customer deposit base and limited exposure to large, volatile certificates of deposit,
- Lower long-term borrowings that might place demands on Company cash flow,
- Relatively low loan to deposit ratio promoting strong liquidity,

- Excellent debt ratings from both Standard & Poor's and Moody's national rating services, and
- Available borrowing capacity from outside sources.

During 2015, the Company continued to see more growth in average loans (up 5.4%) than in deposits (up 2.8%). As a result, the Company's average loans to deposits ratio, one measure of liquidity, increased to 61.4% in 2015 from 59.9% in 2014.

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The Company’s most liquid assets include available for sale marketable investment securities, federal funds sold, balances at the Federal Reserve Bank, and securities purchased under agreements to resell. At December 31, 2015 and 2014, such assets were as follows:

| (In thousands) | 2015 | 2014 |
|---|---|---|
| Available for sale investment securities | $9,777,004 | $9,523,560 |
| Federal funds sold | 14,505 | 32,485 |
| Long-term securities purchased under agreements to resell | 875,000 | 1,050,000 |
| Balances at the Federal Reserve Bank | 23,803 | 600,744 |
| Total | $10,690,312 | $11,206,789 |

Federal funds sold are funds lent to the Company’s correspondent bank customers with overnight maturities, and totaled $14.5 million at December 31, 2015. At December 31, 2015, the Company had lent funds totaling $875.0 million under long-term resale agreements to other large financial institutions. The agreements mature in years 2016 through 2018. Under these agreements, the Company holds marketable securities, safekept by a third-party custodian, as collateral. This collateral totaled $906.3 million in fair value at December 31, 2015. Interest earning balances at the Federal Reserve Bank, which have overnight maturities and are used for general liquidity purposes, totaled $23.8 million at December 31, 2015. The Company’s available for sale investment portfolio includes scheduled maturities and expected pay downs of approximately $1.6 billion during 2016, and these funds offer substantial resources to meet either new loan demand or help offset reductions in the Company’s deposit funding base. The Company pledges portions of its investment securities portfolio to secure public fund deposits, repurchase agreements, trust funds, letters of credit issued by the FHLB, and borrowing capacity at the Federal Reserve Bank. At December 31, 2015 and 2014, total investment securities pledged for these purposes were as follows:

| (In thousands) | 2015 | 2014 |
|---|---|---|
| Investment securities pledged for the purpose of securing: | | |
| Federal Reserve Bank borrowings | $166,153 | $362,920 |
| FHLB borrowings and letters of credit | 31,095 | 40,978 |
| Repurchase agreements | 2,116,537 | 2,389,093 |
| Other deposits | 1,827,195 | 1,861,001 |
| Total pledged securities | 4,140,980 | 4,653,992 |
| Unpledged and available for pledging | 3,886,219 | 3,107,968 |
| Ineligible for pledging | 1,749,805 | 1,761,600 |
| Total available for sale securities, at fair value | $9,777,004 | $9,523,560 |

Liquidity is also available from the Company’s large base of core customer deposits, defined as non-interest bearing, interest checking, savings, and money market deposit accounts. At December 31, 2015, such deposits totaled $18.0 billion and represented 90.0% of the Company’s total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company promoting long lasting relationships and stable funding sources. Total core deposits increased $627.6 million at year end 2015 over 2014, with growth of $506.5 million in consumer and $302.0 million in corporate core deposits, partially offset by a decline of $103.4 million in private banking. Much of overall deposit growth tends to occur in the fourth quarter, reflecting seasonal patterns. While the Company considers core consumer and private banking deposits less volatile, corporate deposits could decline if interest rates increase significantly or if corporate customers increase investing activities and reduce deposit balances. If these corporate deposits decline, the Company's funding needs can be met by liquidity supplied by investment security maturities and pay downs of $1.6 billion as noted above. In addition, as shown on page 42, the Company has borrowing capacity of $3.2 billion through advances from the FHLB and the Federal Reserve.

| (In thousands) | 2015 | 2014 |
|---|---|---|
| Core deposit base: | | |
| Non-interest bearing | $7,146,398 | $6,811,959 |

| | | |
|---|---|---|
| Interest checking | 1,267,757 | 1,352,759 |
| Savings and money market | 9,566,989 | 9,188,842 |
| Total | $17,981,144 | $17,353,560 |

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Time open and certificates of deposit of $100,000 or greater totaled $1.2 billion at December 31, 2015. These deposits are normally considered more volatile and higher costing, and comprised 6.1% of total deposits at December 31, 2015.

Other important components of liquidity are the level of borrowings from third party sources and the availability of future credit. The Company’s outside borrowings are mainly comprised of federal funds purchased, repurchase agreements, and advances from the FHLB, as follows:

| (In thousands) | 2015 | 2014 |
|---|---|---|
| Borrowings: | | |
| Federal funds purchased | $556,970 | $3,840 |
| Repurchase agreements | 1,406,582 | 1,858,678 |
| FHLB advances | 103,818 | 104,058 |
| Total | $2,067,370 | $1,966,576 |

Federal funds purchased, which totaled $557.0 million at December 31, 2015, are unsecured overnight borrowings obtained mainly from upstream correspondent banks with which the Company maintains approved lines of credit. Retail repurchase agreements are offered to customers wishing to earn interest in highly liquid balances and are used by the Company as a funding source considered to be stable, but short-term in nature. Repurchase agreements are collateralized by securities in the Company’s investment portfolio. Total repurchase agreements at December 31, 2015 were comprised of non-insured customer funds totaling $1.4 billion and securities pledged for these retail agreements totaled $1.6 billion. The Company's former longer term structured repurchase agreements, borrowed from an upstream financial institution, were repaid in 2014. The Company also borrows on a secured basis through advances from the FHLB, and those borrowings totaled $103.8 million at December 31, 2015. All of the FHLB advances have fixed interest rates, with the majority maturing in 2017. The overall long-term debt position of the Company is small relative to its overall liability position.

The Company pledges certain assets, including loans and investment securities, to both the Federal Reserve Bank and the FHLB as security to establish lines of credit and borrow from these entities. Based on the amount and type of collateral pledged, the FHLB establishes a collateral value from which the Company may draw advances against the collateral. Additionally, this collateral is used to enable the FHLB to issue letters of credit in favor of public fund depositors of the Company. The Federal Reserve Bank also establishes a collateral value of assets pledged and permits borrowings from the discount window. The following table reflects the collateral value of assets pledged, borrowings, and letters of credit outstanding, in addition to the estimated future funding capacity available to the Company at December 31, 2015.

| | December 31, 2015 | | |
|---|---|---|---|
| (In thousands) | FHLB | Federal Reserve | Total |
| Total collateral value pledged | $2,398,242 | $1,241,990 | $3,640,232 |
| Advances outstanding | (103,818) | — | (103,818) |
| Letters of credit issued | (291,540) | — | (291,540) |
| Available for future advances | $2,002,884 | $1,241,990 | $3,244,874 |

The Company’s average loans to deposits ratio was 61.4% at December 31, 2015, which is considered in the banking industry to be a measure of strong liquidity. Also, the Company receives outside ratings from both Standard & Poor’s and Moody’s on both the consolidated company and its subsidiary bank, Commerce Bank. These ratings are as follows:

| | Standard & Poor’s | Moody’s |
|---|---|---|
| Commerce Bancshares, Inc. | | |

| | | |
|---|---|---|
| Issuer rating | A- | |
| Commercial paper rating | | P-1 |
| Rating outlook | Stable | Stable |
| Preferred stock | BBB- | Baa1 |
| Commerce Bank | | |
| Issuer rating | A | A2 |
| Rating outlook | Stable | Stable |

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The Company considers these ratings to be indications of a sound capital base and strong liquidity and believes that these ratings would help ensure the ready marketability of its commercial paper, should the need arise. No commercial paper has been outstanding during the past ten years. The Company has no subordinated or hybrid debt instruments which would affect future borrowing capacity. Because of its lack of significant long-term debt, the Company believes that, through its Capital Markets Group or in other public debt markets, it could generate additional liquidity from sources such as jumbo certificates of deposit, privately-placed corporate notes or other forms of debt. The Company issued $150.0 million in liquidation value of preferred stock in June 2014, which funded, in part, a $200.0 million accelerated repurchase of its common stock in 2014. Additionally, the Company completed a $100.0 million accelerated share repurchase program during 2015. These transactions are further discussed in Note 14 to the consolidated financial statements.

The cash flows from the operating, investing and financing activities of the Company resulted in a net decrease in cash and cash equivalents of $598.0 million in 2015, as reported in the consolidated statements of cash flows on page 62 of this report. Operating activities, consisting mainly of net income adjusted for certain non-cash items, provided cash flow of $289.1 million and has historically been a stable source of funds. Investing activities used total cash of $1.2 billion in 2015 and consisted mainly of purchases, sales, and maturities of available for sale investment securities, changes in long-term securities purchased under agreements to resell, and changes in the level of the Company's loan portfolio. Growth in the loan portfolio used cash of $1.0 billion, activity in the investment securities portfolio used cash of $338.4 million, and net repayments of long-term resale agreements provided cash of $175.0 million. Investing activities are somewhat unique to financial institutions in that, while large sums of cash flow are normally used to fund growth in investment securities, loans, or other bank assets, they are normally dependent on the financing activities described below.

Financing activities provided total cash of $308.3 million, primarily resulting from a $420.6 million increase in deposits and a net increase of $101.0 million in borrowings of federal funds purchased and repurchase agreements. These increases to cash were partly offset by cash dividend payments of $85.0 million and $9.0 million on common and preferred stock, respectively. The Company entered into an accelerated share repurchase agreement as mentioned above, resulting in a net outflow of $100.0 million. Direct treasury stock purchases during 2015 totaled $23.2 million. Future short-term liquidity needs for daily operations are not expected to vary significantly, and the Company maintains adequate liquidity to meet these cash flows. The Company's sound equity base, along with its low debt level, common and preferred stock availability, and excellent debt ratings, provide several alternatives for future financing. Future acquisitions may utilize partial funding through one or more of these options.

Cash flows resulting from the Company's transactions in its common and preferred stock were as follows:

| (In millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Exercise of stock-based awards | $1.9 | $8.7 | $9.4 |
| Purchases of treasury stock | (23.2) | (71.0) | (69.4) |
| Accelerated share repurchase agreements | (100.0) | (200.0) | — |
| Common cash dividends paid | (85.0) | (84.2) | (82.1) |
| Issuance of preferred stock | — | 144.8 | — |
| Preferred cash dividends paid | (9.0) | (4.1) | — |
| Cash used | $(215.3) | $(205.8) | $(142.1) |

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

| (In millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Dividends received from subsidiaries | $160.0 | $234.0 | $200.4 |

| | | | |
|---|---|---|---|
| Management fees | 25.7 | 25.8 | 20.7 |
| Total | $185.7 | $259.8 | $221.1 |

These sources of funds are used mainly to pay cash dividends on outstanding stock, pay general operating expenses, and purchase treasury stock. At December 31, 2015, the Parent’s available for sale investment securities totaled $52.1 million at fair value, consisting of common and preferred stock and non-agency backed collateralized mortgage obligations. To support its various funding commitments, the Parent maintains a $20.0 million line of credit with its subsidiary bank. There were no borrowings outstanding under the line during 2015 or 2014.

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

Capital Management

The new Basel III rules, effective January 1, 2015, changed the components of regulatory capital and changed the way in which risk ratings are assigned to various categories of bank assets. Also, a new Tier I common risk-based ratio was defined. The new rules resulted in only minor changes to the Company's Tier I and Total risk-based capital, and increased risk-weighted assets due to higher risk weightings for short-term loan commitments, certain asset-backed securities, and construction loans. Under the Basel III requirements, at December 31, 2015, the Company met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well-capitalized institutions, as shown in the following table.

| (Dollars in thousands) | 2015 | Minimum Ratios under Capital Adequacy Guidelines* | Minimum Ratios for Well-Capitalized Banks** |
|---|---|---|---|
| Risk-adjusted assets | $17,809,554 | | |
| Tier I common risk-based capital | 2,051,474 | | |
| Tier I risk-based capital | 2,196,258 | | |
| Total risk-based capital | 2,364,761 | | |
| Tier I common risk-based capital ratio | 11.52% | 7.00% | 6.50% |
| Tier I risk-based capital ratio | 12.33 | 8.50 | 8.00 |
| Total risk-based capital ratio | 13.28 | 10.50 | 10.00 |
| Tier I leverage ratio | 9.23 | 4.00 | 5.00 |
| Tangible common equity to tangible assets | 8.48 | | |
| Dividend payout ratio | 33.35 | | |

* as of the fully phased-in date of Jan. 1, 2019, including capital conservation buffer
**under Prompt Corrective Action requirements

At December 31, 2015, the Company's risk-weighted assets under Basel III increased to $17.8 billion compared to $15.5 billion and $14.7 billion at December 31, 2014 and 2013, respectively, as calculated under the Basel I capital rules. Tier I risk-based capital was $2.2 billion and Total risk-based capital was $2.4 billion at December 31, 2015 under Basel III rules, and were relatively unchanged from the Basel I amounts at December 31, 2014 and 2013. Tier I and Total risk-based capital ratios at December 31, 2015, 2014 and 2013 were as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Tier I risk-based capital ratio | 12.33% | 13.74% | 14.06% |
| Total risk-based capital ratio | 13.28% | 14.86% | 15.28% |

The Company maintains a treasury stock buyback program under authorizations by its Board of Directors and normally purchases stock in the open market. During 2014, the Company purchased 4.7 million shares, including 3.1 million shares purchased under an accelerated share repurchase (ASR) agreement. During 2015, the Company purchased 4.2 million shares, including 3.6 million purchased under ASRs. At December 31, 2015, 4.7 million shares remained available for purchase under the current Board authorization.

The Company’s common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital levels and alternative investment options. Per share cash dividends paid by the Company increased 5% in 2015 compared with 2014. The Company also distributed its 22nd consecutive annual 5% stock dividend in December 2015.

Commitments, Contractual Obligations, and Off-Balance Sheet Arrangements

In the normal course of business, various commitments and contingent liabilities arise which are not required to be recorded on the balance sheet. The most significant of these are loan commitments totaling $10.0 billion (including approximately $4.7 billion in unused approved credit card lines) and the contractual amount of standby letters of credit totaling $311.8 million at December 31, 2015. As many commitments expire unused or only partially used, these totals do not necessarily reflect future

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cash requirements. Management does not anticipate any material losses arising from commitments or contingent liabilities and believes there are no material commitments to extend credit that represent risks of an unusual nature.

A table summarizing contractual cash obligations of the Company at December 31, 2015 and the expected timing of these payments follows:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| (In thousands) | In One Year or Less | After One Year Through Three Years | After Three Years Through Five Years | After Five Years | Total |
| Long-term debt obligations* | $3,818 | $100,000 | $— | $— | $103,818 |
| Operating lease obligations | 5,633 | 8,874 | 4,605 | 13,023 | 32,135 |
| Purchase obligations | 66,706 | 126,484 | 41,357 | 5,236 | 239,783 |
| Time open and C.D.'s * | 1,547,305 | 338,477 | 107,592 | 4,335 | 1,997,709 |
| Total | $1,623,462 | $573,835 | $153,554 | $22,594 | $2,373,445 |

* Includes principal payments only.

The Company funds a defined benefit pension plan for a portion of its employees. Under the funding policy for the plan, contributions are made as necessary to provide for current service and for any unfunded accrued actuarial liabilities over a reasonable period. No contributions were made to the plan during the last three years, and the Company is not required nor does it expect to make a contribution in 2016.

The Company has investments in several low-income housing partnerships within the areas it serves. These partnerships supply funds for the construction and operation of apartment complexes that provide affordable housing to that segment of the population with lower family income. If these developments successfully attract a specified percentage of residents falling in that lower income range, federal (and sometimes state) income tax credits are made available to the partners. The tax credits are normally recognized over ten years, and they play an important part in the anticipated yield from these investments. In order to continue receiving the tax credits each year over the life of the partnership, the low-income residency targets must be maintained. Under the terms of the partnership agreements, the Company has a commitment to fund a specified amount that will be due in installments over the life of the agreements, which ranges from 10 to 15 years. At December 31, 2015, the investments totaled $24.0 million and are recorded as other assets in the Company's consolidated balance sheet. Unfunded commitments, which are recorded as liabilities, amounted to $18.5 million at December 31, 2015.

The Company regularly purchases various state tax credits arising from third-party property redevelopment. These credits are either resold to third parties or retained for use by the Company. During 2015, purchases and sales of tax credits amounted to $39.3 million and $21.7 million, respectively. At December 31, 2015, the Company had outstanding purchase commitments totaling $67.4 million that it expects to fund in 2016.

Interest Rate Sensitivity

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

The Company's main interest rate measurement tool, income simulations, projects net interest income under various rate change scenarios in order to quantify the magnitude and timing of potential rate-related changes. Income simulations are able to capture option risks within the balance sheet where expected cash flows may be altered under various rate environments. Modeled rate movements include “shocks, ramps and twists.” Shocks are intended to capture interest rate risk under extreme conditions by immediately shifting rates up and down, while ramps measure the impact of gradual changes and twists measure yield curve risk. The size of the balance sheet is assumed to remain constant so that results are not influenced by growth predictions.

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

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

The tables below compute the effects of gradual rising interest rates over a twelve month period on the Company's net interest income, assuming a static balance sheet with the exception of deposit attrition. The difference between the two simulations is the amount of deposit attrition incorporated, which is shown in the tables below. In both simulations, three rising rate scenarios were selected as shown in the tables, and net interest income was calculated and compared to a base scenario in which assets, liabilities and rates remained constant over a twelve month period. For each of the simulations, interest rates applicable to each interest earning asset or interest bearing liability were ratably increased during the year (by either 100, 200 or 300 basis points). The balances contained in the balance sheet were assumed not to change over the twelve month period, except that as presented in the tables below, it was assumed certain non-maturity type deposit attrition would occur, as a result of higher interest rates, and would be replaced with short-term federal funds borrowings.

The simulations reflect two different assumptions related to deposit attrition. The Company utilizes these simulations both for monitoring interest rate risk and for liquidity planning purposes. While the future effects of rising rates on deposit balances cannot be known, the Company maintains a practice of running multiple rate scenarios to better understand interest rate risk and their effect on the Company's performance. The Company believes that its approach to interest rate risk has appropriately considered its susceptibility to both rising rates and falling rates and has adopted strategies which minimize impacts to overall interest rate risk.

| Simulation A | December 31, 2015 | | | September 30, 2015 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | $ Change in Net Interest Income | % Change in Net Interest Income | Assumed Deposit Attrition | $ Change in Net Interest Income | % Change in Net Interest Income | Assumed Deposit Attrition |
| 300 basis points rising | $9.1 | 1.36 % | $(375.1) | $8.3 | 1.29 % | $(378.9) |
| 200 basis points rising | 10.3 | 1.54 | (264.8) | 9.1 | 1.41 | (269.4) |
| 100 basis points rising | 8.4 | 1.26 | (142.7) | 7.5 | 1.17 | (148.9) |

| Simulation B | December 31, 2015 | | | September 30, 2015 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | $ Change in Net Interest Income | % Change in Net Interest Income | Assumed Deposit Attrition | $ Change in Net Interest Income | % Change in Net Interest Income | Assumed Deposit Attrition |
| 300 basis points rising | $(15.6) | (2.33)% | $(1,543.0) | $(9.8) | (1.53)% | $(1,295.5) |
| 200 basis points rising | (7.7) | (1.15) | (1,438.4) | (3.5) | (.54) | (1,190.9) |
| 100 basis points rising | (2.7) | (.41) | (1,323.7) | 2.0 | .32 | (825.6) |

The difference in these two simulations is the degree to which deposits are modeled to decline as noted in the above table. Both simulations assume that a decline in deposits would be offset by increased short-term borrowings, which are more rate sensitive and can result in higher interest costs in a rising rate environment. Under Simulation A, a gradual increase in interest rates of 100 basis points is expected to increase net interest income from the base calculation by $8.4 million, while a gradual increase in rates of 200 basis points would increase net interest income by $10.3 million. An increase in rates of 300 basis points would result an increase in net interest income of $9.1 million, slightly lower than the 200 basis points scenario because deposit attrition is assumed to be higher. The change in net interest income from the base calculation at December 31, 2015 was higher than projections made at September 30, 2015 largely due to an increase in deposits and a decrease in federal funds purchased during the fourth quarter of 2015. Additionally, the Company's forecast at December 31, 2015 includes higher interest income earned on loans and investments, due to a Federal Reserve rate increase during the fourth quarter of 2015.

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Under Simulation B, the same assumptions utilized in Simulation A were applied. However, in Simulation B, deposit attrition was accelerated to consider the effects that large deposit outflows might have on net interest income and liquidity planning purposes. The effect of higher deposit attrition was that greater reliance was placed on short-term borrowings at higher rates, which are more rate sensitive. As shown in the table, under these assumptions, net interest income in Simulation B was significantly lower than in Simulation A, reflecting higher costs for short-term borrowings.

Projecting deposit activity in a historically low interest rate environment is difficult, and the Company cannot predict how deposits will react to rising rates. The comparison provided above provides insight into potential effects of changes in rates and deposit levels on net interest income.

Derivative Financial Instruments

The Company maintains an overall interest rate risk management strategy that permits the use of derivative instruments to modify exposure to interest rate risk. The Company’s interest rate risk management strategy includes the ability to modify the re-pricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Interest rate swaps may be used on a limited basis as part of this strategy. The Company also sells interest rate swap contracts to customers who wish to modify their interest rate sensitivity. The Company offsets the interest rate risk of these swaps by purchasing matching contracts with offsetting pay/receive rates from other financial institutions. These paired swap contracts comprised the Company's swap portfolio at December 31, 2015 with a total notional amount of $1.0 billion.

Credit risk participation agreements arise when the Company contracts, as a guarantor or beneficiary, with other financial institutions to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap.

The Company enters into foreign exchange derivative instruments as an accommodation to customers and offsets the related foreign exchange risk by entering into offsetting third-party forward contracts with approved, reputable counterparties. In addition, the Company takes proprietary positions in such contracts based on market expectations. This trading activity is managed within a policy of specific controls and limits. Most of the foreign exchange contracts outstanding at December 31, 2015 mature within six months.

The Company began selling new originations of certain long-term residential mortgage loans in early 2015. Derivative instruments arising from this activity include mortgage loan commitments and forward loan sale contracts. 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 TBA forward contracts, which are settled in cash at the delivery date, are also derivatives.

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

The following table summarizes the notional amounts and estimated fair values of the Company’s derivative instruments at December 31, 2015 and 2014. Notional amount, along with the other terms of the derivative, is used to determine the amounts to be exchanged between the counterparties. Because the notional amount does not represent amounts exchanged by the parties, it is not a measure of loss exposure related to the use of derivatives nor of exposure to liquidity risk.

| (In thousands) | 2015 Notional Amount | Positive Fair Value | Negative Fair Value | 2014 Notional Amount | Positive Fair Value | Negative Fair Value |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate swaps | $1,020,310 | $11,993 | $(11,993 ) | $647,709 | $10,144 | $(10,166 ) |
| Interest rate caps | 66,118 | 73 | (73 ) | 53,587 | 62 | (62 ) |
| Credit risk participation agreements | 62,456 | 1 | (195 ) | 75,943 | 3 | (226 ) |
| Foreign exchange contracts | 15,535 | 437 | (430 ) | 19,791 | 248 | (494 ) |
| Mortgage loan commitments | 8,605 | 263 | — | — | — | — |
| Mortgage loan forward sale contracts | 642 | — | — | — | — | — |
| Forward TBA contracts | 11,000 | 4 | (38 ) | — | — | — |
| Total at December 31 | $1,184,666 | $12,771 | $(12,729 ) | $797,030 | $10,457 | $(10,948 ) |

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Operating Segments

The Company segregates financial information for use in assessing its performance and allocating resources among three operating segments. The results are determined based on the Company's management accounting process, which assigns balance sheet and income statement items to each responsible segment. These segments are defined by customer base and product type. The management process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. Each segment is managed by executives who, in conjunction with the Chief Executive Officer, make strategic business decisions regarding that segment. The three reportable operating segments are Consumer, Commercial and Wealth. Additional information is presented in Note 13 on Segments in the consolidated financial statements.

The Company uses a funds transfer pricing method to value funds used (e.g., loans, fixed assets, cash, etc.) and funds provided (deposits, borrowings, and equity) by the business segments and their components. This process assigns a specific value to each new source or use of funds with a maturity, based on current swap rates, thus determining an interest spread at the time of the transaction. Non-maturity assets and liabilities are valued using weighted average pools. The funds transfer pricing process attempts to remove interest rate risk from valuation, allowing management to compare profitability under various rate environments. The Company also assigns loan charge-offs and recoveries (labeled in the table below as "provision for loan losses") directly to each operating segment instead of allocating an estimated loan loss provision. The operating segments also include a number of allocations of income and expense from various support and overhead centers within the Company.

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

| (Dollars in thousands) | Consumer | Commercial | Wealth | Segment Totals | Other/Elimination | Consolidated Totals |
|---|---|---|---|---|---|---|
| Year ended December 31, 2015: | | | | | | |
| Net interest income | $266,328 | $296,466 | $42,653 | $605,447 | $ 28,873 | $634,320 |
| Provision for loan losses | (34,864) | 1,032 | 75 | (33,757) | 5,030 | (28,727) |
| Non-interest income | 119,558 | 194,131 | 136,374 | 450,063 | (2,508) | 447,555 |
| Investment securities gains, net | — | — | — | — | 6,320 | 6,320 |
| Non-interest expense | (273,323) | (267,521) | (108,755) | (649,599) | (26,304) | (675,903) |
| Income before income taxes | $77,699 | $224,108 | $70,347 | $372,154 | $ 11,411 | $383,565 |
| Year ended December 31, 2014: | | | | | | |
| Net interest income | $264,974 | $287,244 | $40,128 | $592,346 | $ 27,858 | $620,204 |
| Provision for loan losses | (34,913) | 559 | 372 | (33,982) | 4,451 | (29,531) |
| Non-interest income | 113,869 | 190,538 | 128,238 | 432,645 | 3,333 | 435,978 |
| Investment securities gains, net | — | — | — | — | 14,124 | 14,124 |
| Non-interest expense | (263,521) | (254,121) | (98,821) | (616,463) | (39,879) | (656,342) |
| Income before income taxes | $80,409 | $224,220 | $69,917 | $374,546 | $ 9,887 | $384,433 |
| 2015 vs 2014 | | | | | | |
| Increase (decrease) in income before income taxes: | | | | | | |
| Amount | $(2,710) | $(112) | $430 | $(2,392) | $ 1,524 | $(868) |
| Percent | (3.4)% | —% | .6% | (.6)% | 15.4% | (.2)% |
| Year ended December 31, 2013: | | | | | | |
| Net interest income | $262,579 | $280,121 | $40,185 | $582,885 | $ 36,487 | $619,372 |
| Provision for loan losses | (33,943) | 3,772 | (688) | (30,859) | 10,506 | (20,353) |
| Non-interest income | 108,180 | 186,433 | 117,322 | 411,935 | 6,451 | 418,386 |
| Investment securities losses, net | — | — | — | — | (4,425) | (4,425) |
| Non-interest expense | (260,336) | (235,382) | (96,530) | (592,248) | (36,420) | (628,668) |
| Income before income taxes | $76,480 | $234,944 | $60,289 | $371,713 | $ 12,599 | $384,312 |
| 2014 vs 2013 | | | | | | |
| Increase (decrease) in income before income taxes: | | | | | | |
| Amount | $3,929 | $(10,724) | $9,628 | $2,833 | $ (2,712) | $121 |
| Percent | 5.1% | (4.6)% | 16.0% | .8% | (21.5)% | —% |

Consumer

The Consumer segment includes consumer deposits, consumer finance, and consumer debit and credit cards. During 2015, income before income taxes for the Consumer segment decreased $2.7 million, or 3.4%, compared to 2014.

This decrease was mainly due to an increase in non-interest expense of $9.8 million, or 3.7%. The higher expense was partly offset by increases of $5.7 million, or 5.0%, in non-interest income and $1.4 million in net interest income. Net interest income increased due to a $1.2 million decline in deposit interest expense. Non-interest income increased mainly due to growth in mortgage banking revenue, debit card fees and deposit account service charges. Non-interest expense increased over the prior year due to higher bank card fraud losses, bank card processing expense, and allocated servicing and support costs. These increases were partly offset by declines in occupancy expense and bank card rewards expense. The provision for loan losses totaled $34.9 million, a slight decrease from the prior year, mainly due to lower charge-offs on fixed rate home equity and marine and RV loans, partly offset by higher charge-offs in other consumer and consumer credit card loans. Total average loans in this segment increased $123.7 million, or 5.2%, in 2015 compared to the prior year due to continued growth in auto loans, partly offset by a decline in marine and RV loans. Average deposits continued to grow and increased $132.0 million, or 1.4%, over the prior year; however, much of the growth occurred in personal demand and money market accounts, with lower balances in certificates of deposit.

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Pre-tax profitability for 2014 was $80.4 million, an increase of $3.9 million, or 5.1%, over 2013. This increase was mainly due to growth of $2.4 million in net interest income and an increase in non-interest income of $5.7 million. Net interest income increased due to a $2.9 million decrease in deposit interest expense and a $1.3 million increase in loan interest income, partly offset by a $1.8 million decline in net allocated funding credits assigned to the Consumer segment's loan and deposit portfolios. Non-interest income increased due to growth in mortgage banking revenue and bank card fees (mainly debit and credit card). These increases to income were partly offset by growth of $3.2 million in non-interest expense and $970 thousand in the provision for loan losses. Non-interest expense increased over the prior year due to higher bank card rewards expense and higher allocated servicing and support costs. The provision for loan losses totaled $34.9 million, a $970 thousand increase over the prior year, which was mainly due to higher net charge-offs on fixed rate home equity and other consumer loans, partly offset by lower marine and RV loan net charge-offs. Total average loans in this segment increased $137.9 million, or 6.2%, in 2014 compared to the prior year due to growth in auto lending, partly offset by declines in marine and RV and other consumer loans. Average deposits increased $219.6 million, or 2.4%, over the prior year, resulting from growth in interest checking and money market deposit accounts, partly offset by a decline in certificates of deposit less than $100,000.

Commercial

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 segment includes the Capital Markets Group, which sells fixed-income securities to individuals, corporations, correspondent banks, public institutions, and municipalities, and also provides investment safekeeping and bond accounting services. Pre-tax income for 2015 decreased slightly compared to the prior year, mainly due to an increase in non-interest expense, partly offset by growth in net interest income and non-interest income. Net interest income increased $9.2 million, or 3.2%, due to an increase in loan interest income of $6.6 million and higher net allocated funding credits of $4.1 million, partly offset by higher borrowings expense of $966 thousand. Non-interest income increased $3.6 million, or 1.9%, over 2014 due to growth in swap fees, corporate bank card fees and corporate cash management fees, partly offset by lower capital market fees. Non-interest expense increased $13.4 million, or 5.3%, mainly due to increases in salaries and benefits expense and allocated servicing and support costs. These increases were partly offset by a recovery related to a letter of credit exposure. The provision for loan losses decreased $473 thousand from the prior year, due to higher net recoveries on business and business real estate loans of $854 thousand and $560 thousand, respectively. These recoveries were partly offset by higher personal real estate loan net charge-offs of $490 thousand. Average segment loans increased $341.9 million, or 5.0%, compared to 2014, with most of the growth in commercial and industrial, construction and tax-advantaged loans. Average deposits increased $260.0 million, or 3.6%, due to growth in business demand deposit accounts, partly offset by a decline in certificates of deposit greater than $100,000.
In 2014, pre-tax income for the Commercial segment decreased $10.7 million, or 4.6%, compared 2013, mainly due to increases in non-interest expense and the provision for loan losses, partly offset by higher net interest income and non-interest income. Net interest income increased $7.1 million, or 2.5%, due to growth of $5.3 million in loan interest income. The provision for loan losses increased $3.2 million over last year, as construction and business loan net recoveries were lower by $3.2 million and $1.3 million, respectively. Non-interest income increased $4.1 million, or 2.2%, over the previous year due to growth in corporate card fees and operating lease income, partly offset by lower capital market fees and tax credit sales income. Non-interest expense increased $18.7 million, or 8.0%, during 2014, mainly due to higher full-time salary costs, foreclosed property expense and lease depreciation expense, in addition to bank card processor reimbursements received in the previous year. Allocated costs for service and support functions also rose. These increases were partly offset by letter of credit provisions recorded in 2013 that did not recur in 2014. Average segment loans increased $658.6 million, or 10.8%, compared to 2013, with most of the growth in commercial and industrial loans, lease loans, and tax-advantaged loans. Average deposits increased $479.6 million, or 7.0.%, due to growth in business demand and money market deposit accounts.

Wealth

The Wealth segment provides traditional trust and estate planning, advisory and discretionary investment management services, brokerage services, and includes Private Banking accounts. At December 31, 2015, the Trust group managed investments with a market value of $22.6 billion and administered an additional $15.8 billion in non-managed assets. It also provides investment management services to The Commerce Funds, a series of mutual funds with $2.1 billion in total assets at December 31, 2015. Wealth segment pre-tax profitability for 2015 was $70.3 million, a slight increase compared to $69.9 million in 2014. Net interest income increased $2.5 million, or 6.3%, mainly due to an increase of $2.4 million in loan interest income. Non-interest income increased $8.1 million, or 6.3%, over 2014 due to higher personal and institutional trust fees, in addition to higher advisory and annuity brokerage fees. Non-interest expense increased $9.9 million, or 10.1%, mainly due to higher full-time salary costs and incentive compensation, higher allocated support costs, and loss recoveries recorded in 2014 related to past litigation. The provision for loan losses increased by $297 thousand, mainly due to lower recoveries on revolving home equity loans. Average assets increased $106.7 million, or 11.5%, during 2015 mainly due to higher loan balances (mainly Private Banking consumer loans and

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personal real estate loans) originated in this segment. Average deposits increased $144.8 million, or 7.6%, due to growth in money market and business demand deposit accounts.

In 2014, pre-tax income for the wealth segment was $69.9 million, compared to $60.3 million in 2013, an increase of $9.6 million, or 16.0%. Net interest income decreased slightly, due to a $1.6 million decline in net allocated funding credits, partly offset by an $885 thousand increase in loan interest income and a decline of $622 thousand in deposit interest expense. Non-interest income increased $10.9 million, or 9.3%, over the prior year due to growth in personal and institutional trust fees and brokerage advisory fees. Non-interest expense increased $2.3 million, or 2.4%, resulting from higher full-time salary costs and incentive compensation, partly offset by recoveries of past litigation. The provision for loan losses decreased $1.1 million, mainly due to lower losses on revolving home equity loans. Average assets increased $75.7 million, or 8.9%, during 2014 mainly due to higher personal real estate and consumer loans. Average deposits also increased $25.6 million, or 1.4%, due to growth in interest checking and business demand deposit accounts, partly offset by a decline in money market deposit accounts.

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 certain administrative functions, the investment securities portfolio, and the effect of certain expense allocations to the segments. Also included in this category is the difference between the Company’s provision for loan losses and net loan charge-offs, which are generally assigned directly to the segments. In 2015, the pre-tax income in this category was $11.4 million, compared to $9.9 million in 2014. This increase was due to lower unallocated non-interest expense of $13.6 million, which was partly offset by lower securities gains of $7.8 million and lower non-interest income of $5.8 million.

Impact of Recently Issued Accounting Standards

Investments - Equity Method and Joint Ventures The Financial Accounting Standards Board (FASB) issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects", in January 2014. These amendments allow investors in low income housing tax credit entities to account for the investments using a proportional amortization method, provided that certain conditions are met, and recognize amortization of the investment as a component of income tax expense. In addition, disclosures are required that will enable users to understand the nature of the investments, and the effect of the measurement of the investments and the related tax credits on the investor's financial statements. This ASU is effective for interim and annual periods beginning January 1, 2015 and should be applied retrospectively to all periods presented. The Company adopted the practical expedient to the proportional amortization method on January 1, 2015. The effect of the adoption, including the retrospective application to prior periods, was not significant to the Company's consolidated financial statements.

Troubled Debt Restructurings by Creditors The FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure", in January 2014. These amendments require companies to disclose the amount of foreclosed residential real estate property held and the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction. The ASU also defines when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan and thus when a loan is transferred to foreclosed property. The amendments are effective for interim and annual periods beginning January 1, 2015. The adoption did not have a significant effect on the Company's consolidated financial statements.

The FASB issued ASU 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure", in August 2014. The amendments provide guidance on how to classify and measure foreclosed loans that are government-guaranteed. The objective of the update is to reduce diversity in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. These disclosures are required in interim and annual periods beginning January 1, 2015. The adoption did not have a significant effect on the Company's consolidated financial statements.

Discontinued Operations and Disposals The FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", in April 2014. The ASU changes the criteria for reporting discontinued operations, limiting this reporting to disposals of components of an entity that represent strategic shifts with major effects on financial results. The ASU requires new disclosures for disposals reported as discontinued operations, and for disposals of significant components that do not qualify for discontinued operations reporting. The amendments are effective for interim and annual periods beginning January 1, 2015 and must be applied prospectively. The adoption did not have a significant effect on the Company's consolidated financial statements.

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Revenue from Contracts with Customers The FASB issued ASU 2014-09, "Revenue from Contracts with Customers", in May 2014. The ASU supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply in order to achieve this principle. Under the ASU, the amendments are effective for interim and annual periods beginning January 1, 2018 and must be applied retrospectively. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements, including potential changes to the Company's accounting for brokerage commissions, investment and trust fees, real-estate sales, and credit card loyalty programs.

Transfers and Servicing The FASB issued ASU 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", in June 2014. The amendments require that repurchase-to-maturity transactions and repurchase agreements that are part of financing arrangements be accounted for as secured borrowings. The amendments also require additional disclosures for certain transfers accounted for as sales. The accounting changes and the disclosures on sales were required to be presented in interim and annual periods beginning January 1, 2015. The ASU also requires disclosures about types of collateral, contractual tenor and potential risks for transactions accounted for as secured borrowings. These disclosures were required in interim and annual periods beginning April 1, 2015. The adoption did not have a significant effect on the Company's consolidated financial statements.

Derivatives The FASB issued ASU 2014-16, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity", in November 2014. The ASU provides guidance relating to certain hybrid financial instruments when determining whether the characteristics of the embedded derivative feature are clearly and closely related to the host contract. In making that evaluation, the characteristics of the entire hybrid instrument should be considered, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. The amendments are effective January 1, 2016 and the adoption did not have a significant effect on the Company's consolidated financial statements.

Consolidation The FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis", in February 2015. The amendments require an evaluation of whether certain legal entities should be consolidated and modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities. The amendments are effective for interim and annual periods beginning January 1, 2016. The adoption did not have a significant effect on the Company's consolidated financial statements.

Intangible Assets The FASB issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement", in April 2015. The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. Arrangements containing a license should be recorded as consistent with the acquisition of software licenses, whereas arrangements that do not include a software license should be recorded as consistent with the accounting for service contracts. These amendments are effective for interim and annual periods beginning January 1, 2016. The adoption did not have a significant effect on the Company's consolidated financial statements.

Financial Instruments The FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", in January 2016. The amendments require all equity investments to be measured at fair value with changes in the fair value recognized through net income, other than those accounted for under the equity method of accounting or those that result in the consolidation of the investee. Additionally, these amendments require presentation in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk for those liabilities measured at fair value. The amendments also require use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

These amendments are effective for interim and annual periods beginning January 1, 2018. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements, including potential changes to the Company's note disclosure of the fair value of its loan portfolio.

Corporate Governance

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

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SUMMARY OF QUARTERLY STATEMENTS OF INCOME

| Year ended December 31, 2015 | For the Quarter Ended | | | |
|---|---|---|---|---|
| (In thousands, except per share data) | 12/31/2015 | 9/30/2015 | 6/30/2015 | 3/31/2015 |
| Interest income | $169,742 | $169,115 | $170,577 | $152,982 |
| Interest expense | (7,255) | (7,077) | (6,920) | (6,844) |
| Net interest income | 162,487 | 162,038 | 163,657 | 146,138 |
| Non-interest income | 115,889 | 111,148 | 114,092 | 106,426 |
| Investment securities gains (losses), net | (1,480) | (378) | 2,143 | 6,035 |
| Salaries and employee benefits | (102,098) | (100,874) | (99,655) | (98,074) |
| Other expense | (73,526) | (70,388) | (65,665) | (65,623) |
| Provision for loan losses | (9,186) | (8,364) | (6,757) | (4,420) |
| Income before income taxes | 92,086 | 93,182 | 107,815 | 90,482 |
| Income taxes | (27,661) | (27,969) | (32,492) | (28,468) |
| Non-controlling interest | (715) | (601) | (970) | (959) |
| Net income attributable to Commerce Bancshares, Inc. | $63,710 | $64,612 | $74,353 | $61,055 |
| Net income per common share — basic* | $.63 | $.63 | $.72 | $.58 |
| Net income per common share — diluted* | $.63 | $.63 | $.72 | $.58 |
| Weighted average shares — basic* | 96,212 | 96,589 | 99,099 | 100,053 |
| Weighted average shares — diluted* | 96,486 | 96,882 | 99,437 | 100,367 |
| Year ended December 31, 2014 | For the Quarter Ended | | | |
| (In thousands, except per share data) | 12/31/2014 | 9/30/2014 | 6/30/2014 | 3/31/2014 |
| Interest income | $158,916 | $161,811 | $167,567 | $159,998 |
| Interest expense | (6,987) | (7,095) | (7,074) | (6,932) |
| Net interest income | 151,929 | 154,716 | 160,493 | 153,066 |
| Non-interest income | 112,302 | 112,286 | 108,763 | 102,627 |
| Investment securities gains (losses), net | 3,650 | 2,995 | (2,558) | 10,037 |
| Salaries and employee benefits | (99,526) | (95,462) | (94,849) | (94,263) |
| Other expense | (70,461) | (66,378) | (67,704) | (67,699) |
| Provision for loan losses | (4,664) | (7,652) | (7,555) | (9,660) |
| Income before income taxes | 93,230 | 100,505 | 96,590 | 94,108 |
| Income taxes | (29,488) | (31,484) | (30,690) | (29,987) |
| Non-controlling interest | (1,017) | (836) | 631 | 192 |
| Net income attributable to Commerce Bancshares, Inc. | $62,725 | $68,185 | $66,531 | $64,313 |
| Net income per common share — basic* | $.60 | $.66 | $.63 | $.61 |
| Net income per common share — diluted* | $.60 | $.65 | $.63 | $.61 |
| Weighted average shares — basic* | 99,940 | 99,859 | 103,116 | 104,487 |
| Weighted average shares — diluted* | 100,301 | 100,292 | 103,540 | 104,951 |
| Year ended December 31, 2013 | For the Quarter Ended | | | |
| (In thousands, except per share data) | 12/31/2013 | 9/30/2013 | 6/30/2013 | 3/31/2013 |
| Interest income | $162,141 | $162,144 | $167,255 | $158,745 |
| Interest expense | (7,276) | (7,438) | (7,797) | (8,402) |
| Net interest income | 154,865 | 154,706 | 159,458 | 150,343 |
| Non-interest income | 109,522 | 106,311 | 102,676 | 99,877 |
| Investment securities gains (losses), net | (1,342) | 650 | (1,568) | (2,165) |
| Salaries and employee benefits | (95,012) | (91,405) | (89,569) | (90,881) |
| Other expense | (66,045) | (64,672) | (67,163) | (63,921) |
| Provision for loan losses | (5,543) | (4,146) | (7,379) | (3,285) |
| Income before income taxes | 96,445 | 101,444 | 96,455 | 89,968 |
| Income taxes | (30,620) | (32,999) | (30,416) | (29,160) |

| | | | | |
|---|---|---|---|---|
| Non-controlling interest | 90 | (221) | (234) | 209 |
| Net income attributable to Commerce Bancshares, Inc. | $65,915 | $68,224 | $65,805 | $61,017 |
| Net income per common share — basic* | $.62 | $.65 | $.62 | $.58 |
| Net income per common share — diluted* | $.62 | $.64 | $.62 | $.58 |
| Weighted average shares — basic* | 104,564 | 104,190 | 103,936 | 104,431 |
| Weighted average shares — diluted* | 105,091 | 104,710 | 104,370 | 104,700 |

* Restated for the 5% stock dividend distributed in 2015.

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AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

| | Years Ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| (Dollars in thousands) | Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance | Interest Income/Expense | Average Rates Earned/Paid |
| ASSETS | | | | | | | | | |
| Loans:(A) | | | | | | | | | |
| Business(B) | $4,186,101 | $116,455 | 2.78 % | $3,919,421 | $110,791 | 2.83 % | $3,366,564 | $102,847 | 3.05 % |
| Real estate – construction and land | 477,320 | 17,075 | 3.58 | 418,702 | 15,826 | 3.78 | 378,896 | 15,036 | 3.97 |
| Real estate – business | 2,293,839 | 85,751 | 3.74 | 2,300,855 | 88,206 | 3.83 | 2,251,113 | 92,555 | 4.11 |
| Real estate – personal | 1,899,234 | 71,666 | 3.77 | 1,818,125 | 69,054 | 3.80 | 1,694,955 | 66,353 | 3.91 |
| Consumer | 1,829,830 | 72,625 | 3.97 | 1,617,039 | 68,434 | 4.23 | 1,437,270 | 67,299 | 4.68 |
| Revolving home equity | 431,033 | 15,262 | 3.54 | 426,720 | 16,188 | 3.79 | 424,358 | 16,822 | 3.96 |
| Student(C) | — | — | — | — | — | — | — | — | — |
| Consumer credit card | 746,503 | 86,162 | 11.54 | 754,482 | 86,298 | 11.44 | 752,478 | 84,843 | 11.28 |
| Overdrafts | 5,416 | — | — | 4,889 | — | — | 6,020 | — | — |
| Total loans | 11,869,276 | 464,996 | 3.92 | 11,260,233 | 454,797 | 4.04 | 10,311,654 | 445,755 | 4.32 |
| Loans held for sale | 4,115 | 191 | 4.64 | — | — | — | 4,488 | 176 | 3.92 |
| Investment securities: | | | | | | | | | |
| U.S. government & federal agency obligations | 466,135 | 5,180 | 1.11 | 497,271 | 13,750 | 2.77 | 401,162 | 8,775 | 2.19 |
| Government-sponsored enterprise obligations | 938,589 | 17,319 | 1.85 | 794,752 | 13,211 | 1.66 | 499,947 | 8,658 | 1.73 |
| State & municipal obligations(B) | 1,786,235 | 63,054 | 3.53 | 1,715,493 | 61,593 | 3.59 | 1,617,814 | 58,522 | 3.62 |
| Mortgage-backed securities | 3,164,447 | 80,936 | 2.56 | 2,981,225 | 80,229 | 2.69 | 3,187,648 | 87,523 | 2.75 |
| Asset-backed securities | 2,773,069 | 29,558 | 1.07 | 2,834,013 | 24,976 | .88 | 3,061,415 | 27,475 | .90 |
| Other marketable securities(B) | 262,937 | 7,038 | 2.68 | 150,379 | 3,928 | 2.61 | 182,323 | 5,625 | 3.09 |
| Trading securities(B) | 20,517 | 562 | 2.74 | 18,423 | 411 | 2.23 | 20,986 | 472 | 2.25 |
| Non-marketable securities(B) | 111,380 | 9,540 | 8.57 | 104,211 | 10,692 | 10.26 | 116,557 | 12,226 | 10.49 |
| Total investment securities | 9,523,309 | 213,187 | 2.24 | 9,095,767 | 208,790 | 2.30 | 9,087,852 | 209,276 | 2.30 |
| Federal funds sold and short-term securities purchased under agreements to resell | 16,184 | 60 | .37 | 31,817 | 101 | .32 | 24,669 | 106 | .43 |
| Long-term securities purchased under agreements to resell | 1,002,053 | 13,172 | 1.31 | 985,205 | 12,473 | 1.27 | 1,174,589 | 21,119 | 1.80 |
| Interest earning deposits with banks | 206,115 | 528 | .26 | 220,876 | 555 | .25 | 155,885 | 387 | .25 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total interest earning assets | 22,621,052 | 692,134 | 3.06 | | 21,593,898 | 676,716 | 3.13 | | 20,759,137 | 676,819 | 3.26 | |
| Allowance for loan losses | (152,690 ) | | | | (160,828 ) | | | | (166,846 ) | | | |
| Unrealized gain on investment securities | 146,854 | | | | 126,314 | | | | 157,910 | | | |
| Cash and due from banks | 378,803 | | | | 382,207 | | | | 382,500 | | | |
| Land, buildings and equipment - net | 359,773 | | | | 354,899 | | | | 357,544 | | | |
| Other assets | 383,810 | | | | 376,433 | | | | 383,739 | | | |
| Total assets | $23,737,602 | | | | $22,672,923 | | | | $21,873,984 | | | |
| LIABILITIES AND EQUITY | | | | | | | | | | | | |
| Interest bearing deposits: | | | | | | | | | | | | |
| Savings | $729,311 | 876 | .12 | | $670,650 | 855 | .13 | | $625,517 | 766 | .12 | |
| Interest checking and money market | 9,752,794 | 12,498 | .13 | | 9,477,947 | 12,667 | .13 | | 9,059,524 | 13,589 | .15 | |
| Time open & C.D.'s of less than $100,000 | 832,343 | 3,236 | .39 | | 935,387 | 4,137 | .44 | | 1,034,991 | 6,002 | .58 | |
| Time open & C.D.'s of $100,000 and over | 1,224,402 | 6,051 | .49 | | 1,372,509 | 5,926 | .43 | | 1,380,003 | 6,383 | .46 | |
| Total interest bearing deposits | 12,538,850 | 22,661 | .18 | | 12,456,493 | 23,585 | .19 | | 12,100,035 | 26,740 | .22 | |
| Borrowings: | | | | | | | | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | 1,654,860 | 1,861 | .11 | | 1,257,660 | 1,019 | .08 | | 1,294,691 | 809 | .06 | |
| Other borrowings | 103,884 | 3,574 | 3.44 | | 104,896 | 3,484 | 3.32 | | 103,901 | 3,364 | 3.24 | |
| Total borrowings | 1,758,744 | 5,435 | .31 | | 1,362,556 | 4,503 | .33 | | 1,398,592 | 4,173 | .30 | |
| Total interest bearing liabilities | 14,297,594 | 28,096 | .20 | % | 13,819,049 | 28,088 | .20 | % | 13,498,627 | 30,913 | .23 | % |
| Non-interest bearing deposits | 6,786,741 | | | | 6,339,183 | | | | 5,961,116 | | | |
| Other liabilities | 280,231 | | | | 225,554 | | | | 237,130 | | | |
| Equity | 2,373,036 | | | | 2,289,137 | | | | 2,177,111 | | | |
| Total liabilities and equity | $23,737,602 | | | | $22,672,923 | | | | $21,873,984 | | | |
| Net interest margin (T/E) | | $664,038 | | | | $648,628 | | | | $645,906 | | |
| Net yield on interest earning assets | | | 2.94 | % | | | 3.00 | % | | | 3.11 | % |
| Percentage increase (decrease) in net interest margin (T/E) compared to the prior year | | | 2.38 | % | | | .42 | % | | | (2.90) | % |

(A)

Loans on non-accrual status are included in the computation of average balances. Included in interest income above are loan fees and late charges, net of amortization of deferred loan origination fees and costs, which are immaterial. Credit card income from merchant discounts and net interchange fees are not included in loan income.

(B) Interest income and yields are presented on a fully-taxable equivalent basis using the Federal statutory income tax rate. Loan interest income includes tax free loan income (categorized as business loan income) which includes tax equivalent adjustments of $8,332,000 in 2015, $7,640,000 in 2014, $6,673,000 in 2013, $5,803,000 in 2012, $5,538,000 in 2011, and

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AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS
Years Ended December 31

| 2012 | | | 2011 | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|---|
| Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance | Interest Income/Expense | Average Rates Earned/Paid | Average Balance Five Year Compound Growth Rate |
| $2,962,699 | $102,013 | 3.44 % | $2,910,668 | $104,624 | 3.59 % | $2,887,427 | $110,792 | 3.84 % | 7.71 % |
| 356,425 | 15,146 | 4.25 | 419,905 | 18,831 | 4.48 | 557,282 | 22,384 | 4.02 | (3.05 ) |
| 2,193,271 | 98,693 | 4.50 | 2,117,031 | 101,988 | 4.82 | 2,029,214 | 102,451 | 5.05 | 2.48 |
| 1,503,357 | 65,642 | 4.37 | 1,433,869 | 69,048 | 4.82 | 1,476,031 | 76,531 | 5.18 | 5.17 |
| 1,180,538 | 66,402 | 5.62 | 1,118,700 | 70,127 | 6.27 | 1,250,076 | 84,204 | 6.74 | 7.92 |
| 446,204 | 18,586 | 4.17 | 468,718 | 19,952 | 4.26 | 484,878 | 20,916 | 4.31 | (2.33 ) |
| — | — | — | — | — | — | 246,395 | 5,783 | 2.35 | NM |
| 730,697 | 85,652 | 11.72 | 746,724 | 84,479 | 11.31 | 760,079 | 89,225 | 11.74 | (.36 ) |
| 6,125 | — | — | 6,953 | — | — | 7,288 | — | — | (5.76 ) |
| 9,379,316 | 452,134 | 4.82 | 9,222,568 | 469,049 | 5.09 | 9,698,670 | 512,286 | 5.28 | 4.12 |
| 9,688 | 361 | 3.73 | 47,227 | 1,115 | 2.36 | 358,492 | 6,091 | 1.70 | NM |
| 332,382 | 12,260 | 3.69 | 357,861 | 17,268 | 4.83 | 439,073 | 9,673 | 2.20 | 1.20 |
| 306,676 | 5,653 | 1.84 | 253,020 | 5,781 | 2.28 | 203,593 | 4,591 | 2.25 | 35.75 |
| 1,376,872 | 54,056 | 3.93 | 1,174,751 | 51,988 | 4.43 | 966,694 | 45,469 | 4.70 | 13.07 |
| 3,852,616 | 107,527 | 2.79 | 3,556,106 | 114,405 | 3.22 | 2,821,485 | 113,222 | 4.01 | 2.32 |
| 2,925,249 | 31,940 | 1.09 | 2,443,901 | 30,523 | 1.25 | 1,973,734 | 38,559 | 1.95 | 7.04 |
| 139,499 | 6,556 | 4.70 | 171,409 | 8,455 | 4.93 | 183,328 | 8,889 | 4.85 | 7.48 |
| 25,107 | 637 | 2.54 | 20,011 | 552 | 2.76 | 21,899 | 671 | 3.06 | (1.30 ) |
| 118,879 | 12,558 | 10.56 | 107,501 | 8,283 | 7.71 | 113,326 | 7,216 | 6.37 | (.35 ) |
| 9,077,280 | 231,187 | 2.55 | 8,084,560 | 237,255 | 2.93 | 6,723,132 | 228,290 | 3.40 | 7.21 |
| 16,393 | 82 | .50 | 10,690 | 55 | .51 | 6,542 | 48 | .73 | 19.86 |
| 892,624 | 19,174 | 2.15 | 768,904 | 13,455 | 1.75 | 150,235 | 2,549 | 1.70 | 46.16 |
| 135,319 | 339 | .25 | 194,176 | 487 | .25 | 171,883 | 427 | .25 | 3.70 |
| 19,510,620 | 703,277 | 3.60 | 18,328,125 | 721,416 | 3.94 | 17,108,954 | 749,691 | 4.38 | 5.74 |
| (178,934 ) | | | (191,311 ) | | | (195,870 ) | | | (4.86 ) |
| 257,511 | | | 162,984 | | | 149,106 | | | (.30 ) |
| 369,020 | | | 348,875 | | | 368,340 | | | .56 |
| 357,336 | | | 377,200 | | | 395,108 | | | (1.86 ) |
| 385,125 | | | 378,642 | | | 410,361 | | | (1.33 ) |
| $20,700,678 | | | $19,404,515 | | | $18,235,999 | | | 5.41 |
| $574,336 | 802 | .14 | $525,371 | 852 | .16 | $478,592 | 622 | .13 | 8.79 |
| 8,430,559 | 17,880 | .21 | 7,702,901 | 25,004 | .32 | 6,785,299 | 28,676 | .42 | 7.53 |
| 1,117,236 | 7,918 | .71 | 1,291,165 | 11,352 | .88 | 1,660,462 | 22,871 | 1.38 | (12.90 ) |
| 1,181,426 | 7,174 | .61 | 1,409,740 | 9,272 | .66 | 1,323,952 | 13,847 | 1.05 | (1.55 ) |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 11,303,557 | 33,774 | .30 | | 10,929,177 | 46,480 | .43 | | 10,248,305 | 66,016 | .64 | | 4.12 | |
| 1,185,978 | 808 | .07 | | 1,035,007 | 1,741 | .17 | | 1,085,121 | 2,584 | .24 | | 8.81 | |
| 108,916 | 3,481 | 3.20 | | 112,107 | 3,680 | 3.28 | | 452,810 | 14,948 | 3.30 | | (25.51 ) | |
| 1,294,894 | 4,289 | .33 | | 1,147,114 | 5,421 | .47 | | 1,537,931 | 17,532 | 1.14 | | 2.72 | |
| 12,598,451 | 38,063 | .30 | % | 12,076,291 | 51,901 | .43 | % | 11,786,236 | 83,548 | .71 | % | 3.94 | |
| 5,522,991 | | | | 4,742,033 | | | | 4,114,664 | | | | 10.53 | |
| 334,684 | | | | 476,249 | | | | 346,312 | | | | (4.15 ) | |
| 2,244,552 | | | | 2,109,942 | | | | 1,988,787 | | | | 3.60 | |
| $20,700,678 | | | | $19,404,515 | | | | $18,235,999 | | | | 5.41 | % |
| | $665,214 | | | | $669,515 | | | | $666,143 | | | | |
| | | 3.41 | % | | | 3.65 | % | | | 3.89 | % | | |
| | | (.64 | )% | | | .51 | % | | | 1.83 | % | | |

$4,620,000 in 2010. Investment securities interest income includes tax equivalent adjustments of $21,386,000 in 2015, $20,784,000 in 2014, $19,861,000 in 2013, $19,505,000 in 2012, $17,907,000 in 2011,and $15,593,000 in 2010 . These adjustments relate to state and municipal obligations, other marketable securities, trading securities, and non-marketable securities.

(C) In December 2008, the Company purchased $358,451,000 of student loans with the intent to hold to maturity. In October 2010, the seller elected to repurchase the loans under the terms of the original agreement.

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QUARTERLY AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

| | Year ended December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | | Third Quarter | | Second Quarter | | First Quarter | |
| (Dollars in millions) | Average Balance | Average Rates Earned/Paid | Average Balance | Average Rates Earned/Paid | Average Balance | Average Rates Earned/Paid | Average Balance | Average Rates Earned/Paid |
| ASSETS | | | | | | | | |
| Loans: | | | | | | | | |
| Business(A) | $4,352 | 2.78 % | $4,222 | 2.73 % | $4,135 | 2.79 % | $4,032 | 2.82 % |
| Real estate – construction and land | 584 | 3.41 | 476 | 3.52 | 432 | 3.65 | 415 | 3.81 |
| Real estate – business | 2,320 | 3.68 | 2,285 | 3.71 | 2,288 | 3.83 | 2,282 | 3.73 |
| Real estate – personal | 1,916 | 3.76 | 1,911 | 3.73 | 1,891 | 3.77 | 1,877 | 3.83 |
| Consumer | 1,909 | 3.91 | 1,862 | 4.00 | 1,816 | 3.92 | 1,731 | 4.05 |
| Revolving home equity | 430 | 3.44 | 434 | 3.50 | 430 | 3.60 | 430 | 3.63 |
| Consumer credit card | 757 | 11.23 | 746 | 11.59 | 734 | 11.74 | 749 | 11.62 |
| Overdrafts | 6 | — | 5 | — | 5 | — | 6 | — |
| Total loans | 12,274 | 3.85 | 11,941 | 3.89 | 11,731 | 3.95 | 11,522 | 3.99 |
| Loans held for sale | 6 | 5.40 | 4 | 4.26 | 4 | 3.94 | 2 | 4.65 |
| Investment securities: | | | | | | | | |
| U.S. government & federal agency obligations | 581 | .17 | 403 | 4.39 | 425 | 6.09 | 456 | (5.32 ) |
| Government-sponsored enterprise obligations | 824 | 1.89 | 888 | 1.77 | 988 | 1.82 | 1,058 | 1.90 |
| State & municipal obligations(A) | 1,780 | 3.64 | 1,806 | 3.44 | 1,799 | 3.49 | 1,759 | 3.55 |
| Mortgage-backed securities | 3,336 | 2.54 | 3,218 | 2.47 | 3,161 | 2.61 | 2,938 | 2.62 |
| Asset-backed securities | 2,575 | 1.25 | 2,547 | 1.15 | 2,839 | 1.03 | 3,140 | .88 |
| Other marketable securities(A) | 337 | 2.83 | 302 | 2.65 | 249 | 2.61 | 161 | 2.50 |
| Trading securities(A) | 23 | 2.65 | 22 | 2.72 | 20 | 2.86 | 17 | 2.74 |
| Non-marketable securities(A) | 114 | 8.19 | 114 | 8.28 | 110 | 8.90 | 107 | 8.94 |
| Total investment securities | 9,570 | 2.27 | 9,300 | 2.39 | 9,591 | 2.45 | 9,636 | 1.84 |
| Federal funds sold and short-term securities purchased under agreements to resell | 19 | .32 | 21 | .40 | 13 | .47 | 12 | .30 |
| Long-term securities purchased under agreements to resell | 902 | 1.40 | 1,008 | 1.29 | 1,050 | 1.40 | 1,050 | 1.18 |
| Interest earning deposits with banks | 178 | .28 | 161 | .25 | 198 | .25 | 289 | .25 |
| Total interest earning assets | 22,949 | 3.07 | 22,435 | 3.12 | 22,587 | 3.16 | 22,511 | 2.89 |
| Allowance for loan losses | (151 ) | | (151 ) | | (153 ) | | (156 ) | |
| Unrealized gain on investment securities | 130 | | 119 | | 170 | | 169 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and due from banks | 379 | | | 367 | | | 381 | | | 389 | | |
| Land, buildings and equipment – net | 358 | | | 359 | | | 361 | | | 362 | | |
| Other assets | 383 | | | 380 | | | 394 | | | 377 | | |
| Total assets | $24,048 | | | $23,509 | | | $23,740 | | | $23,652 | | |
| LIABILITIES AND EQUITY | | | | | | | | | | | | |
| Interest bearing deposits: | | | | | | | | | | | | |
| Savings | $737 | .12 | | $739 | .13 | | $739 | .11 | | $702 | .12 | |
| Interest checking and money market | 9,805 | .13 | | 9,620 | .13 | | 9,759 | .13 | | 9,829 | .13 | |
| Time open & C.D.'s under $100,000 | 797 | .37 | | 821 | .38 | | 845 | .39 | | 868 | .41 | |
| Time open & C.D.'s $100,000 & over | 1,220 | .51 | | 1,171 | .53 | | 1,227 | .49 | | 1,280 | .45 | |
| Total interest bearing deposits | 12,559 | .18 | | 12,351 | .18 | | 12,570 | .18 | | 12,679 | .18 | |
| Borrowings: | | | | | | | | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | 1,707 | .14 | | 1,677 | .11 | | 1,675 | .10 | | 1,558 | .10 | |
| Other borrowings | 104 | 3.47 | | 104 | 3.43 | | 104 | 3.44 | | 104 | — | |
| Total borrowings | 1,811 | .33 | | 1,781 | .31 | | 1,779 | .30 | | 1,662 | .30 | |
| Total interest bearing liabilities | 14,370 | .20 | % | 14,132 | .20 | % | 14,349 | .19 | % | 14,341 | .19 | % |
| Non-interest bearing deposits | 6,996 | | | 6,782 | | | 6,745 | | | 6,621 | | |
| Other liabilities | 296 | | | 251 | | | 261 | | | 314 | | |
| Equity | 2,386 | | | 2,344 | | | 2,385 | | | 2,376 | | |
| Total liabilities and equity | $24,048 | | | $23,509 | | | $23,740 | | | $23,652 | | |
| Net interest margin (T/E) | $170 | | | $170 | | | $171 | | | $153 | | |
| Net yield on interest earning assets | | 2.94 | % | | 3.00 | % | | 3.04 | % | | 2.76 | % |

(A) Includes tax equivalent calculations.

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QUARTERLY AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

| | Year ended December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | | Third Quarter | | Second Quarter | | First Quarter | |
| (Dollars in millions) | Average Balance | Average Rates Earned/Paid | Average Balance | Average Rates Earned/Paid | Average Balance | Average Rates Earned/Paid | Average Balance | Average Rates Earned/Paid |
| ASSETS | | | | | | | | |
| Loans: | | | | | | | | |