

COMMERCE BANCSHARES INC /MO/

Form 10-Q

November 07, 2016

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File No. 0-2989

COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified
in its charter)

Missouri

(State of Incorporation)

43-0889454

(IRS Employer Identification No.)

1000 Walnut,

Kansas City, MO

(Address of principal executive offices)

64106

(Zip Code)

(816) 234-2000

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes ☐ No ☐

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

Commerce Bancshares, Inc. and Subsidiaries

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

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

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

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CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Commerce Bancshares, Inc. Shareholders

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

compensation plans

Stock-based

compensation

7,702

7,702

Cash dividends on

common stock (\$.643

(64,041)

(64,041)

per share)

Cash dividends on

preferred stock (\$1.125

(6,750)

(6,750)

per depositary share)

Balance September 30,

\$144,784 \$484,155 \$1,283,346 \$555,877 \$(168,493) \$65,636 \$5,738 \$2,371,043

2015

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Nine Months Ended September 30	
	2016	2015
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	\$204,480	\$202,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	25,918	19,541
Provision for depreciation and amortization	30,997	32,100
Amortization of investment security premiums, net	23,357	23,249
Investment securities (gains) losses, net (A)	3,704	(7,800)
Net gains on sales of loans held for sale	(4,924)	(2,184)
Originations of loans held for sale	(115,768)	(75,589)
Proceeds from sales of loans held for sale	117,746	72,973
Net (increase) decrease in trading securities, excluding unsettled transactions	77,262	(5,042)
Stock-based compensation	8,901	7,702
Increase in interest receivable	(331)	(2,652)
Increase (decrease) in interest payable	269	(96)
Increase in income taxes payable	1,787	16,312
Excess tax benefit related to equity compensation plans	(2,629)	(1,871)
Other changes, net	(24,602)	(365)
Net cash provided by operating activities	346,167	278,828
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities (A)	7,946	684,893
Proceeds from maturities/pay downs of investment securities (A)	1,659,778	1,923,785
Purchases of investment securities (A)	(1,080,003)	(2,507,803)
Net increase in loans		