COMMERCE BANCSHARES INC /MO/
Form 10-Q
November 05, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to
Commission File No. 0-2989

COMMERCE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Missouri	43-0889454
(State of Incorporation)	(IRS Employer Identification No.)
1000 Walnut, Kansas City, MO	64106
(Address of principal executive offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company £

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

Yes o No þ
As of November 2, 2015, the registrant had outstanding 92,822,618 shares of its $5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

Form 10-Q

INDEX

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014
	(In thousands)	
ASSETS		
Loans	$12,224,274	$11,469,238
Allowance for loan losses	(151,532)	(156,532)
Net loans	12,072,742	11,312,706
Loans held for sale, including $2,173,000 of residential mortgage loans carried at fair value	4,143	—
Investment securities:		
Available for sale ($364,097,000 pledged at September 30, 2015 and $467,143,000 at December 31, 2014 to secure swap and repurchase agreements)	9,472,959	9,523,560
Trading	14,463	15,357
Non-marketable	116,634	106,875
Total investment securities	9,604,056	9,645,792
Federal funds sold and short-term securities purchased under agreements to resell	32,550	32,485
Long-term securities purchased under agreements to resell	975,000	1,050,000
Interest earning deposits with banks	42,078	600,744
Cash and due from banks	384,122	467,488
Land, buildings and equipment, net	351,946	357,871
Goodwill	138,921	138,921
Other intangible assets, net	6,826	7,450
Other assets	355,264	380,823
Total assets	$23,967,648	$23,994,280
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	$6,699,873	$6,811,959
Savings, interest checking and money market	10,295,260	10,541,601
Time open and C.D.'s of less than $100,000	808,210	878,433
Time open and C.D.'s of $100,000 and over	1,183,417	1,243,785
Total deposits	18,986,760	19,475,778
Federal funds purchased and securities sold under agreements to repurchase	2,193,197	1,862,518
Other borrowings	103,831	104,058
Other liabilities	312,817	217,680
Total liabilities	21,596,605	21,660,034
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 96,830,977 shares	484,155	484,155

Capital surplus	1,283,346	1,229,075
Retained earnings	555,877	426,648
Treasury stock of 3,827,141 shares at September 30, 2015		
and 367,487 shares at December 31, 2014, at cost	(168,493)	(16,562)
Accumulated other comprehensive income	65,636	62,093
Total Commerce Bancshares, Inc. stockholders' equity	2,365,305	2,330,193
Non-controlling interest	5,738	4,053
Total equity	2,371,043	2,334,246
Total liabilities and equity	$23,967,648	$23,994,280

See accompanying notes to consolidated financial statements.

Table of Contents

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Three Months Ended September 30 2015	2014	For the Nine Months Ended September 30 2015	2014
	(Unaudited)			
INTEREST INCOME				
Interest and fees on loans	$114,954	$112,688	$339,707	$334,886
Interest and fees on loans held for sale	48	—	108	—
Interest on investment securities	50,716	46,338	142,416	144,373
Interest on federal funds sold and short-term securities purchased under agreements to resell	21	30	45	80
Interest on long-term securities purchased under agreements to resell	3,273	2,684	9,994	9,778
Interest on deposits with banks	103	71	404	259
Total interest income	169,115	161,811	492,674	489,376
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	3,356	3,400	9,951	10,064
Time open and C.D.'s of less than $100,000	786	1,010	2,484	3,193
Time open and C.D.'s of $100,000 and over	1,554	1,518	4,468	4,485
Interest on federal funds purchased and securities sold under agreements to repurchase	483	287	1,271	753
Interest on other borrowings	898	880	2,667	2,606
Total interest expense	7,077	7,095	20,841	21,101
Net interest income	162,038	154,716	471,833	468,275
Provision for loan losses	8,364	7,652	19,541	24,867
Net interest income after provision for loan losses	153,674	147,064	452,292	443,408
NON-INTEREST INCOME				
Bank card transaction fees	44,635	44,802	132,606	130,963
Trust fees	29,630	28,560	89,747	82,898
Deposit account charges and other fees	20,674	20,161	58,810	58,460
Capital market fees	2,620	2,783	8,360	9,899
Consumer brokerage services	3,547	3,098	10,099	8,817
Loan fees and sales	1,855	1,367	6,127	3,787
Other	8,187	11,515	25,917	28,852
Total non-interest income	111,148	112,286	331,666	323,676
INVESTMENT SECURITIES GAINS (LOSSES), NET				
Change in fair value of other-than-temporarily impaired securities	(568)	(770)	(883)	(1,618)
Portion recognized in other comprehensive income	568	399	400	270
Net impairment losses recognized in earnings	—	(371)	(483)	(1,348)
Realized gains (losses) on sales and fair value adjustments	(378)	3,366	8,283	11,822
Investment securities gains (losses), net	(378)	2,995	7,800	10,474
NON-INTEREST EXPENSE				
Salaries and employee benefits	100,874	95,462	298,603	284,574
Net occupancy	11,247	11,585	33,807	34,352
Equipment	4,789	4,593	14,171	13,622
Supplies and communication	5,609	5,302	16,416	16,487
Data processing and software	21,119	19,968	61,670	58,633

Marketing	4,343	4,074	12,568	11,704
Deposit insurance	2,981	2,899	9,001	8,685
Other	20,300	17,957	54,043	58,298
Total non-interest expense	171,262	161,840	500,279	486,355
Income before income taxes	93,182	100,505	291,479	291,203
Less income taxes	27,969	31,484	88,929	92,161
Net income	65,213	69,021	202,550	199,042
Less non-controlling interest expense	601	836	2,530	13
Net income attributable to Commerce Bancshares, Inc.	64,612	68,185	200,020	199,029
Less preferred stock dividends	2,250	1,800	6,750	1,800
Net income available to common shareholders	$62,362	$66,385	$193,270	$197,229
Net income per common share — basic	$.67	$.69	$2.03	$2.00
Net income per common share — diluted	$.66	$.69	$2.02	$1.99

See accompanying notes to consolidated financial statements.

Table of Contents

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)	2015	2014	2015	2014
	(Unaudited)			
Net income	$65,213	$69,021	$202,550	$199,042
Other comprehensive income (loss):				
Net unrealized losses on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	(327)	(244)	(306)	(136)
Net unrealized gains (losses) on other securities	16,891	(24,062)	2,754	49,967
Pension loss amortization	283	223	1,095	669
Other comprehensive income (loss)	16,847	(24,083)	3,543	50,500
Comprehensive income	82,060	44,938	206,093	249,542
Less non-controlling interest expense	601	836	2,530	13
Comprehensive income attributable to Commerce Bancshares, Inc.	$81,459	$44,102	$203,563	$249,529

See accompanying notes to consolidated financial statements.

Table of Contents

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, 2015	$144,784	$484,155	$1,229,075	$426,648	$(16,562)	$ 62,093	$ 4,053	$2,334,246
Net income				200,020			2,530	202,550
Other comprehensive income						3,543		3,543
Distributions to non-controlling interest							(845)	(845)
Purchases of treasury stock					(9,147)			(9,147)
Accelerated share repurchase agreement			(20,000)		(80,000)			(100,000)
Settlements of accelerated share repurchase agreements			80,000		(80,000)			—
Issuance of stock under purchase and equity compensation plans			(15,302)		17,216			1,914
Excess tax benefit related to equity compensation plans			1,871					1,871
Stock-based compensation			7,702					7,702
Cash dividends on common stock ($.675 per share)				(64,041)				(64,041)
Cash dividends on preferred stock ($1.125 per depositary share)				(6,750)				(6,750)
Balance September 30, 2015	$144,784	$484,155	$1,283,346	$555,877	$(168,493)	$ 65,636	$ 5,738	$2,371,043
Balance January 1, 2014	$—	$481,224	$1,279,948	$449,836	$(10,097)	$ 9,731	$ 3,755	$2,214,397
Net income				199,029			13	199,042
Other comprehensive income						50,500		50,500
Distributions to non-controlling interest							(730)	(730)
Issuance of preferred stock	144,784							144,784
Purchases of treasury stock					(69,040)			(69,040)

Accelerated share repurchase agreement			(60,000)		(140,000)			(200,000)
Issuance of stock under purchase and equity compensation plans			(12,304)		19,507			7,203
Excess tax benefit related to equity compensation plans			1,457					1,457
Stock-based compensation			6,631					6,631
Cash dividends on common stock ($.643 per share)				(63,575)				(63,575)
Cash dividends on preferred stock ($.30 per depositary share)				(1,800)				(1,800)
Balance September 30, 2014	$144,784	$481,224	$1,215,732	$583,490	$(199,630)	$ 60,231	$ 3,038	$2,288,869

See accompanying notes to consolidated financial statements.

Table of Contents

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

(In thousands)	For the Nine Months Ended September 30 2015 (Unaudited)	2014
OPERATING ACTIVITIES:		
Net income	$202,550	$199,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	19,541	24,867
Provision for depreciation and amortization	32,100	31,561
Amortization of investment security premiums, net	23,249	14,473
Investment securities gains, net(A)	(7,800)	(10,474)
Net gains on sales of loans held for sale	(2,184)	—
Originations of loans held for sale	(75,589)	—
Proceeds from sales of loans held for sale	72,973	—
Net (increase) decrease in trading securities	(5,042)	14,555
Stock-based compensation	7,702	6,631
Increase in interest receivable	(2,652)	(2,215)
Decrease in interest payable	(96)	(277)
Increase in income taxes payable	16,312	4,880
Excess tax benefit related to equity compensation plans	(1,871)	(1,457)
Other changes, net	(365)	4,043
Net cash provided by operating activities	278,828	285,629
INVESTING ACTIVITIES:		
Cash paid in sales of branches	—	(43,827)
Proceeds from sales of investment securities(A)	684,893	64,041
Proceeds from maturities/pay downs of investment securities(A)	1,923,785	1,392,422
Purchases of investment securities(A)	(2,507,803)	(1,314,248)
Net increase in loans	(782,559)	(527,528)
Long-term securities purchased under agreements to resell	—	(250,000)
Repayments of long-term securities purchased under agreements to resell	75,000	500,000
Purchases of land, buildings and equipment	(22,718)	(34,205)
Sales of land, buildings and equipment	4,752	2,983
Net cash used in investing activities	(624,650)	(210,362)
FINANCING ACTIVITIES:		
Net decrease in non-interest bearing, savings, interest checking and money market deposits	(319,853)	(470,427)
Net decrease in time open and C.D.'s	(130,591)	(17,295)
Repayment of long-term securities sold under agreements to repurchase	—	(350,000)
Net increase in federal funds purchased and short-term securities sold under agreements to repurchase	330,679	398,602
Repayment of other long-term borrowings	(227)	(233)
Net decrease in other short-term borrowings	—	(2,000)
Proceeds from issuance of preferred stock	—	144,784
Purchases of treasury stock	(9,147)	(69,040)
Accelerated share repurchase agreements	(100,000)	(200,000)
Issuance of stock under equity compensation plans	1,914	7,203
Excess tax benefit related to equity compensation plans	1,871	1,457

Cash dividends paid on common stock	(64,041)	(63,575)
Cash dividends paid on preferred stock	(6,750)	(1,800)
Net cash used in financing activities	(296,145)	(622,324)
Decrease in cash and cash equivalents	(641,967)	(547,057)
Cash and cash equivalents at beginning of year	1,100,717	1,269,514
Cash and cash equivalents at September 30	$458,750	$722,457
(A) Available for sale and non-marketable securities		
Income tax net payments	$70,860	$86,002
Interest paid on deposits and borrowings	$20,937	$21,278
Loans transferred to foreclosed real estate	$2,459	$4,421
Settlement of accelerated stock repurchase agreement and receipt of treasury stock	$60,000	$—

See accompanying notes to consolidated financial statements.

7

Table of Contents

Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015 (Unaudited)

1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited by an independent registered public accounting firm, but in the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2014 data to conform to current year presentation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Management has evaluated subsequent events for potential recognition or disclosure. The results of operations for the three and nine month periods ended September 30, 2015 are not necessarily indicative of results to be attained for the full year or any other interim period.

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

The Company invests in low-income housing partnerships which supply funds for the construction and operation of apartment complexes that provide affordable housing to lower income families. As permitted by ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects," issued by the Financial Accounting Standards Board, the Company adopted a new method of accounting for these investments on January 1, 2015. The new method is the practical expedient to the proportional amortization method, which allows the Company to record the amortization of its investments in income tax expense, rather than in non-interest expense. The Company made this change because it believes that presenting the investment performance net of taxes more fairly represents the economics and returns on such investments. The amortization recognized as a component of income tax expense for the nine months ended September 30, 2015 was $1.5 million. As required by the ASU, all prior period information in this report has been revised to reflect the adoption, resulting in a decrease to non-interest expense and an increase to income tax expense (as originally reported) of $1.1 million for the nine months ended September 30, 2014.

2. Loans and Allowance for Loan Losses

Major classifications within the Company’s held for investment loan portfolio at September 30, 2015 and December 31, 2014 are as follows:

(In thousands)	September 30, 2015	December 31, 2014
Commercial:		
Business	$4,406,854	$3,969,952

Real estate – construction and land	534,425	403,507
Real estate – business	2,286,013	2,288,215
Personal Banking:		
Real estate – personal	1,920,650	1,883,092
Consumer	1,886,806	1,705,134
Revolving home equity	428,940	430,873
Consumer credit card	756,093	782,370
Overdrafts	4,493	6,095
Total loans	$12,224,274	$11,469,238

At September 30, 2015, loans of $3.6 billion were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of $1.4 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

Table of Contents

Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2015 and 2014, respectively, follows:

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
(In thousands)	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	$86,329	$65,203	$151,532	$89,622	$66,910	$156,532
Provision	(1,976)	10,340	8,364	(6,089)	25,630	19,541
Deductions:						
Loans charged off	903	11,321	12,224	3,035	34,194	37,229
Less recoveries on loans	1,167	2,693	3,860	4,119	8,569	12,688
Net loan charge-offs (recoveries)	(264)	8,628	8,364	(1,084)	25,625	24,541
Balance September 30, 2015	$84,617	$66,915	$151,532	$84,617	$66,915	$151,532
Balance at beginning of period	$98,928	$62,604	$161,532	$94,189	$67,343	$161,532
Provision	(717)	8,369	7,652	3,836	21,031	24,867
Deductions:						
Loans charged off	686	11,414	12,100	3,034	35,917	38,951
Less recoveries on loans	1,431	3,017	4,448	3,965	10,119	14,084
Net loan charge-offs (recoveries)	(745)	8,397	7,652	(931)	25,798	24,867
Balance September 30, 2014	$98,956	$62,576	$161,532	$98,956	$62,576	$161,532

The following table shows the balance in the allowance for loan losses and the related loan balance at September 30, 2015 and December 31, 2014, disaggregated on the basis of impairment methodology. Impaired loans evaluated under ASC 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

	Impaired Loans		All Other Loans	
(In thousands)	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
September 30, 2015				
Commercial	$1,829	$32,513	$82,788	$7,194,779
Personal Banking	1,667	22,868	65,248	4,974,114
Total	$3,496	$55,381	$148,036	$12,168,893
December 31, 2014				
Commercial	$4,527	$55,551	$85,095	$6,606,123
Personal Banking	2,314	25,537	64,596	4,782,027
Total	$6,841	$81,088	$149,691	$11,388,150

Impaired loans

The table below shows the Company's investment in impaired loans at September 30, 2015 and December 31, 2014. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis.

They are discussed further in the "Troubled debt restructurings" section on page 14.

(In thousands)	Sept. 30, 2015	Dec. 31, 2014
Non-accrual loans	$25,779	$40,775
Restructured loans (accruing)	29,602	40,313
Total impaired loans	$55,381	$81,088

9

Table of Contents

The following table provides additional information about impaired loans held by the Company at September 30, 2015 and December 31, 2014, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2015			
With no related allowance recorded:			
Business	$9,692	$11,866	$—
Real estate – construction and land	2,072	7,679	—
Real estate – business	1,535	2,969	—
	$13,299	$22,514	$—
With an allowance recorded:			
Business	$8,292	$10,252	$681
Real estate – construction and land	3,327	4,939	288
Real estate – business	7,595	11,084	860
Real estate – personal	8,652	11,835	1,015
Consumer	5,461	5,461	70
Revolving home equity	492	492	13
Consumer credit card	8,263	8,263	569
	$42,082	$52,326	$3,496
Total	$55,381	$74,840	$3,496
December 31, 2014			
With no related allowance recorded:			
Business	$9,237	$11,532	$—
Real estate – construction and land	4,552	8,493	—
Real estate – business	13,453	17,258	—
Revolving home equity	1,227	1,384	—
	$28,469	$38,667	$—
With an allowance recorded:			
Business	$12,326	$13,846	$1,844
Real estate – construction and land	8,148	9,610	1,081
Real estate – business	7,835	15,025	1,602
Real estate – personal	9,096	12,465	1,441
Consumer	4,244	4,244	50
Revolving home equity	529	529	9
Consumer credit card	10,441	10,441	814
	$52,619	$66,160	$6,841
Total	$81,088	$104,827	$6,841

Table of Contents

Total average impaired loans for the three and nine month periods ended September 30, 2015 and 2014, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended September 30, 2015			
Non-accrual loans	$21,119	$5,179	$26,298
Restructured loans (accruing)	13,399	18,221	31,620
Total	$34,518	$23,400	$57,918
For the nine months ended September 30, 2015			
Non-accrual loans	$25,784	$5,791	$31,575
Restructured loans (accruing)	16,612	18,854	35,466
Total	$42,396	$24,645	$67,041
For the three months ended September 30, 2014			
Non-accrual loans	$38,111	$7,267	$45,378
Restructured loans (accruing)	32,970	19,822	52,792
Total	$71,081	$27,089	$98,170
For the nine months ended September 30, 2014			
Non-accrual loans	$38,099	$7,320	$45,419
Restructured loans (accruing)	37,157	20,660	57,817
Total	$75,256	$27,980	$103,236

The table below shows interest income recognized during the three and nine month periods ended September 30, 2015 and 2014, respectively, for impaired loans held at the end of each respective period. This interest all relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section on page 14.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)	2015	2014	2015	2014
Interest income recognized on impaired loans:				
Business	$63	$146	$188	$438
Real estate – construction and land	22	97	66	290
Real estate – business	33	58	99	173
Real estate – personal	47	53	142	160
Consumer	87	72	261	215
Revolving home equity	6	7	17	20
Consumer credit card	186	236	558	707
Total	$444	$669	$1,331	$2,003

Table of Contents

Delinquent and non-accrual loans

The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at September 30, 2015 and December 31, 2014.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
September 30, 2015					
Commercial:					
Business	$4,391,674	$3,106	$375	$ 11,699	$4,406,854
Real estate – construction and land	529,117	1,262	—	4,046	534,425
Real estate – business	2,277,384	3,575	—	5,054	2,286,013
Personal Banking:					
Real estate – personal	1,904,280	8,695	2,695	4,980	1,920,650
Consumer	1,867,657	17,244	1,905	—	1,886,806
Revolving home equity	423,939	2,512	2,489	—	428,940
Consumer credit card	740,124	8,726	7,243	—	756,093
Overdrafts	4,204	289	—	—	4,493
Total	$12,138,379	$45,409	$14,707	$ 25,779	$12,224,274
December 31, 2014					
Commercial:					
Business	$3,946,144	$11,152	$1,096	$ 11,560	$3,969,952
Real estate – construction and land	397,488	827	35	5,157	403,507
Real estate – business	2,266,688	3,661	—	17,866	2,288,215
Personal Banking:					
Real estate – personal	1,868,606	6,618	1,676	6,192	1,883,092
Consumer	1,687,285	16,053	1,796	—	1,705,134
Revolving home equity	428,478	1,552	843	—	430,873
Consumer credit card	764,599	9,559	8,212	—	782,370
Overdrafts	5,721	374	—	—	6,095
Total	$11,365,009	$49,796	$13,658	$ 40,775	$11,469,238

Credit quality

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

Table of Contents

Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate-Business	Total
September 30, 2015				
Pass	$4,304,836	$ 527,590	$2,211,387	$7,043,813
Special mention	59,526	1,021	19,576	80,123
Substandard	30,793	1,768	49,996	82,557
Non-accrual	11,699	4,046	5,054	20,799
Total	$4,406,854	$ 534,425	$2,286,013	$7,227,292
December 31, 2014				
Pass	$3,871,569	$ 385,831	$2,184,541	$6,441,941
Special mention	62,904	3,865	40,668	107,437
Substandard	23,919	8,654	45,140	77,713
Non-accrual	11,560	5,157	17,866	34,583
Total	$3,969,952	$ 403,507	$2,288,215	$6,661,674

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain Personal Banking loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. At September 30, 2015, these were comprised of $256.9 million in personal real estate loans, or 5.1% of the Personal Banking portfolio, compared to $244.3 million at December 31, 2014. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at September 30, 2015 and December 31, 2014 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
September 30, 2015				
FICO score:				
Under 600	1.5 %	4.6 %	1.6 %	3.8 %
600 - 659	2.8	9.5	4.2	12.1
660 - 719	9.1	22.5	13.7	32.6
720 - 779	25.3	27.0	26.2	28.1
780 and over	61.3	36.4	54.3	23.4
Total	100.0 %	100.0 %	100.0 %	100.0 %
December 31, 2014				
FICO score:				
Under 600	1.4 %	5.2 %	1.8 %	4.1 %
600 - 659	3.1	10.2	4.4	11.8
660 - 719	9.9	22.9	13.7	32.4
720 - 779	26.7	28.0	32.8	27.8
780 and over	58.9	33.7	47.3	23.9
Total	100.0 %	100.0 %	100.0 %	100.0 %

Table of Contents

Troubled debt restructurings

As mentioned previously, the Company's impaired loans include loans which have been classified as troubled debt restructurings. Total restructured loans amounted to $46.7 million at September 30, 2015. Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected, and those non-accrual loans totaled $17.1 million at September 30, 2015. Other performing restructured loans totaled $29.6 million at September 30, 2015. These include certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result the loans were classified as troubled debt restructurings. These commercial loans totaled $12.5 million at September 30, 2015. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs, which totaled $8.3 million at September 30, 2015. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. The Company has classified additional loans as troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. At September 30, 2015, these loans totaled $8.5 million in personal real estate, revolving home equity, and consumer loans. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments under the terms of the loan agreements.

The following table shows the outstanding balances of loans classified as troubled debt restructurings at September 30, 2015, in addition to the outstanding balances of these restructured loans which the Company considers to have been in default at any time during the past twelve months. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal.

(In thousands)	September 30, 2015	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$16,441	$—
Real estate - construction and land	5,222	1,499
Real estate - business	5,502	—
Personal Banking:		
Real estate - personal	5,276	—
Consumer	5,487	57
Revolving home equity	492	49
Consumer credit card	8,263	541
Total restructured loans	$46,683	$2,146

For those loans on non-accrual status also classified as restructured, the modification did not create any further financial effect on the Company as those loans were already recorded at net realizable value. For those performing commercial loans classified as restructured, there were no concessions involving forgiveness of principal or interest and, therefore, there was no financial impact to the Company as a result of modification to these loans. No financial impact resulted from those performing loans where the debt was not reaffirmed in bankruptcy, as no changes to loan terms occurred in that process. The effects of modifications to consumer credit card loans were estimated to decrease interest income by approximately $1.0 million on an annual, pre-tax basis, compared to amounts contractually owed.

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

If a troubled debt restructuring defaults and is already on non-accrual status, the allowance for loan losses continues to be based on individual evaluation, using discounted expected cash flows or the fair value of collateral. If an accruing troubled debt restructuring defaults, the loan's risk rating is downgraded to non-accrual status and the loan's related allowance for loan losses is determined based on individual evaluation, or if necessary, the loan is charged off and collection efforts begun.

The Company had commitments of $1.6 million at September 30, 2015 to lend additional funds to borrowers with restructured loans.

Loans held for sale

Beginning January 1, 2015, certain long-term fixed rate personal real estate loan originations have been designated as held for sale, and the Company has elected the fair value option for these loans. The election of the fair value option aligns the accounting for these loans with the related economic hedges discussed in Note 10. At September 30, 2015, the fair value of these loans was $2.2 million, and the unpaid principal balance was $2.1 million. The unrealized gain in fair value was recognized in loan fees and sales in the consolidated statement of income. None of these loans were on non-accrual status or past due. Interest income with respect to loans held for sale is accrued based on the principal amount outstanding and the loan's contractual interest rate.

Beginning in the third quarter of 2015, the Company has designated certain student loan originations as held for sale. The borrowers are credit-worthy students who are attending colleges and universities. The loans are intended to be sold in the secondary market, and the Company maintains contracts with Sallie Mae to sell the loans at various times while the student is attending school or shortly after graduation. At September 30, 2015, the balance of these loans was $2.0 million. These loans are carried at lower of cost or fair value, and none were on non-accrual status or past due.

Foreclosed real estate/repossessed assets

The Company’s holdings of foreclosed real estate totaled $3.1 million and $5.5 million at September 30, 2015 and December 31, 2014, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $3.1 million and $2.4 million at September 30, 2015 and December 31, 2014, respectively. These assets are carried at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell.

3. Investment Securities

Investment securities, at fair value, consisted of the following at September 30, 2015 and December 31, 2014.

(In thousands)	Sept. 30, 2015	Dec. 31, 2014
Available for sale	$9,472,959	$9,523,560
Trading	14,463	15,357
Non-marketable	116,634	106,875
Total investment securities	$9,604,056	$9,645,792

Most of the Company’s investment securities are classified as available for sale, and this portfolio is discussed in more detail below. Securities which are classified as non-marketable include Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank stock held for debt and regulatory purposes, which totaled $46.8 million at September 30, 2015 and $46.6 million at December 31, 2014. Investment in Federal Reserve Bank stock is based on the capital structure of the investing bank, and investment in FHLB stock is tied to the level of borrowings from the FHLB. Non-marketable securities also include private equity investments, which amounted to $69.5 million at September 30, 2015 and $60.2 million at December 31, 2014.

Table of Contents

A summary of the available for sale investment securities by maturity groupings as of September 30, 2015 is shown below. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, GNMA and FDIC, in addition to non-agency mortgage-backed securities, which have no guarantee. Also included are certain other asset-backed securities, which are primarily collateralized by credit cards, automobiles, student loans, and commercial loans. These securities differ from traditional debt securities primarily in that they may have uncertain maturity dates and are priced based on estimated prepayment rates on the underlying collateral.

(In thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	$59,884	$60,116
After 1 but within 5 years	163,996	167,780
After 5 but within 10 years	143,940	144,161
After 10 years	52,882	48,342
Total U.S. government and federal agency obligations	420,702	420,399
Government-sponsored enterprise obligations:		
Within 1 year	42,108	42,249
After 1 but within 5 years	477,115	482,232
After 5 but within 10 years	332,296	332,248
After 10 years	5,630	5,480
Total government-sponsored enterprise obligations	857,149	862,209
State and municipal obligations:		
Within 1 year	99,618	99,985
After 1 but within 5 years	667,923	685,757
After 5 but within 10 years	912,614	924,070
After 10 years	140,081	137,347
Total state and municipal obligations	1,820,236	1,847,159
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	2,508,870	2,575,835
Non-agency mortgage-backed securities	805,560	817,197
Asset-backed securities	2,585,088	2,584,688
Total mortgage and asset-backed securities	5,899,518	5,977,720
Other debt securities:		
Within 1 year	3,999	4,048
After 1 but within 5 years	83,398	83,613
After 5 but within 10 years	229,071	226,599
After 10 years	12,000	11,748
Total other debt securities	328,468	326,008
Equity securities	5,677	39,464
Total available for sale investment securities	$9,331,750	$9,472,959

Investments in U.S. government and federal agency obligations are comprised mainly of U.S. Treasury inflation-protected securities, which totaled $420.3 million, at fair value, at September 30, 2015. Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index. Included in state and municipal obligations are $93.2 million, at fair value, of auction rate securities, which were previously purchased from bank customers. Included in equity securities is common and preferred stock held by the holding company, Commerce Bancshares, Inc. (the Parent), with a fair value of $39.4 million at September 30, 2015.

Table of Contents

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
U.S. government and federal agency obligations	$420,702	$5,930	$(6,233)	$420,399
Government-sponsored enterprise obligations	857,149	7,809	(2,749)	862,209
State and municipal obligations	1,820,236	33,416	(6,493)	1,847,159
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,508,870	69,477	(2,512)	2,575,835
Non-agency mortgage-backed securities	805,560	12,285	(648)	817,197
Asset-backed securities	2,585,088	7,444	(7,844)	2,584,688
Total mortgage and asset-backed securities	5,899,518	89,206	(11,004)	5,977,720
Other debt securities	328,468	979	(3,439)	326,008
Equity securities	5,677	33,787	—	39,464
Total	$9,331,750	$171,127	$(29,918)	$9,472,959
December 31, 2014				
U.S. government and federal agency obligations	$497,336	$9,095	$(5,024)	$501,407
Government-sponsored enterprise obligations	968,574	2,593	(8,040)	963,127
State and municipal obligations	1,789,215	32,340	(8,354)	1,813,201
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,523,377	75,923	(5,592)	2,593,708
Non-agency mortgage-backed securities	372,911	11,061	(1,228)	382,744
Asset-backed securities	3,090,174	6,922	(5,103)	3,091,993
Total mortgage and asset-backed securities	5,986,462	93,906	(11,923)	6,068,445
Other debt securities	140,784	420	(2,043)	139,161
Equity securities	3,931	34,288	—	38,219
Total	$9,386,302	$172,642	$(35,384)	$9,523,560

The Company’s impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis and analysis is placed on securities whose credit rating has fallen below A3 (Moody's) or A- (Standard & Poor's), whose fair values have fallen more than 20% below purchase price for an extended period of time, or have been identified based on management’s judgment. These securities are placed on a watch list, and for all such securities, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At September 30, 2015, the fair value of securities on this watch list was $102.8 million compared to $123.9 million at December 31, 2014.

As of September 30, 2015, the Company had recorded other-than-temporary impairment (OTTI) on certain non-agency mortgage-backed securities, part of the watch list mentioned above, which had an aggregate fair value of $47.4 million. The cumulative credit-related portion of the impairment on these securities, which was recorded in earnings, totaled $14.1 million. The Company does not intend to sell these securities and believes it is not likely that it will be required to sell the securities before the recovery of their amortized cost.

The credit-related portion of the loss on these securities was based on the cash flows projected to be received over the estimated life of the securities, discounted to present value, and compared to the current amortized cost bases of the securities. Significant inputs to the cash flow models used to calculate the credit losses on these securities at September 30, 2015 included the following:

Significant Inputs	Range		
Prepayment CPR	1%	-	25%
Projected cumulative default	17%	-	54%
Credit support	0%	-	22%
Loss severity	20%	-	63%

Table of Contents

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

(In thousands)	For the Nine Months Ended September 30 2015	2014
Cumulative OTTI credit losses at January 1	$13,734	$12,499
Credit losses on debt securities for which impairment was not previously recognized	76	—
Credit losses on debt securities for which impairment was previously recognized	407	1,348
Increase in expected cash flows that are recognized over remaining life of security	(73)	(97)
Cumulative OTTI credit losses at September 30	$14,144	$13,750

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

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2015						
U.S. government and federal agency obligations	$158,390	$ 1,701	$31,479	$4,532	$189,869	$6,233
Government-sponsored enterprise obligations	11,419	57	110,123	2,692	121,542	2,749
State and municipal obligations	120,098	703	110,550	5,790	230,648	6,493
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	64,863	259	305,767	2,253	370,630	2,512
Non-agency mortgage-backed securities	199,875	361	53,765	287	253,640	648
Asset-backed securities	998,031	5,542	152,502	2,302	1,150,533	7,844
Total mortgage and asset-backed securities	1,262,769	6,162	512,034	4,842	1,774,803	11,004
Other debt securities	179,566	2,490	25,565	949	205,131	3,439
Total	$1,732,242	$ 11,113	$789,751	$18,805	$2,521,993	$29,918
December 31, 2014						
U.S. government and federal agency obligations	$90,261	$ 818	$32,077	$4,206	$122,338	$5,024
Government-sponsored enterprise obligations	224,808	922	224,779	7,118	449,587	8,040
State and municipal obligations	172,980	646	215,702	7,708	388,682	8,354
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	55,128	429	381,617	5,163	436,745	5,592
Non-agency mortgage-backed securities	141,655	609	43,659	619	185,314	1,228
Asset-backed securities	1,424,457	2,009	159,098	3,094	1,583,555	5,103
Total mortgage and asset-backed securities	1,621,240	3,047	584,374	8,876	2,205,614	11,923
Other debt securities	16,434	55	80,203	1,988	96,637	2,043
Total	$2,125,723	$ 5,488	$1,137,135	$29,896	$3,262,858	$35,384

The total available for sale portfolio consisted of approximately 2,000 individual securities at September 30, 2015. The portfolio included 332 securities, having an aggregate fair value of $2.5 billion, that were in an unrealized loss position at September 30, 2015, compared to 363 securities, with a fair value of $3.3 billion, at December 31, 2014. The total amount of unrealized losses on these securities decreased $5.5 million to $29.9 million at September 30, 2015. At September 30, 2015, the fair value of securities in an unrealized loss position for 12 months or longer totaled $789.8 million, or 8.3% of the total portfolio value, and did not include any securities identified as other-than-temporarily impaired.

Table of Contents

The Company’s holdings of state and municipal obligations included gross unrealized losses of $6.5 million at September 30, 2015. Of these losses, $5.5 million related to auction rate securities and $1.0 million related to other state and municipal obligations. This portfolio, exclusive of auction rate securities, totaled $1.8 billion at fair value, or 18.5% of total available for sale securities. The average credit quality of the portfolio, excluding auction rate securities, is Aa2 as rated by Moody’s. The portfolio is diversified in order to reduce risk, and information about the top five largest holdings, by state and economic sector, is shown in the table below. The Company has processes and procedures in place to monitor its holdings, identify signs of financial distress and, if necessary, exit its positions in a timely manner.

	% of Portfolio	Average Life (in years)	Average Rating (Moody’s)
At September 30, 2015			
Texas	12.1 %	6.1	Aa2
Florida	7.0	4.5	Aa3
New York	6.9	6.8	Aa2
Ohio	6.7	6.1	Aa2
Washington	5.4	5.7	Aa2
General obligation	37.7 %	5.6	Aa2
Lease	18.9	5.5	Aa2
Transportation	12.9	4.7	A1
Housing	12.9	6.4	Aa1
Limited tax	8.9	6.5	Aa2

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

	For the Nine Months Ended September 30	
(In thousands)	2015	2014
Proceeds from sales of available for sale securities	$675,870	$30,998
Proceeds from sales of non-marketable securities	9,023	33,043
Total proceeds	$684,893	$64,041
Available for sale:		
Gains realized on sales	$2,813	$—
Losses realized on sales	—	(5,197)
Gain realized on donation	—	1,570
Other-than-temporary impairment recognized on debt securities	(483)	(1,348)
Non-marketable:		
Gains realized on sales	2,516	1,613
Losses realized on sales	—	(134)
Fair value adjustments, net	2,954	13,970
Investment securities gains, net	$7,800	$10,474

At September 30, 2015, securities totaling $4.3 billion in fair value were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowings at the Federal Reserve Bank and FHLB. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated $364.1 million, while the remaining securities were pledged under agreements pursuant to which the secured parties may not sell or re-pledge the collateral. Except for obligations of various government-sponsored enterprises such as FNMA, FHLB and FHLMC, no investment in a single issuer exceeded 10% of stockholders’ equity.

Table of Contents

4. Goodwill and Other Intangible Assets

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

(In thousands)	September 30, 2015 Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	December 31, 2014 Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$31,270	$(25,905)	$—	$5,365	$31,270	$(24,698)	$—	$6,572
Mortgage servicing rights	4,400	(2,901)	(38)	1,461	3,693	(2,718)	(97)	878
Total	$35,670	$(28,806)	$(38)	$6,826	$34,963	$(27,416)	$(97)	$7,450

Aggregate amortization expense on intangible assets was $445 thousand and $499 thousand for the three month periods ended September 30, 2015 and 2014, respectively, and $1.4 million and $1.6 million for the nine month periods ended September 30, 2015 and 2014, respectively. The following table shows the estimated annual amortization expense for the next five fiscal years. This expense is based on existing asset balances and the interest rate environment as of September 30, 2015. The Company’s actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2015	$1,753
2016	1,374
2017	1,033
2018	786
2019	649

Changes in the carrying amount of goodwill and net other intangible assets for the nine month period ended September 30, 2015 is as follows.

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2015	$138,921	$6,572	$878
Originations	—	—	707
Amortization	—	(1,207)	(183)
Impairment reversal	—	—	59
Balance September 30, 2015	$138,921	$5,365	$1,461

Goodwill allocated to the Company’s operating segments at September 30, 2015 and December 31, 2014 is shown below.

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

5. Guarantees

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

Table of Contents

Upon issuance of standby letters of credit, the Company recognizes a liability for the fair value of the obligation undertaken, which is estimated to be equivalent to the amount of fees received from the customer over the life of the agreement. At September 30, 2015, that net liability was $2.6 million, which will be accreted into income over the remaining life of the respective commitments. The contractual amount of these letters of credit, which represents the maximum potential future payments guaranteed by the Company, was $335.0 million at September 30, 2015.

The Company periodically enters into risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral and at September 30, 2015, believes sufficient collateral is available to cover potential swap losses. The RPAs are carried at fair value throughout their term with all changes in fair value, including those due to a change in the third party's creditworthiness, recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 3 to 11 years. At September 30, 2015, the fair value of the Company's guarantee liabilities for RPAs was $234 thousand, and the notional amount of the underlying swaps was $66.8 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated but is dependent upon the fair value of the interest rate swaps at the time of default.

6. Pension

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)	2015	2014	2015	2014
Service cost - benefits earned during the period	$127	$133	$379	$399
Interest cost on projected benefit obligation	1,139	1,262	3,571	3,785
Expected return on plan assets	(1,523)	(1,561)	(4,569)	(4,683)
Amortization of prior service cost	(203)	—	(203)	—
Amortization of unrecognized net loss	660	359	1,969	1,079
Net periodic pension cost	$200	$193	$1,147	$580

Substantially all benefits accrued under the Company's defined benefit pension plan were frozen effective January 1, 2005, and the remaining benefits were frozen effective January 1, 2011. During the first nine months of 2015, the Company made no funding contributions to its defined benefit pension plan and made minimal funding contributions to a supplemental executive retirement plan (the CERP), which carries no segregated assets. The Company has no plans to make any further contributions, other than those related to the CERP, during the remainder of 2015.

Table of Contents

7. Common and Preferred Stock *

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands, except per share data)	2015	2014	2015	2014
Basic income per common share:				
Net income attributable to Commerce Bancshares, Inc.	$64,612	$68,185	$200,020	$199,029
Less preferred stock dividends	2,250	1,800	6,750	1,800
Net income available to common shareholders	62,362	66,385	193,270	197,229
Less income allocated to nonvested restricted stock	884	879	2,677	2,537
Net income allocated to common stock	$61,478	$65,506	$190,593	$194,692
Weighted average common shares outstanding	91,989	95,104	93,874	97,591
Basic income per common share	$.67	$.69	$2.03	$2.00
Diluted income per common share:				
Net income available to common shareholders	$62,362	$66,385	$193,270	$197,229
Less income allocated to nonvested restricted stock	883	877	2,672	2,530
Net income allocated to common stock	$61,479	$65,508	$190,598	$194,699
Weighted average common shares outstanding	91,989	95,104	93,874	97,591
Net effect of the assumed exercise of stock-based awards - based on the treasury stock method using the average market price for the respective periods	280	412	300	419
Weighted average diluted common shares outstanding	92,269	95,516	94,174	98,010
Diluted income per common share	$.66	$.69	$2.02	$1.99

Unexercised stock options and stock appreciation rights of 377 thousand and 152 thousand were excluded in the computation of diluted income per common share for the nine month periods ended September 30, 2015 and 2014, respectively, because their inclusion would have been anti-dilutive.

On June 19, 2014, the Company issued and sold 6,000,000 depositary shares, representing 6,000 shares of 6.00% Series B Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share, having an aggregate liquidation preference of $150.0 million ("Series B Preferred Stock"). Each depositary share has a liquidation preference of $25.00 per share. Dividends on the Series B Preferred Stock, if declared, accrue and are payable quarterly, in arrears, at a rate of 6.00%. The Series B Preferred Stock qualifies as Tier 1 capital for the purposes of the regulatory capital calculations. In the event that the Company does not declare and pay dividends on the Series B Preferred Stock for the most recent dividend period, the ability of the Company to declare or pay dividends on, purchase, redeem or otherwise acquire shares of its common stock or any securities of the Company that rank junior to the Series B Preferred Stock is subject to certain restrictions under the terms of the Series B Preferred Stock.

The net proceeds from the issuance and sale of the Series B Preferred Stock, totaling $144.8 million, were used to fund an accelerated share repurchase (ASR) program. Under this ASR agreement, the Company paid $200.0 million to Morgan Stanley & Co. LLC (Morgan Stanley) and received from Morgan Stanley 3,208,206 shares of the Company's common stock in June 2014. Final settlement occurred in June 2015, at which time the remaining shares, totaling 1,480,378, were received by the Company. The specific number of shares that the Company ultimately repurchased was based on the volume-weighted-average price per share of the Company's common stock during the repurchase period.

The Company entered into a second ASR agreement in May 2015, under which it paid $100.0 million to Morgan Stanley and received from Morgan Stanley 1,803,427 shares of common stock at that time. Final settlement occurred in August 2015, at which time the remaining shares, totaling 351,620, were received by the Company.

* All prior year share and per share amounts in this note have been restated for the 5% common stock dividend distributed in December 2014.

8. Accumulated Other Comprehensive Income

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

(In thousands)	Unrealized Gains (Losses) on Securities (1) OTTI	Other	Pension Loss (2)	Total Accumulated Other Comprehensive Income
Balance January 1, 2015	$3,791	$81,310	$(23,008)	$62,093
Other comprehensive income (loss) before reclassifications	(976)	7,255	—	6,279
Amounts reclassified from accumulated other comprehensive income	483	(2,813)	1,766	(564)
Current period other comprehensive income (loss), before tax	(493)	4,442	1,766	5,715
Income tax (expense) benefit	187	(1,688)	(671)	(2,172)
Current period other comprehensive income (loss), net of tax	(306)	2,754	1,095	3,543
Transfer of unrealized gain on securities for which impairment was not previously recognized	43	(43)	—	—
Balance September 30, 2015	$3,528	$84,021	$(21,913)	$65,636
Balance January 1, 2014	$4,203	$21,303	$(15,775)	$9,731
Other comprehensive income (loss) before reclassifications	(1,568)	76,965	—	75,397
Amounts reclassified from accumulated other comprehensive income	1,348	3,627	1,079	6,054
Current period other comprehensive income (loss), before tax	(220)	80,592	1,079	81,451
Income tax (expense) benefit	84	(30,625)	(410)	(30,951)
Current period other comprehensive income (loss), net of tax	(136)	49,967	669	50,500
Balance September 30, 2014	$4,067	$71,270	$(15,106)	$60,231

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

9. Segments

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

Effective January 1, 2015, certain personal real estate loans, which are held for investment and totaled approximately $340 million, were removed from the Consumer segment. These loans were transferred to the "Other/Elimination" category, outside of segment totals. Management's performance evaluation of the residential mortgage business within the Consumer segment is based on originations and sales of mortgages and the related fees. Information for prior periods presented below have been revised to reflect the transfer of the held for investment loans and their related income and expense, in order to provide comparable data.

Table of Contents

The following table presents selected financial information by segment and reconciliations of combined segment totals to consolidated totals. There were no material intersegment revenues among the three segments.

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/Elimination	Consolidated Totals
Three Months Ended September 30, 2015						
Net interest income	$67,083	$74,008	$10,391	$151,482	$10,556	$162,038
Provision for loan losses	(8,605)	166	106	(8,333)	(31)	(8,364)
Non-interest income	30,809	47,485	34,042	112,336	(1,188)	111,148
Investment securities losses, net	—	—	—	—	(378)	(378)
Non-interest expense	(69,196)	(68,710)	(27,211)	(165,117)	(6,145)	(171,262)
Income before income taxes	$20,091	$52,949	$17,328	$90,368	$2,814	$93,182
Nine Months Ended September 30, 2015						
Net interest income	$199,265	$218,386	$31,921	$449,572	$22,261	$471,833
Provision for loan losses	(25,500)	842	114	(24,544)	5,003	(19,541)
Non-interest income	87,409	144,684	102,336	334,429	(2,763)	331,666
Investment securities gains, net	—	—	—	—	7,800	7,800
Non-interest expense	(203,446)	(199,027)	(81,498)	(483,971)	(16,308)	(500,279)
Income before income taxes	$57,728	$164,885	$52,873	$275,486	$15,993	$291,479
Three Months Ended September 30, 2014						
Net interest income	$66,565	$72,019	$9,811	$148,395	$6,321	$154,716
Provision for loan losses	(8,306)	863	(29)	(7,472)	(180)	(7,652)
Non-interest income	29,699	47,689	33,368	110,756	1,530	112,286
Investment securities losses, net	—	—	—	—	2,995	2,995
Non-interest expense	(65,900)	(63,542)	(23,833)	(153,275)	(8,565)	(161,840)
Income before income taxes	$22,058	$57,029	$19,317	$98,404	$2,101	$100,505
Nine Months Ended September 30, 2014						
Net interest income	$198,533	$214,406	$29,713	$442,652	$25,623	$468,275
Provision for loan losses	(25,816)	803	463	(24,550)	(317)	(24,867)
Non-interest income	84,331	142,326	94,870	321,527	2,149	323,676
Investment securities gains, net	—	—	—	—	10,474	10,474
Non-interest expense	(197,220)	(188,223)	(72,606)	(458,049)	(28,306)	(486,355)
Income before income taxes	$59,828	$169,312	$52,440	$281,580	$9,623	$291,203

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

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

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

Table of Contents

10. Derivative Instruments

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

(In thousands)	September 30, 2015	December 31, 2014
Interest rate swaps	$906,559	$ 647,709
Interest rate caps	41,603	53,587
Credit risk participation agreements	70,736	75,943
Foreign exchange contracts	17,751	19,791
Mortgage loan commitments	12,473	—
Mortgage loan forward sale contracts	1,280	—
Forward TBA contracts	12,000	—
Total notional amount	$1,062,402	$ 797,030

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

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

The banking customer counterparties are engaged in a variety of businesses, including real estate and building materials, manufacturing, education, communications, retail product distribution, and retirement communities. At September 30, 2015, the largest potential loss exposures were in the groups related to education, real estate, and distribution. If the counterparties in these groups failed to perform, and if the underlying collateral proved to be of no value, the Company estimates that it would incur losses of $1.5 million (education), $7.1 million (real estate), and $2.0 million (distribution) at September 30, 2015.

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

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

Table of Contents

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

	Asset Derivatives		Liability Derivatives	
	Sept. 30, 2015	Dec. 31, 2014	Sept. 30, 2015	Dec. 31, 2014
(In thousands)	Fair Value		Fair Value	
Derivative instruments:				
Interest rate swaps	$15,681	$10,144	$(15,681)	$(10,166)
Interest rate caps	16	62	(16)	(62)
Credit risk participation agreements	2	3	(234)	(226)
Foreign exchange contracts	219	248	(197)	(494)
Mortgage loan commitments	451	—	—	—
Mortgage loan forward sale contracts	—	—	(5)	—
Forward TBA contracts	—	—	(118)	—
Total	$16,369	$10,457	$(16,251)	$(10,948)

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

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives			
		For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)		2015	2014	2015	2014
Derivative instruments:					
Interest rate swaps	Other non-interest income	$741	$212	$3,551	$1,023
Interest rate caps	Other non-interest income	—	13	—	13
Credit risk participation agreements	Other non-interest income	(57)	(21)	(9)	177
Foreign exchange contracts	Other non-interest income	(55)	176	267	134
Mortgage loan commitments	Loan fees and sales	106	—	451	—
Mortgage loan forward sale contracts	Loan fees and sales	(6)	—	(5)	—
Forward TBA contracts	Loan fees and sales	(370)	—	15	—
Total		$359	$380	$4,270	$1,347

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

The Company is party to master netting arrangements with most of its swap derivative counterparties; however, the Company does not offset derivative assets and liabilities under these arrangements on its consolidated balance sheet. Collateral, usually in the form of marketable securities, is exchanged between the Company and dealer bank counterparties and is generally subject to thresholds and transfer minimums. By contract, it may be sold or re-pledged by the secured party until recalled at a subsequent valuation date by the pledging party. For those swap transactions requiring central clearing, the Company posts cash and securities to its clearing agency. At September 30, 2015, the Company had a net liability position with dealer bank and clearing agency counterparties totaling $15.7 million, and had posted securities with a fair value of $3.3 million and cash totaling $16.8 million. Collateral positions are valued daily, and adjustments to amounts received and pledged by the Company are made as appropriate to maintain proper collateralization for these transactions. Swap derivative transactions with customers are generally secured by rights to non-financial collateral, such as real and personal property, which is not shown in the table below.

Table of Contents

(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Collateral Received/Pledged	Net Amount
September 30, 2015						
Assets:						
Derivatives subject to master netting agreements	$15,700	$—	$15,700	$(16)	$ —	$15,684
Derivatives not subject to master netting agreements	669	—	669			
Total derivatives	16,369	—	16,369			
Liabilities:						
Derivatives subject to master netting agreements	$16,052	$—	$16,052	$(16)	$ (14,456)	$1,580
Derivatives not subject to master netting agreements	199	—	199			
Total derivatives	16,251	—	16,251			
December 31, 2014						
Assets:						
Derivatives subject to master netting agreements	$10,209	$—	$10,209	$(251)	$ —	$9,958
Derivatives not subject to master netting agreements	248	—	248			
Total derivatives	10,457	—	10,457			
Liabilities:						
Derivatives subject to master netting agreements	$10,454	$—	$10,454	$(251)	$ (8,738)	$1,465
Derivatives not subject to master netting agreements	494	—	494			
Total derivatives	10,948	—	10,948			

11. Resale and Repurchase Agreements

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

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

The Company is party to several agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resale agreements with the same financial institution counterparty. These repurchase and resale agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the balance sheet, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled $350.0 million at September 30, 2015 and $450.0 million at December 31, 2014. At September 30, 2015, the Company had posted collateral of $360.8 million in marketable securities, consisting mainly of agency mortgage-backed bonds, and had accepted $373.2 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds.

Table of Contents

(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Securities Collateral Received/Pledged	Net Amount
September 30, 2015						
Total resale agreements, subject to master netting arrangements	$1,325,000	$(350,000)	$975,000	$—	$(975,000)	$—
Total repurchase agreements, subject to master netting arrangements	1,981,497	(350,000)	1,631,497	—	(1,631,497)	—
December 31, 2014						
Total resale agreements, subject to master netting arrangements	$1,500,000	$(450,000)	$1,050,000	$—	$(1,049,370)	$630
Total repurchase agreements, subject to master netting arrangements	2,308,678	(450,000)	1,858,678	—	(1,858,678)	—

The table below shows the remaining contractual maturities of repurchase agreements outstanding at September 30, 2015, in addition to the various types of marketable securities that have been pledged as collateral for these borrowings.

(In thousands)	Remaining Contractual Maturity of the Agreements: Overnight and continuous	Up to 90 days	Greater than 90 days	Total
September 30, 2015				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	$151,015	$11,937	$—	$162,952
Government-sponsored enterprise obligations	361,228	3,298	17,928	382,454
Agency mortgage-backed securities	335,300	93,104	232,072	660,476
Asset-backed securities	690,615	85,000	—	775,615
Total repurchase agreements, gross amount recognized	$1,538,158	$193,339	$250,000	$1,981,497

12. Stock-Based Compensation

The Company has historically issued stock-based compensation in the form of nonvested restricted stock, stock options and stock appreciation rights (SARs). During the first nine months of 2015, stock-based compensation was issued in the form of nonvested restricted stock and SARs. The stock-based compensation expense that has been charged against income was $2.4 million and $2.2 million in the three month periods ended September 30, 2015 and 2014, respectively, and $7.7 million and $6.6 million in the nine months ended September 30, 2015 and 2014, respectively.

Nonvested stock awards generally vest in 4 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company's nonvested share awards as of September 30, 2015, and changes during the nine month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	1,259,689	$34.41
Granted	215,245	41.69
Vested	(141,877)	30.11
Forfeited	(15,936)	34.79
Nonvested at September 30, 2015	1,317,121	$36.05

SARs and stock options are granted with exercise prices equal to the market price of the Company's stock at the date of grant. SARs vest ratably over 4 years of continuous service and have 10-year contractual terms. All SARs must be settled in stock under provisions of the plan. Stock options, which have not been granted since 2005, vested ratably over 3 years of continuous service and also have 10-year contractual terms. In determining compensation cost, the Black-Scholes option-pricing model is used to

Table of Contents

estimate the fair value of SARs and options on date of grant. The current year per share average fair value and the model assumptions are shown in the table below.

Weighted per share average fair value at grant date	$7.58	
Assumptions:		
Dividend yield	2.2	%
Volatility	21.3	%
Risk-free interest rate	1.8	%
Expected term	7.2 years	

A summary of SAR activity during the first nine months of 2015 is presented below.

(Dollars in thousands, except per share data)	Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2015	1,780,578	$33.96		
Granted	240,267	41.40		
Forfeited	(6,182)	39.04		
Expired	(1,076)	37.31		
Exercised	(411,126)	32.94		
Outstanding at September 30, 2015	1,602,461	$35.32	4.4 years	$16,412

A summary of option activity during the first nine months of 2015 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2015	68,675	$29.27
Granted	—	—
Forfeited	—	—
Expired	—	—
Exercised	(68,675)	29.27
Outstanding at September 30, 2015	$—	$—

Table of Contents

13. Fair Value Measurements

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

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

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

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

Table of Contents

Instruments Measured at Fair Value on a Recurring Basis

The table below presents the September 30, 2015 and December 31, 2014 carrying values of assets and liabilities measured at fair value on a recurring basis. There were no transfers among levels during the first nine months of 2015 or the year ended December 31, 2014.

		Fair Value Measurements Using		
(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Assets:				
Residential mortgage loans held for sale	$2,173	$—	$2,173	$—
Available for sale securities:				
U.S. government and federal agency obligations	420,399	420,399	—	—
Government-sponsored enterprise obligations	862,209	—	862,209	—
State and municipal obligations	1,847,159	—	1,753,970	93,189
Agency mortgage-backed securities	2,575,835	—	2,575,835	—
Non-agency mortgage-backed securities	817,197	—	817,197	—
Asset-backed securities	2,584,688	—	2,584,688	—
Other debt securities	326,008	—	326,008	—
Equity securities	39,464	19,509	19,955	—
Trading securities	14,463	—	14,463	—
Private equity investments	66,875	—	—	66,875
Derivatives *	16,369	—	15,916	453
Assets held in trust	8,825	8,825	—	—
Total assets	$9,581,664	$448,733	$8,972,414	$160,517
Liabilities:				
Derivatives *	$16,251	$—	$16,017	$234
Total liabilities	$16,251	$—	$16,017	$234
December 31, 2014				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$501,407	$501,407	$—	$—
Government-sponsored enterprise obligations	963,127	—	963,127	—
State and municipal obligations	1,813,201	—	1,718,058	95,143
Agency mortgage-backed securities	2,593,708	—	2,593,708	—
Non-agency mortgage-backed securities	382,744	—	382,744	—
Asset-backed securities	3,091,993	—	3,091,993	—
Other debt securities	139,161	—	139,161	—
Equity securities	38,219	17,975	20,244	—
Trading securities	15,357	—	15,357	—
Private equity investments	57,581	—	—	57,581
Derivatives *	10,457	—	10,454	3
Assets held in trust	8,848	8,848	—	—
Total assets	$9,615,803	$528,230	$8,934,846	$152,727

Liabilities:				
Derivatives *	$10,948	$—	$10,722	$226
Total liabilities	$10,948	$—	$10,722	$226

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

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

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

Residential mortgage loans held for sale

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

Available for sale investment securities

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

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

- U.S. government and federal agency obligations

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

- Government-sponsored enterprise obligations

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

- State and municipal obligations, excluding auction rate securities

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

- Mortgage and asset-backed securities

Collateralized mortgage obligations and other asset-backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche-specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

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

• Other debt securities

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

• Equity securities

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

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

Trading securities

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

Private equity investments

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

Derivatives

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

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

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

Table of Contents

The Company’s contracts related to credit risk guarantees are valued under a proprietary model which uses unobservable inputs and assumptions about the creditworthiness of the counterparty (generally a Bank customer). Customer credit spreads, which are based on probability of default and other loss estimates, are calculated internally by the Company's Credit Department, as mentioned above, and are based on the Company's internal risk rating for each customer. Because these inputs are significant to the measurements, they are classified as Level 3.

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

Assets held in trust

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

Table of Contents

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(In thousands)	State and Municipal Obligations	Private Equity Investments	Derivatives	Total
For the three months ended September 30, 2015				
Balance June 30, 2015	$92,940	$ 58,726	$ 170	$151,836
Total gains or losses (realized/unrealized):				
Included in earnings	—	(1,221)	49	(1,172)
Included in other comprehensive income *	227	—	—	227
Discount accretion	22	—	—	22
Purchases of private equity investments	—	9,370	—	9,370
Balance September 30, 2015	$93,189	$ 66,875	$ 219	$160,283
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2015	$—	$ (1,221)	$ 394	$(827)
For the nine months ended September 30, 2015				
Balance January 1, 2015	$95,143	$ 57,581	$ (223)	$152,501
Total gains or losses (realized/unrealized):				
Included in earnings	—	2,954	442	3,396
Included in other comprehensive income *	(127)	—	—	(127)
Investment securities called	(2,000)	—	—	(2,000)
Discount accretion	173	—	—	173
Purchases of private equity investments	—	11,023	—	11,023
Sale/pay down of private equity investments	—	(4,800)	—	(4,800)
Capitalized interest/dividends	—	117	—	117
Balance September 30, 2015	$93,189	$ 66,875	$ 219	$160,283
Total gains or losses for the nine months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2015	$—	$ 2,954	$ 442	$3,396
For the three months ended September 30, 2014				
Balance June 30, 2014	$132,108	$ 44,192	$ (188)	$176,112
Total gains or losses (realized/unrealized):				
Included in earnings	—	3,225	(21)	3,204
Included in other comprehensive income *	(921)	—	—	(921)
Discount accretion	40	—	—	40
Purchases of private equity investments	—	4,575	—	4,575
Capitalized interest/dividends	—	45	—	45
Purchase of risk participation agreement	—	—	41	41
Balance September 30, 2014	$131,227	$ 52,037	$ (168)	$183,096
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2014	$—	$ 3,225	$ (21)	$3,204
For the nine months ended September 30, 2014				
Balance January 1, 2014	$127,724	$ 56,612	$ (65)	$184,271
Total gains or losses (realized/unrealized):				

Included in earnings	—	15,161	177	15,338
Included in other comprehensive income *	3,383	—	—	3,383
Discount accretion	120	—	—	120
Purchases of private equity investments	—	11,575	—	11,575
Sale/pay down of private equity investments	—	(31,423)	—	(31,423)
Capitalized interest/dividends	—	112	—	112
Purchase of risk participation agreement	—	—	41	41
Sale of risk participation agreement	—	—	(321)	(321)
Balance September 30, 2014	$131,227	$ 52,037	$ (168)	$183,096
Total gains or losses for the nine months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2014	$—	$ (3,232)	$ 173	$(3,059)

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

35

Table of Contents

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

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
For the three months ended September 30, 2015				
Total gains or losses included in earnings	$106	$ (57)	$(1,221)	$(1,172)
Change in unrealized gains or losses relating to assets still held at September 30, 2015	$451	$ (57)	$(1,221)	$(827)
For the nine months ended September 30, 2015				
Total gains or losses included in earnings	$451	$ (9)	$2,954	$3,396
Change in unrealized gains or losses relating to assets still held at September 30, 2015	$451	$ (9)	$	