COMMERCE BANCSHARES INC /MO/
Form 10-Q
November 07, 2012
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, 2012

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 1, 2012, the registrant had outstanding 87,301,292 shares of its $5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

Form 10-Q

INDEX

			Page
Part I	Financial Information		
	Item 1.	Financial Statements	
		Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011	3
		Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)	4
		Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)	5
		Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2012, and 2011 (unaudited)	6
		Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (unaudited)	7
		Notes to Consolidated Financial Statements	8
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	37
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	58
	Item 4.	Controls and Procedures	58
Part II	Other Information		
	Item 1.	Legal Proceedings	59
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	59
	Item 6.	Exhibits	59
Signatures			60
Index to Exhibits			61

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited) (In thousands)	December 31, 2011
ASSETS		
Loans	$9,638,645	$9,177,478
Allowance for loan losses	(175,032)	(184,532)
Net loans	9,463,613	8,992,946
Loans held for sale	8,741	31,076
Investment securities:		
Available for sale ($742,060,000 and $418,046,000 pledged in 2012 and 2011, respectively, to secure repurchase agreements)	9,020,951	9,224,702
Trading	13,595	17,853
Non-marketable	117,540	115,832
Total investment securities	9,152,086	9,358,387
Short-term federal funds sold and securities purchased under agreements to resell	10,475	11,870
Long-term securities purchased under agreements to resell	850,000	850,000
Interest earning deposits with banks	132,144	39,853
Cash and due from banks	426,742	465,828
Land, buildings and equipment, net	350,040	360,146
Goodwill	125,585	125,585
Other intangible assets, net	5,804	7,714
Other assets	353,539	405,962
Total assets	$20,878,769	$20,649,367
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	$5,814,932	$5,377,549
Savings, interest checking and money market	9,025,688	8,933,941
Time open and C.D.'s of less than $100,000	1,094,215	1,166,104
Time open and C.D.'s of $100,000 and over	914,795	1,322,289
Total deposits	16,849,630	16,799,883
Federal funds purchased and securities sold under agreements to repurchase	1,257,949	1,256,081
Other borrowings	103,744	111,817
Other liabilities	360,374	311,225
Total liabilities	18,571,697	18,479,006
Commerce Bancshares, Inc. stockholders’ equity:		
Preferred stock, $1 par value		
Authorized and unissued 2,000,000 shares	—	—
Common stock, $5 par value		
Authorized 100,000,000 shares; issued 89,277,398 shares in 2012 and 2011	446,387	446,387
Capital surplus	1,033,515	1,042,065
Retained earnings	717,138	575,419

Treasury stock of 1,561,575 shares in 2012 and 217,755 shares in 2011, at cost	(60,644)	(8,362)
Accumulated other comprehensive income	166,040	110,538
Total Commerce Bancshares, Inc. stockholders' equity	2,302,436	2,166,047
Non-controlling interest	4,636	4,314
Total equity	2,307,072	2,170,361
Total liabilities and equity	$20,878,769	$20,649,367

See accompanying notes to consolidated financial statements.

3

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 2012	2011	For the Nine Months Ended September 30 2012	2011
	(Unaudited)			
INTEREST INCOME				
Interest and fees on loans	$111,619	$114,731	$335,627	$349,877
Interest and fees on loans held for sale	85	270	278	877
Interest on investment securities	46,513	51,697	157,832	164,298
Interest on short-term federal funds sold and securities purchased under agreements to resell	24	13	70	45
Interest on long-term securities purchased under agreements to resell	4,913	3,913	13,770	9,240
Interest on deposits with banks	40	211	207	411
Total interest income	163,194	170,835	507,784	524,748
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	4,623	6,445	14,338	19,717
Time open and C.D.'s of less than $100,000	1,945	2,413	6,055	9,121
Time open and C.D.'s of $100,000 and over	1,743	2,130	5,482	7,237
Interest on federal funds purchased and securities sold under agreements to repurchase	221	292	623	1,601
Interest on other borrowings	851	925	2,633	2,759
Total interest expense	9,383	12,205	29,131	40,435
Net interest income	153,811	158,630	478,653	484,313
Provision for loan losses	5,581	11,395	18,961	39,372
Net interest income after provision for loan losses	148,230	147,235	459,692	444,941
NON-INTEREST INCOME				
Bank card transaction fees	39,488	42,149	112,655	120,915
Trust fees	23,681	22,102	70,328	66,218
Deposit account charges and other fees	19,873	21,939	59,184	62,028
Capital market fees	5,110	5,556	16,991	15,255
Consumer brokerage services	2,441	2,333	7,543	7,876
Loan fees and sales	1,358	2,034	4,625	5,933
Other	8,971	5,519	24,995	20,657
Total non-interest income	100,922	101,632	296,321	298,882
INVESTMENT SECURITIES GAINS (LOSSES), NET				
Impairment (losses) reversals on debt securities	5,989	(1,200)	11,579	2,986
Noncredit-related losses (reversals) on securities not expected to be sold	(6,546)	369	(12,806)	(4,741)
Net impairment losses	(557)	(831)	(1,227)	(1,755)
Realized gains on sales and fair value adjustments	3,737	3,418	9,783	7,625
Investment securities gains, net	3,180	2,587	8,556	5,870
NON-INTEREST EXPENSE				
Salaries and employee benefits	89,292	85,700	266,346	257,315
Net occupancy	11,588	11,510	33,953	34,760
Equipment	4,976	5,390	15,164	16,669
Supplies and communication	5,400	5,674	16,680	16,898
Data processing and software	19,279	16,232	55,030	50,230

Marketing	4,100	4,545	12,391	13,298
Deposit insurance	2,608	2,772	7,746	10,443
Other	16,148	21,923	52,882	61,606
Total non-interest expense	153,391	153,746	460,192	461,219
Income before income taxes	98,941	97,708	304,377	288,474
Less income taxes	32,155	31,699	99,541	91,898
Net income	66,786	66,009	204,836	196,576
Less non-controlling interest expense	780	657	2,298	1,737
Net income attributable to Commerce Bancshares, Inc.	$66,006	$65,352	$202,538	$194,839
Net income per common share — basic	$.75	$.72	$2.29	$2.14
Net income per common share — diluted	$.75	$.72	$2.29	$2.13

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)	2012	2011	2012	2011
	(Unaudited)			
Net income	$66,786	$66,009	$204,836	$196,576
Other comprehensive income (loss):				
Available for sale debt securities for which a portion of an other-than-temporary impairment (OTTI) has been recorded in earnings:				
Unrealized holding gains (losses) subsequent to initial OTTI recognition	5,959	(1,091)	12,245	4,572
Income tax (expense) benefit	(2,264)	415	(4,653)	(1,737)
Net unrealized gains (losses) on OTTI securities	3,695	(676)	7,592	2,835
Other available for sale investment securities:				
Unrealized holding gains	40,582	53,143	75,427	78,278
Reclassification adjustment for gains included in net income	—	—	(342)	(177)
Net unrealized gains on securities	40,582	53,143	75,085	78,101
Income tax expense	(15,422)	(20,195)	(28,533)	(29,679)
Net unrealized gains on other securities	25,160	32,948	46,552	48,422
Prepaid pension cost:				
Amortization of accumulated pension loss	730	821	2,190	1,901
Income tax expense	(277)	(312)	(832)	(722)
Pension loss amortization	453	509	1,358	1,179
Other comprehensive income	29,308	32,781	55,502	52,436
Comprehensive income	96,094	98,790	260,338	249,012
Non-controlling interest expense	(780)	(657)	(2,298)	(1,737)
Comprehensive income attributable to Commerce Bancshares, Inc.	$95,314	$98,133	$258,040	$247,275

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)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Unaudited)						
Balance January 1, 2012	$446,387	$1,042,065	$575,419	$(8,362)	$110,538	$4,314	$2,170,361
Net income			202,538			2,298	204,836
Other comprehensive income					55,502		55,502
Distributions to non-controlling interest						(1,976)	(1,976)
Purchase of treasury stock				(75,536)			(75,536)
Issuance of stock under purchase and equity compensation plans		(4,987)		14,753			9,766
Net tax benefit related to equity compensation plans		1,233					1,233
Stock-based compensation		3,705					3,705
Issuance of nonvested stock awards		(8,501)		8,501			—
Cash dividends ($.690 per share)			(60,819)				(60,819)
Balance September 30, 2012	$446,387	$1,033,515	$717,138	$(60,644)	$166,040	$4,636	$2,307,072
Balance January 1, 2011	$433,942	$971,293	$555,778	$(2,371)	$63,345	$1,477	$2,023,464
Net income			194,839			1,737	196,576
Other comprehensive income					52,436		52,436
Distributions to non-controlling interest						(463)	(463)
Purchase of treasury stock				(101,111)			(101,111)
Issuance of stock under purchase and equity compensation plans	1,563	5,261		7,236			14,060
Net tax benefit related to equity compensation plans		1,025					1,025
Stock-based compensation		3,614					3,614
Issuance of nonvested stock awards	976	(1,017)		41			—
Cash dividends ($.657 per share)			(59,636)				(59,636)
Balance September 30, 2011	$436,481	$980,176	$690,981	$(96,205)	$115,781	$2,751	$2,129,965

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 2012 (Unaudited)	2011
OPERATING ACTIVITIES:		
Net income	$204,836	$196,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	18,961	39,372
Provision for depreciation and amortization	32,565	35,281
Amortization of investment security premiums, net	29,989	9,406
Investment securities gains, net(A)	(8,556)	(5,870)
Net gains on sales of loans held for sale	(376)	(1,554)
Originations of loans held for sale	—	(41,231)
Proceeds from sales of loans held for sale	22,649	67,065
Net (increase) decrease in trading securities	5,454	(2,941)
Stock-based compensation	3,705	3,614
(Increase) decrease in interest receivable	4,728	(1,077)
Decrease in interest payable	(1,067)	(4,393)
Increase (decrease) in income taxes payable	(5,571)	14,863
Net tax benefit related to equity compensation plans	(1,233)	(1,025)
Other changes, net	(10,718)	3,011
Net cash provided by operating activities	295,366	311,097
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities(A)	14,931	11,699
Proceeds from maturities/pay downs of investment securities(A)	2,341,083	1,968,848
Purchases of investment securities(A)	(2,036,260)	(2,926,445)
Net (increase) decrease in loans	(489,628)	288,987
Long-term securities purchased under agreements to resell	(125,000)	(500,000)
Repayments of long-term securities purchased under agreements to resell	125,000	100,000
Purchases of land, buildings and equipment	(19,243)	(16,135)
Sales of land, buildings and equipment	2,338	2,288
Net cash used in investing activities	(186,779)	(1,070,758)
FINANCING ACTIVITIES:		
Net increase in non-interest bearing, savings, interest checking and money market deposits	554,167	1,090,342
Net decrease in time open and C.D.'s	(479,383)	(150,511)
Net increase in short-term federal funds purchased and securities sold under agreements to repurchase	1,868	74,901
Repayment of long-term borrowings	(8,073)	(404)
Purchases of treasury stock	(75,536)	(101,111)
Issuance of stock under stock purchase and equity compensation plans	9,766	14,060
Net tax benefit related to equity compensation plans	1,233	1,025
Cash dividends paid on common stock	(60,819)	(59,636)
Net cash provided by (used in) financing activities	(56,777)	868,666
Increase in cash and cash equivalents	51,810	109,005
Cash and cash equivalents at beginning of year	517,551	460,675
Cash and cash equivalents at September 30	$569,361	$569,680

(A) Available for sale and non-marketable securities		
Income tax payments, net	$104,175	$76,795
Interest paid on deposits and borrowings	$30,198	$44,828
Loans transferred to foreclosed real estate	$7,178	$20,630

See accompanying notes to consolidated financial statements.

Table of Contents

Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012 (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. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2011 data to conform to current year presentation. 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. The results of operations for the three and nine month periods ended September 30, 2012 are not necessarily indicative of results to be attained for the full year or any other interim periods.

The significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the 2011 Annual Report on Form 10-K.

2. Loans and Allowance for Loan Losses

Major classifications within the Company’s held to maturity loan portfolio at September 30, 2012 and December 31, 2011 are as follows:

(In thousands)	September 30, 2012	December 31, 2011
Commercial:		
Business	$3,098,908	$2,808,265
Real estate – construction and land	335,113	386,598
Real estate – business	2,193,206	2,180,100
Personal Banking:		
Real estate – personal	1,556,754	1,428,777
Consumer	1,243,400	1,114,889
Revolving home equity	453,527	463,587
Consumer credit card	748,885	788,701
Overdrafts	8,852	6,561
Total loans	$9,638,645	$9,177,478

At September 30, 2012, loans of $3.2 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 $1.2 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2012 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	$114,671	$63,862	$178,533	$122,497	$62,035	$184,532
Provision	(2,479)	8,060	5,581	(10,125)	29,086	18,961
Deductions:						
Loans charged off	1,795	12,480	14,275	7,502	39,710	47,212
Less recoveries on loans	1,720	3,473	5,193	7,247	11,504	18,751
Net loans charged off	75	9,007	9,082	255	28,206	28,461
Balance September 30, 2012	$112,117	$62,915	$175,032	$112,117	$62,915	$175,032

Table of Contents

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2011 follows:

(In thousands)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	$127,263	$64,275	$191,538	$119,946	$77,592	$197,538
Provision	1,503	9,892	11,395	16,783	22,589	39,372
Deductions:						
Loans charged off	4,047	14,831	18,878	14,357	47,512	61,869
Less recoveries on loans	514	3,469	3,983	2,861	10,136	12,997
Net loans charged off	3,533	11,362	14,895	11,496	37,376	48,872
Balance September 30, 2011	$125,233	$62,805	$188,038	$125,233	$62,805	$188,038

The following table shows the balance in the allowance for loan losses and the related loan balance at September 30, 2012 and December 31, 2011, 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.

(In thousands)	Impaired Loans		All Other Loans	
	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
September 30, 2012				
Commercial	$6,542	$88,678	$105,575	$5,538,549
Personal Banking	1,952	26,284	60,963	3,985,134
Total	$8,494	$114,962	$166,538	$9,523,683
December 31, 2011				
Commercial	$6,668	$108,167	$115,829	$5,266,796
Personal Banking	4,090	31,088	57,945	3,771,427
Total	$10,758	$139,255	$173,774	$9,038,223

Impaired loans

The table below shows the Company's investment in impaired loans at September 30, 2012 and December 31, 2011. These loans consist of loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. The restructured loans have been extended to borrowers who are experiencing financial difficulty and who have been granted a concession. They are largely comprised of certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates that were judged not to be market rates for new debt with similar risk, and as a result were classified as troubled debt restructurings. These loans totaled $44.4 million at September 30, 2012 and $41.3 million at December 31, 2011. 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. Restructured loans also include certain credit card loans under various debt management and assistance programs, which totaled $15.4 million at September 30, 2012 and $22.4 million at December 31, 2011.

(In thousands)	Sept. 30, 2012	Dec. 31, 2011
Non-accrual loans	$55,201	$75,482
Restructured loans (accruing)	59,761	63,773

Total impaired loans	$114,962	$139,255

Table of Contents

The following table provides additional information about impaired loans held by the Company at September 30, 2012 and December 31, 2011, 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, 2012			
With no related allowance recorded:			
Business	$10,674	$12,291	$—
Real estate – construction and land	7,173	13,558	—
Real estate – business	7,289	8,524	—
Real estate – personal	1,262	1,390	—
Revolving home equity	510	843	—
	$26,908	$36,606	$—
With an allowance recorded:			
Business	$19,644	$23,758	$1,873
Real estate – construction and land	27,101	40,728	2,328
Real estate – business	16,797	22,336	2,341
Real estate – personal	7,601	10,746	764
Consumer	1,435	1,475	21
Revolving home equity	73	73	1
Consumer credit card	15,403	15,403	1,166
	$88,054	$114,519	$8,494
Total	$114,962	$151,125	$8,494
December 31, 2011			
With no related allowance recorded:			
Business	$19,759	$22,497	$—
Real estate – construction and land	8,391	22,746	—
Real estate – business	6,853	9,312	—
Real estate – personal	793	793	—
	$35,796	$55,348	$—
With an allowance recorded:			
Business	$15,604	$19,286	$1,500
Real estate – construction and land	37,387	47,516	2,580
Real estate – business	20,173	24,799	2,588
Real estate – personal	7,867	10,671	795
Consumer credit card	22,428	22,428	3,295
	$103,459	$124,700	$10,758
Total	$139,255	$180,048	$10,758

10

Table of Contents

Total average impaired loans for the three and nine month periods ending September 30, 2012 and 2011, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended September 30, 2012			
Non-accrual loans	$51,337	$7,621	$58,958
Restructured loans (accruing)	41,885	19,750	61,635
Total	$93,222	$27,371	$120,593
For the nine months ended September 30, 2012			
Non-accrual loans	$59,159	$7,399	$66,558
Restructured loans (accruing)	44,063	21,204	65,267
Total	$103,222	$28,603	$131,825
For the three months ended September 30, 2011			
Non-accrual loans	$68,554	$7,733	$76,287
Restructured loans (accruing)	41,993	22,522	64,515
Total	$110,547	$30,255	$140,802
For the nine months ended September 30, 2011			
Non-accrual loans	$70,962	$7,277	$78,239
Restructured loans (accruing)	43,652	21,584	65,236
Total	$114,614	$28,861	$143,475

The table below shows interest income recognized during the three and nine month periods ending September 30, 2012 and 2011 for impaired loans held at the end of each respective period. This interest relates to accruing restructured loans, as discussed above.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)	2012	2011	2012	2011
Interest income recognized on impaired loans:				
Business	$248	$72	$745	$217
Real estate – construction and land	210	192	630	575
Real estate – business	72	174	216	522
Real estate – personal	22	8	65	24
Consumer	16	—	47	—
Revolving home equity	1	—	2	—
Consumer credit card	328	484	983	1,451
Total	$897	$930	$2,688	$2,789

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, 2012 and December 31, 2011.

(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, 2012					
Commercial:					
Business	$3,081,649	$2,598	$595	$ 14,066	$3,098,908
Real estate – construction and land	318,841	549	300	15,423	335,113
Real estate – business	2,158,019	16,668	90	18,429	2,193,206
Personal Banking:					
Real estate – personal	1,535,326	12,988	1,798	6,642	1,556,754
Consumer	1,226,713	15,350	1,206	131	1,243,400
Revolving home equity	450,540	1,494	983	510	453,527
Consumer credit card	732,749	8,876	7,260	—	748,885
Overdrafts	8,516	336	—	—	8,852
Total	$9,512,353	$58,859	$12,232	$ 55,201	$9,638,645
December 31, 2011					
Commercial:					
Business	$2,777,578	$4,368	$595	$ 25,724	$2,808,265
Real estate – construction and land	362,592	1,113	121	22,772	386,598
Real estate – business	2,151,822	8,875	29	19,374	2,180,100
Personal Banking:					
Real estate – personal	1,406,449	11,671	3,045	7,612	1,428,777
Consumer	1,096,742	15,917	2,230	—	1,114,889
Revolving home equity	461,941	1,003	643	—	463,587
Consumer credit card	769,922	10,484	8,295	—	788,701
Overdrafts	6,173	388	—	—	6,561
Total	$9,033,219	$53,819	$14,958	$ 75,482	$9,177,478

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 attached 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.

12

Table of Contents

Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate-Business	Total
September 30, 2012				
Pass	$2,978,076	$ 276,077	$2,057,584	$5,311,737
Special mention	56,130	7,388	44,936	108,454
Substandard	50,636	36,225	72,257	159,118
Non-accrual	14,066	15,423	18,429	47,918
Total	$3,098,908	$ 335,113	$2,193,206	$5,627,227
December 31, 2011				
Pass	$2,669,868	$ 304,408	$1,994,391	$4,968,667
Special mention	37,460	4,722	52,683	94,865
Substandard	75,213	54,696	113,652	243,561
Non-accrual	25,724	22,772	19,374	67,870
Total	$2,808,265	$ 386,598	$2,180,100	$5,374,963

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 Delinquency 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 loans for which FICO scores are not obtained because the loans are related to commercial activity. At September 30, 2012, these were comprised of $225.6 million in personal real estate loans and $127.1 million in consumer loans, or 8.8% of the Personal Banking portfolio. At December 31, 2011, these were comprised of $222.8 million in personal real estate loans and $148.7 million in consumer loans, or 9.8% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at September 30, 2012 and December 31, 2011 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
September 30, 2012				
FICO score:				
Under 600	2.4 %	6.5 %	2.4 %	4.4 %
600 - 659	3.6	10.4	5.6	11.6
660 - 719	10.0	24.3	16.3	32.7
720 - 779	26.7	26.7	29.0	28.4
780 and Over	57.3	32.1	46.7	22.9
Total	100.0 %	100.0 %	100.0 %	100.0 %
December 31, 2011				
FICO score:				
Under 600	3.4 %	8.4 %	2.6 %	4.9 %
600 - 659	4.1	11.0	4.9	11.2
660 - 719	12.2	23.2	15.1	31.0
720 - 779	29.2	26.0	26.3	29.0
780 and Over	51.1	31.4	51.1	23.9
Total	100.0 %	100.0 %	100.0 %	100.0 %

Troubled debt restructurings

As mentioned above, the Company's impaired loans include loans which have been classified as troubled debt restructurings, as shown in the table below. Total restructured loans include both loans on non-accrual status, which totaled $27.5 million, and other restructured loans. 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. Other restructured loans consist mainly of performing commercial loans and consumer credit card loans under debt management programs. The performing commercial loans are classified as troubled debt restructurings when, at renewal, the contractual interest rate of the renewed loan, which may be greater or less than the rate on the previous loan, was not judged to be a market rate for debt with similar risk. Consumer credit card loans classified as troubled

13

Table of Contents

debt restructurings are loans with borrowers under debt management plans. Modifications generally involve removing the available line of credit, placing loans on amortizing status and lowering the contractual interest rate.

The following table shows the outstanding balances at September 30, 2012 of loans classified as troubled debt restructurings, 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, 2012	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$25,951	$974
Real estate - construction and land	32,180	8,189
Real estate - business	8,003	357
Personal Banking:		
Real estate - personal	4,350	553
Consumer	1,304	—
Revolving home equity	73	49
Consumer credit card	15,403	887
Total restructured loans	$87,264	$11,009

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 written down to 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. The effect of modifications to consumer credit card loans was estimated to decrease interest income by approximately $2.6 million on an annual, pre-tax basis, compared to amounts contractually owed. The effect of modifications to the remaining performing loans in the personal banking portfolio was not significant.

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 commercial loans classified as troubled debt restructurings are accruing loans which management expects to collect under contractual terms and are generally risk-rated as substandard. These loans had no other concessions granted other than being renewed at an interest rate judged not to be market. The allowance for loan losses related to accruing restructured loans is determined by collective evaluation because the loans have similar risk characteristics. Collective evaluation, which is the same process used for other substandard loans, considers 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 a substandard, 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.

The Company had commitments of $12.9 million at September 30, 2012 to lend additional funds to borrowers with restructured loans.

The Company's holdings of foreclosed real estate totaled $18.2 million and $18.3 million at September 30, 2012 and December 31, 2011, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $2.0 million and $4.2 million at September 30, 2012 and December 31, 2011, 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.

Table of Contents

3. Investment Securities

Investment securities, at fair value, consisted of the following at September 30, 2012 and December 31, 2011.

(In thousands)	Sept. 30, 2012	Dec. 31, 2011
Available for sale	$9,020,951	$9,224,702
Trading	13,595	17,853
Non-marketable	117,540	115,832
Total investment securities	$9,152,086	$9,358,387

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 $45.4 million at September 30, 2012 and $45.3 million at December 31, 2011. 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 $72.1 million and $70.5 million at September 30, 2012 and December 31, 2011, respectively.

A summary of the available for sale investment securities by maturity groupings as of September 30, 2012 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. The Company does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

(In thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	$500	$500
After 1 but within 5 years	217,296	241,881
After 5 but within 10 years	106,679	125,116
Total U.S. government and federal agency obligations	324,475	367,497
Government-sponsored enterprise obligations:		
After 1 but within 5 years	108,506	112,286
After 5 but within 10 years	74,682	75,436
After 10 years	191,337	192,468
Total government-sponsored enterprise obligations	374,525	380,190
State and municipal obligations:		
Within 1 year	92,856	93,592
After 1 but within 5 years	629,641	655,509
After 5 but within 10 years	510,060	528,245
After 10 years	193,502	183,905
Total state and municipal obligations	1,426,059	1,461,251
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	3,311,100	3,471,262
Non-agency mortgage-backed securities	241,657	255,172
Asset-backed securities	2,917,206	2,930,810

Total mortgage and asset-backed securities	6,469,963	6,657,244
Other debt securities:		
Within 1 year	45,809	46,574
After 1 but within 5 years	60,744	63,898
After 5 but within 10 years	3,969	4,047
After 10 years	6,988	7,104
Total other debt securities	117,510	121,623
Equity securities	8,483	33,146
Total available for sale investment securities	$8,721,015	$9,020,951

Table of Contents

Included in U.S. government securities are $366.9 million, at fair value, of U.S. Treasury inflation-protected securities (TIPS). 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 $127.7 million, at fair value, of auction rate securities, which were purchased from bank customers in 2008. Included in equity securities is common stock held by the holding company, Commerce Bancshares, Inc. (the Parent), with a fair value of $28.0 million at September 30, 2012.

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, 2012				
U.S. government and federal agency obligations	$324,475	$43,022	$—	$367,497
Government-sponsored enterprise obligations	374,525	5,678	(13)	380,190
State and municipal obligations	1,426,059	48,313	(13,121)	1,461,251
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,311,100	160,215	(53)	3,471,262
Non-agency mortgage-backed securities	241,657	13,698	(183)	255,172
Asset-backed securities	2,917,206	14,840	(1,236)	2,930,810
Total mortgage and asset-backed securities	6,469,963	188,753	(1,472)	6,657,244
Other debt securities	117,510	4,113	—	121,623
Equity securities	8,483	24,663	—	33,146
Total	$8,721,015	$314,542	$(14,606)	$9,020,951
December 31, 2011				
U.S. government and federal agency obligations	$328,530	$36,135	$—	$364,665
Government-sponsored enterprise obligations	311,529	4,169	—	315,698
State and municipal obligations	1,220,840	35,663	(11,219)	1,245,284
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,989,464	117,088	(493)	4,106,059
Non-agency mortgage-backed securities	315,752	8,962	(7,812)	316,902
Asset-backed securities	2,692,436	7,083	(6,376)	2,693,143
Total mortgage and asset-backed securities	6,997,652	133,133	(14,681)	7,116,104
Other debt securities	135,190	6,070	—	141,260
Equity securities	18,354	23,337	—	41,691
Total	$9,012,095	$238,507	$(25,900)	$9,224,702

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/A-, 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, 2012, the fair value of securities on this watch list was $207.1 million.

As of September 30, 2012, 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 $108.1 million. The credit-related portion of the impairment totaled $11.3 million and was recorded in earnings. 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 bases.

Table of Contents

The credit 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 included the following:

Significant Inputs	Range		
Prepayment CPR	0%	-	25%
Projected cumulative default	13%	-	58%
Credit support	0%	-	16%
Loss severity	33%	-	70%

The following table shows changes in the credit losses recorded in the nine months ended September 30, 2012 and 2011, for which a portion of an OTTI was recognized in other comprehensive income.

	For the Nine Months Ended September 30	
(In thousands)	2012	2011
Balance at January 1	$9,931	$7,542
Credit losses on debt securities for which impairment was not previously recognized	—	53
Credit losses on debt securities for which impairment was previously recognized	1,227	1,702
Increase in expected cash flows that are recognized over remaining life of security	(93)	(105)
Balance at September 30	$11,065	$9,192

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, 2012						
Government-sponsored enterprise obligations	$9,979	$ 13	$—	$—	$9,979	$13
State and municipal obligations	16,548	34	98,242	13,087	114,790	13,121
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	6,072	5	19,145	48	25,217	53
Non-agency mortgage-backed securities	—	—	19,445	183	19,445	183
Asset-backed securities	122,645	770	90,503	466	213,148	1,236
Total mortgage and asset-backed securities	128,717	775	129,093	697	257,810	1,472
Total	$155,244	$ 822	$227,335	$13,784	$382,579	$14,606
December 31, 2011						
State and municipal obligations	$65,962	$ 712	$110,807	$10,507	$176,769	$11,219
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	72,019	493	—	—	72,019	493
Non-agency mortgage-backed securities	23,672	784	118,972	7,028	142,644	7,812
Asset-backed securities	1,236,526	4,982	87,224	1,394	1,323,750	6,376
Total mortgage and asset-backed securities	1,332,217	6,259	206,196	8,422	1,538,413	14,681
Total	$1,398,179	$ 6,971	$317,003	$18,929	$1,715,182	$25,900

The total available for sale portfolio consisted of approximately 1,600 individual securities at September 30, 2012. The portfolio included 58 securities, having an aggregate fair value of $382.6 million, that were in a loss position at September 30, 2012. Securities in a loss position for 12 months or longer included those with temporary impairment totaling $215.1 million, or 2.4% of the total portfolio value and other securities identified as other-than-temporarily

impaired totaling $12.2 million.

Table of Contents

The Company's holdings of state and municipal obligations included gross unrealized losses of $13.1 million at September 30, 2012. Nearly all of these losses related to auction rate securities (ARS). This portfolio, exclusive of ARS, totaled $1.3 billion at fair value, or 14.8% of total available for sale securities. The average credit quality of the portfolio, excluding ARS, 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.

	% of Portfolio	Average Life (in years)	Average Rating (Moody's)
At September 30, 2012			
Texas	9.9 %	5.2	Aa1
Florida	9.5	4.7	Aa2
Washington	6.4	4.2	Aa2
Ohio	5.5	5.3	Aa2
Arizona	4.7	3.4	Aa3
General Obligation	31.8 %	4.8	Aa2
Housing	20.0	6.9	Aa1
Transportation	12.8	3.7	Aa3
Lease	11.8	3.4	Aa3
Limited Tax	7.5	5.6	Aa1

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)	2012	2011
Proceeds from sales of available for sale securities	$4,951	$11,202
Proceeds from sales of non-marketable securities	9,980	497
Total proceeds	$14,931	$11,699
Available for sale:		
Gains realized on sales	$342	$177
Other-than-temporary impairment recognized on debt securities	(1,227)	(1,755)
Non-marketable:		
Gains realized on sales	1,267	497
Losses realized on sales	(200)	—
Fair value adjustments, net	8,374	6,951
Investment securities gains, net	$8,556	$5,870

At September 30, 2012, securities carried at $4.0 billion 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 $742.1 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, 2012 Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	December 31, 2011 Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$25,720	$(20,431)	$—	$5,289	$25,720	$(18,750)	$—	$6,970
Mortgage servicing rights	3,097	(2,192)	(390)	515	3,097	(1,926)	(427)	744
Total	$28,817	$(22,623)	$(390)	$5,804	$28,817	$(20,676)	$(427)	$7,714

Aggregate amortization expense on intangible assets was $594 thousand and $766 thousand, respectively, for the three month periods ended September 30, 2012 and 2011 and $1.9 million and $2.3 million, respectively, for the nine month periods ended September 30, 2012 and 2011. 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, 2012. 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)	
2012	$2,271
2013	1,730
2014	1,260
2015	921
2016	613

Changes in the carrying amount of goodwill and net other intangible assets for the nine month period ended September 30, 2012 is as follows.

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2012	$125,585	$6,970	$744
Amortization	—	(1,681)	(266)
Impairment reversal	—	—	37
Balance September 30, 2012	$125,585	$5,289	$515

Goodwill allocated to the Company's operating segments at September 30, 2012 and December 31, 2011 is shown below.

(In thousands)	
Consumer segment	$67,765
Commercial segment	57,074
Wealth segment	746
Total goodwill	$125,585

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, 2012 that net liability was $4.5 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 $371.9 million at September 30, 2012.

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, 2012, 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 4 to 10 years. At September 30, 2012, the liability recorded for guarantor RPAs was $176 thousand, and the notional amount of the underlying swaps was $37.1 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)	2012	2011	2012	2011
Service cost - benefits earned during the period	$103	$126	$310	$302
Interest cost on projected benefit obligation	1,287	2,605	3,860	5,329
Expected return on plan assets	(1,645)	(3,378)	(4,935)	(6,728)
Amortization of unrecognized net loss	730	821	2,190	1,901
Net periodic pension cost	$475	$174	$1,425	$804

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 2012, the Company made a discretionary contribution of $1.5 million to its defined benefit pension plan in order to reduce pension guarantee costs. The Company also 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 2012.

Table of Contents

7. Common 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 11.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands, except per share data)	2012	2011	2012	2011
Basic income per common share:				
Net income attributable to Commerce Bancshares, Inc.	$66,006	$65,352	$202,538	$194,839
Less income allocated to nonvested restricted stockholders	626	486	1,854	1,391
Net income available to common stockholders	$65,380	$64,866	$200,684	$193,448
Weighted average common shares outstanding	86,894	89,477	87,504	90,373
Basic income per common share	$.75	$.72	$2.29	$2.14
Diluted income per common share:				
Net income attributable to Commerce Bancshares, Inc.	$66,006	$65,352	$202,538	$194,839
Less income allocated to nonvested restricted stockholders	623	486	1,849	1,388
Net income available to common stockholders	$65,383	$64,866	$200,689	$193,451
Weighted average common shares outstanding	86,894	89,477	87,504	90,373
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	298	260	300	351
Weighted average diluted common shares outstanding	87,192	89,737	87,804	90,724
Diluted income per common share	$.75	$.72	$2.29	$2.13

All unexercised stock options and stock appreciation rights were included in the computation of diluted income per share for the nine month period ended September 30, 2012. Unexercised options and rights of 854 thousand were excluded from the computation for the nine month period ended September 30, 2011 because their inclusion would have been anti-dilutive.

8. Accumulated Other Comprehensive Income

The table below shows the accumulated balances for components of other comprehensive income, net of tax. 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 pension gains and losses that arise during the period but are not recognized as components on net periodic benefit cost, and corresponding adjustments when these gains and losses are subsequently amortized to net periodic benefit cost.

	Unrealized Gains (Losses) on Securities			
(In thousands)	OTTI	Other	Pension Loss	Total Accumulated Other Comprehensive Income
Balance January 1, 2012	$(4,321)	$136,137	$(21,278)	$110,538

Current period other comprehensive income	7,592	46,552	1,358	55,502
Balance September 30, 2012	$3,271	$182,689	$(19,920)	$166,040
Balance January 1, 2011	$(7,469)	$87,784	$(16,970)	$63,345
Current period other comprehensive income	2,835	48,422	1,179	52,436
Balance September 30, 2011	$(4,634)	$136,206	$(15,791)	$115,781

Table of Contents

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.

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

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/ Elimination	Consolidated Totals
Three Months Ended September 30, 2012						
Net interest income	$68,694	$ 72,867	$9,627	$151,188	$ 2,623	$ 153,811
Provision for loan losses	(8,500)	(313)	(199)	(9,012)	3,431	(5,581)
Non-interest income	29,030	45,352	27,094	101,476	(554)	100,922
Investment securities gains, net	—	—	—	—	3,180	3,180
Non-interest expense	(67,353)	(57,114)	(21,926)	(146,393)	(6,998)	(153,391)
Income before income taxes	$21,871	$ 60,792	$14,596	$97,259	$ 1,682	$ 98,941
Nine Months Ended September 30, 2012						
Net interest income	$206,348	$ 217,756	$29,092	$453,196	$ 25,457	$ 478,653
Provision for loan losses	(26,960)	(601)	(751)	(28,312)	9,351	(18,961)
Non-interest income	84,477	133,190	80,470	298,137	(1,816)	296,321
Investment securities gains, net	—	—	—	—	8,556	8,556
Non-interest expense	(200,675)	(169,101)	(66,929)	(436,705)	(23,487)	(460,192)
Income before income taxes	$63,190	$ 181,244	$41,882	$286,316	$ 18,061	$ 304,377
Three Months Ended September 30, 2011						
Net interest income	$71,050	$ 70,907	$9,725	$151,682	$ 6,948	$ 158,630
Provision for loan losses	(10,826)	(3,445)	(583)	(14,854)	3,459	(11,395)
Non-interest income	35,849	41,757	25,296	102,902	(1,270)	101,632
Investment securities gains, net	—	—	—	—	2,587	2,587
Non-interest expense	(65,364)	(55,041)	(21,181)	(141,586)	(12,160)	(153,746)
Income before income taxes	$30,709	$ 54,178	$13,257	$98,144	$ (436)	$ 97,708
Nine Months Ended September 30, 2011						
Net interest income	$213,580	$ 209,686	$28,962	$452,228	$ 32,085	$ 484,313
Provision for loan losses	(36,158)	(11,942)	(611)	(48,711)	9,339	(39,372)
Non-interest income	102,656	121,212	76,711	300,579	(1,697)	298,882
Investment securities gains, net	—	—	—	—	5,870	5,870
Non-interest expense	(203,217)	(165,411)	(66,559)	(435,187)	(26,032)	(461,219)
Income before income taxes	$76,861	$ 153,545	$38,503	$268,909	$ 19,565	$ 288,474

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,

Table of Contents

and the effect of certain expense allocations to the segments. The provision for loan losses in this category contains the difference between net loan charge-offs assigned directly to the segments and the recorded provision for loan loss expense. Included in this category's net interest income are earnings of the investment portfolio, which are not allocated to a segment.

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

10. Derivative Instruments

The notional amounts of the Company's derivative instruments are shown in the table below. These contractual amounts, along with other terms of the derivative, are used to determine amounts to be exchanged between counterparties and are not a measure of loss exposure. The largest group of notional amounts relate to interest rate swaps, which are discussed in more detail below. 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.

Through its International Department, the Company enters into foreign exchange contracts consisting mainly of contracts to purchase or deliver foreign currencies for customers at specific future dates. Also, the Company's past practice of originating and selling fixed rate personal real estate loans to other institutions resulted in mortgage loan commitments and forward sales contracts. In mid 2011, the Company curtailed the sales of these types of loans and, at September 30, 2012, did not hold such loans for sale.

(In thousands)	September 30, 2012	December 31, 2011
Interest rate swaps	$450,188	$486,207
Interest rate caps	28,236	29,736
Credit risk participation agreements	40,160	41,414
Foreign exchange contracts	48,198	80,535
Mortgage loan commitments	—	1,280
Mortgage loan forward sale contracts	—	3,650
Total notional amount	$566,782	$642,822

The Company's interest rate risk management strategy includes the ability to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Interest rate swaps are used on a limited basis as part of this strategy. At September 30, 2012, the Company had entered into three interest rate swaps with a notional amount of $13.5 million, included in the table above, which are designated as fair value hedges of certain fixed rate loans. Gains and losses on these derivative instruments, as well as the offsetting loss or gain on the hedged loans attributable to the hedged risk, are recognized in current earnings. These gains and losses are reported in interest and fees on loans in the accompanying statements of income. The table below shows gains and losses related to fair value hedges.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(In thousands)	2012	2011	2012	2011
Gain (loss) on interest rate swaps	$76	$(101)	$221	$(31)
Gain (loss) on loans	(83)	101	(218)	37
Amount of hedge ineffectiveness	$(7)	$—	$3	$6

The Company’s other derivative instruments are accounted for as free-standing derivatives, and changes in their fair value are recorded in current earnings. These instruments include interest rate swap contracts sold to customers who wish to modify their interest rate sensitivity. These swaps are offset by matching contracts purchased by the Company from other financial institutions. 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. The notional amount of these types of swaps at September 30, 2012 was $436.7 million. The Company is party to master netting arrangements with several other financial institutions; however, the Company does not offset assets and liabilities under these arrangements for balance sheet presentation, as the effect of offsetting is not significant. Collateral, usually in the form of marketable securities, is posted by the counterparty with liability positions, in accordance with contract thresholds. At September 30, 2012, the Company had only net liability positions with its financial institution counterparties totaling $18.2 million and had posted $18.0 million in collateral.

Table of Contents

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 can require 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, building materials, education, communications, consumer products, and manufacturing. At September 30, 2012, the largest loss exposures were in the groups related to real estate, education and manufacturing. 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 $3.9 million (education), $3.7 million (real estate and building materials) and $2.7 million (manufacturing) at September 30, 2012.

The fair values of the Company's derivative instruments, whose notional amounts are listed above, are shown in the table below. Information about the valuation methods used to determine fair value is provided in Note 12 on Fair Value Measurements.

	Asset Derivatives			Liability Derivatives		
	Balance Sheet	Sept. 30, 2012	Dec 31, 2011	Balance Sheet	Sept. 30, 2012	Dec 31, 2011
(In thousands)	Location	Fair Value		Location	Fair Value	
Derivatives designated as hedging instruments:						
Interest rate swaps	Other assets	$—	$—	Other liabilities	$(833)	$(1,053)
Total derivatives designated as hedging instruments		$—	$—		$(833)	$(1,053)
Derivatives not designated as hedging instruments:						
Interest rate swaps	Other assets	$17,892	$19,051	Other liabilities	$(18,040)	$(19,157)
Interest rate caps	Other assets	2	11	Other liabilities	(2)	(11)
Credit risk participation agreements	Other assets	10	9	Other liabilities	(176)	(141)
Foreign exchange contracts	Other assets	959	2,440	Other liabilities	(816)	(2,343)
Mortgage loan commitments	Other assets	—	20	Other liabilities	—	—
Mortgage loan forward sale contracts	Other assets	—	6	Other liabilities	—	(17)
Total derivatives not designated as hedging instruments		$18,863	$21,537		$(19,034)	$(21,669)
Total derivatives		$18,863	$21,537		$(19,867)	$(22,722)

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

(In thousands)		For the Three Months Ended September 30		For the Nine Months Ended September 30	
		2012	2011	2012	2011
Derivatives in fair value hedging relationships:					
Interest rate swaps	Interest and fees on loans	$76	$(101)	$221	$(31)
Total		$76	$(101)	$221	$(31)
Derivatives not designated as hedging instruments:					
Interest rate swaps	Other non-interest income	$52	$(27)	$250	$529
Credit risk participation agreements	Other non-interest income	1	224	6	259
Foreign exchange contracts	Other non-interest income	40	(177)	47	(24)
Mortgage loan commitments	Loan fees and sales	—	185	(20)	214
Mortgage loan forward sale contracts	Loan fees and sales	—	(25)	11	(457)
Total		$93	$180	$294	$521

Table of Contents

11. Stock-Based Compensation

Stock-based compensation expense that has been charged against income was $1.2 million in both of the three month periods ended September 30, 2012 and 2011, and $3.7 million and $3.6 million in the nine month periods ended September 30, 2012 and 2011, respectively. The Company has historically issued stock-based compensation in the form of options, stock appreciation rights (SARs) and nonvested stock. During 2011 and the first nine months of 2012, stock-based compensation has been issued solely in the form of nonvested stock awards.

The 2012 stock awards generally vest in 5 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, 2012, and changes during the nine month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	653,782	$35.48
Granted	225,782	38.60
Vested	(41,424)	37.32
Forfeited	(8,383)	33.68
Nonvested at September 30, 2012	829,757	$36.26

In previous years, SARs and stock options have also been granted, with exercise prices equal to the market price of the Company’s stock at the date of grant. SARs, which the Company granted in 2006 through 2009, vest on a graded basis 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 were granted in 2005 and previous years, vest on a graded basis 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 estimate the fair value of SARs and options on date of grant.

A summary of option activity during the first nine months of 2012 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,352,644	$30.26		
Granted	—	—		
Forfeited	—	—		
Expired	(849)	19.61		
Exercised	(386,646)	26.28		
Outstanding at September 30, 2012	965,149	$31.86	1.6 years	$8,171

A summary of SAR activity during the first nine months of 2012 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,739,126	$37.83		

Granted	—	—		
Forfeited	—	—		
Expired	—	—		
Exercised	(35,795)	35.75		
Outstanding at September 30, 2012	1,703,331	$37.87	4.4 years	$4,190

Table of Contents

12. 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 loans held for sale, 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, 2012 and December 31, 2011 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 2012 or the year ended December 31, 2011.

		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, 2012				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$367,497	$367,497	$—	$—
Government-sponsored enterprise obligations	380,190	—	380,190	—
State and municipal obligations	1,461,251	—	1,333,520	127,731
Agency mortgage-backed securities	3,471,262	—	3,471,262	—
Non-agency mortgage-backed securities	255,172	—	255,172	—
Other asset-backed securities	2,930,810	—	2,930,810	—
Other debt securities	121,623	—	121,623	—
Equity securities	33,146	19,253	13,893	—
Trading securities	13,595	—	13,595	—
Private equity investments	67,044	—	—	67,044
Derivatives *	18,863	—	18,853	10
Assets held in trust	5,404	5,404	—	—
Total assets	$9,125,857	$392,154	$8,538,918	$194,785
Liabilities:				
Derivatives *	$19,867	$—	$19,691	$176
Total liabilities	$19,867	$—	$19,691	$176
December 31, 2011				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$364,665	$357,155	$7,510	$—
Government-sponsored enterprise obligations	315,698	—	315,698	—
State and municipal obligations	1,245,284	—	1,109,663	135,621
Agency mortgage-backed securities	4,106,059	—	4,106,059	—
Non-agency mortgage-backed securities	316,902	—	316,902	—
Other asset-backed securities	2,693,143	—	2,693,143	—
Other debt securities	141,260	—	141,260	—
Equity securities	41,691	27,808	13,883	—
Trading securities	17,853	—	17,853	—
Private equity investments	66,978	—	—	66,978
Derivatives *	21,537	—	21,502	35
Assets held in trust	4,506	4,506	—	—
Total assets	$9,335,576	$389,469	$8,743,473	$202,634
Liabilities:				
Derivatives *	$22,722	$—	$22,564	$158

Total liabilities	$22,722	$—	$22,564	$158

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

Table of Contents

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:

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.

Valuation methods and inputs, by class of security:

- U.S. government and federal agency obligations

U.S. treasury bills, bonds and notes, including TIPS, 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.).

Table of Contents

• 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.

At September 30, 2012, the Company held in its available for sale portfolio certain auction rate securities. The auction process by which auction rate securities are normally priced has not functioned since 2008, 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, commitments and sales contracts related to personal mortgage loan origination activity, and certain credit risk guarantee agreements. 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.

• The fair values of mortgage loan commitments and forward sales contracts on the associated loans are based on quoted prices for similar loans in the secondary market. However, these prices are adjusted by a factor which considers the likelihood that a commitment will ultimately result in a closed loan. This estimate is based on the Company's historical data and its judgment about future economic trends. Based on the unobservable nature of this adjustment, these measurements are classified as Level 3.

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.

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, 2012				
Balance June 30, 2012	$127,540	$ 65,766	$ (99)	$193,207
Total gains or losses (realized/unrealized):				
Included in earnings	—	2,774	1	2,775
Included in other comprehensive income	3,015	—	—	3,015
Investment securities called	(3,000)	—	—	(3,000)
Discount accretion	176	—	—	176
Sale/pay down of private equity investments	—	(1,614)	—	(1,614)
Capitalized interest/dividends	—	118	—	118
Sale of risk participation agreement	—	—	(68)	(68)
Balance September 30, 2012	$127,731	$ 67,044	$ (166)	$194,609
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, 2012	$—	$ 2,774	$ (37)	$2,737
For the nine months ended September 30, 2012				
Balance January 1, 2012	$135,621	$ 66,978	$ (123)	$202,476
Total gains or losses (realized/unrealized):				
Included in earnings	—	8,374	(3)	8,371
Included in other comprehensive income	(1,923)	—	—	(1,923)
Investment securities called	(6,350)	—	—	(6,350)
Discount accretion	383	—	—	383
Purchase of private equity securities	—	3,275	—	3,275
Sale/pay down of private equity investments	—	(11,893)	—	(11,893)
Capitalized interest/dividends	—	310	—	310
Purchase of risk participation agreement	—	—	28	28
Sale of risk participation agreement	—	—	(68)	(68)
Balance September 30, 2012	$127,731	$ 67,044	$ (166)	$194,609
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, 2012	$—	$ 6,949	$ (40)	$6,909
For the three months ended September 30, 2011				
Balance June 30, 2011	$141,940	$ 61,173	$ (288)	$202,825
Total gains or losses (realized/unrealized):				
Included in earnings	—	2,921	384	3,305
Included in other comprehensive income	(1,028)	—	—	(1,028)
Investment securities called	(1,300)	—	—	(1,300)
Discount accretion	112	—	—	112
Purchase of private equity investments	—	75	—	75
Sale/pay down of private equity securities	—	(1,121)	—	(1,121)
Balance September 30, 2011	$139,724	$ 63,048	$ 96	$202,868
Total gains or losses for the three months included in earnings attributable to the change in unrealized gains or losses relating to assets	$—	$ 2,921	$ 237	$3,158

still held at September 30, 2011				
For the nine months ended September 30, 2011				
Balance January 1, 2011	$150,089	$ 53,860	$ 352	$204,301
Total gains or losses (realized/unrealized):				
Included in earnings	—	6,951	16	6,967
Included in other comprehensive income	(2,639)	—	—	(2,639)
Investment securities called	(8,243)	—	—	(8,243)
Discount accretion	517	—	—	517
Purchase of private equity investments	—	3,314	—	3,314
Sale/pay down of private equity securities	—	(1,121)	—	(1,121)
Capitalized interest/dividends	—	44	—	44
Purchase of risk participation agreement	—	—	79	79
Sales of risk participation agreements	—	—	(351)	(351)
Balance September 30, 2011	$139,724	$ 63,048	$ 96	$202,868
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, 2011	$—	$ 7,026	$ 223	$7,249

30

Table of Contents

Gains and losses on the Level 3 assets and liabilities in the previous table are reported in the following income categories:

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
For the three months ended September 30, 2012				
Total gains or losses included in earnings	$—	$ 1	$2,774	$2,775
Change in unrealized gains or losses relating to assets still held at September 30, 2012	$—	$ (37)	$2,774	$2,737
For the nine months ended September 30, 2012				
Total gains or losses included in earnings	$—	$ (3)	$8,374	$8,371
Change in unrealized gains or losses relating to assets still held at September 30, 2012	$—	$ (40)	$6,949	$6,909
For the three months ended September 30, 2011				
Total gains or losses included in earnings	$160	$ 224	$2,921	$3,305
Change in unrealized gains or losses relating to assets still held at September 30, 2011	$239	$ (2)	$2,921	$3,158
For the nine months ended September 30, 2011				
Total gains or losses included in earnings	$(243)	$ 259	$6,951	$6,967
Change in unrealized gains or losses relating to assets still held at September 30, 2011	$239	$ (16)	$7,026	$7,249

Level 3 Inputs

As shown above, the Company's significant Level 3 measurements which employ unobservable inputs that are readily quantifiable pertain to auction rate securities (ARS) and investments in portfolio concerns held by the Company's private equity subsidiaries. ARS are included in state and municipal securities and totaled $127.7 million at September 30, 2012, while private equity investments, included in non-marketable securities, totaled $67.0 million. Information about these inputs is presented in the table and discussions below.

Quantitative Information about Level 3 Fair Value Measurements

	Valuation Technique	Unobservable Input	Range
Auction rate securities	Discounted cash flow	Estimated market recovery period	5 years
		Estimated market rate	2.6% - 3.7%
Private equity investments	Market comparable companies	EBITDA multiple	4.0 - 5.5

The fair values of ARS are estimated using a discounted cash flows analysis in which estimated cash flows are based on mandatory interest rates paid under failing auctions and projected over an estimated market recovery period. Under normal conditions, ARS traded in weekly auctions and were considered liquid investments. The Company's estimate of when these auctions might resume is highly judgmental and subject to variation depending on current and projected market conditions. Few auctions of these securities have been held since 2008, and most sales have been privately arranged. Estimated cash flows during the period over which the Company expects to hold the securities are discounted at an estimated market rate. These securities are comprised of bonds issued by various states and municipalities for healthcare and student lending purposes, and market rates are derived for each type. Market rates are calculated at each valuation date using a LIBOR or Treasury based rate plus spreads representing adjustments for liquidity premium and nonperformance risk. The spreads are developed internally by employees in the Company's bond department. An increase in the holding period alone would result in a higher fair value measurement, while an

increase in the estimated market rate (the discount rate) alone would result in a lower fair value measurement. The valuation of ARS is reviewed at least quarterly by members of the Company's Asset/Liability Committee.

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

Table of Contents

Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during the first nine months of 2012 and 2011, and still held as of September 30, 2012 and 2011, the following table provides the adjustments to fair value recognized during the respective periods, the level of valuation inputs used to determine each adjustment, and the carrying value of the related individual assets or portfolios at September 30, 2012 and 2011.

(In thousands)	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Recognized During the Nine Months Ended Sept. 30
September 30, 2012					
Collateral dependent impaired loans	$24,749	$—	$—	$ 24,749	$(7,669)
Mortgage servicing rights	515	—	—	515	37
Foreclosed assets	538	—	—	538	(277)
Long-lived assets	5,622	—	—	5,622	(3,428)
September 30, 2011					
Collateral dependent impaired loans	$44,937	$—	$—	$ 44,937	$(11,859)
Mortgage servicing rights	896	—	—	896	(166)
Foreclosed assets	2,778	—	—	2,778	(592)
Long-lived assets	11,864	—	—	11,864	(3,168)

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

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

Collateral dependent impaired loans

While the overall loan portfolio is not carried at fair value, the Company periodically records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the value of real estate collateral, the Company relies on external and internal appraisals of property values depending on the size and complexity of the real estate collateral. The Company maintains a staff of qualified appraisers who also review third party appraisal reports for reasonableness. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists. Values of all loan collateral are regularly reviewed by credit administration. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. These measurements are classified as Level 3. Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company at September 30, 2012 and 2011 are shown in the table above.

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value. At September 30, 2012, this portfolio consisted of student loans. Most of the portfolio is under contract to agencies which have been unable to consistently purchase loans under existing contractual terms. These loans have been evaluated using a fair value measurement method based on a discounted cash flows analysis, which is classified as Level 3. The fair value of these loans was $5.8 million at September 30, 2012, net of an impairment reserve of $148 thousand. The measurement of fair value for other student loans is based on the specific prices mandated in the underlying sale contracts, and the estimated exit price and is classified as Level 2.

Table of Contents

Private equity investments and restricted stock

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

Mortgage servicing rights

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

Goodwill and core deposit premium

Valuation of goodwill to determine impairment is performed on an annual basis, or more frequently if there is an event or circumstance that would indicate impairment may have occurred. The process involves calculations to determine the fair value of each reporting unit on a stand-alone basis. A combination of formulas using current market multiples, based on recent sales of financial institutions within the Company's geographic marketplace, is used to estimate the fair value of each reporting unit. That fair value is compared to the carrying amount of the reporting unit, including its recorded goodwill. Impairment is considered to have occurred if the fair value of the reporting unit is lower than the carrying amount of the reporting unit. The fair value of the Company's common stock relative to its computed book value per share is also considered as part of the overall evaluation. These measurements are classified as Level 3.

Core deposit premiums are recognized at the time a portfolio of deposits is acquired. Core deposit premiums are recognized using valuation techniques which calculate the present value of the estimated net cost savings attributable to the core deposit base, relative to alternative costs of funds and tax benefits, if applicable, over the expected remaining economic life of the depositors. Subsequent evaluations are made when facts or circumstances indicate potential impairment may have occurred. The Company uses estimates of discounted future cash flows, comparisons with alternative sources for deposits, consideration of income potential generated in other product lines by current customers, geographic parameters, and other demographics to estimate a current fair value of a specific deposit base. If the calculated fair value is less than the carrying value, impairment is considered to have occurred. This measurement is classified as Level 3.

Foreclosed assets

Foreclosed assets consist of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, marine and

recreational vehicles. Foreclosed assets are recorded as held for sale initially at the lower of the loan balance or fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods. These measurements are classified as Level 3.

Long-lived assets

In accordance with ASC 360-10-35, investments in branch facilities and various office buildings are written down to estimated fair value, or estimated fair value less cost to sell if the property is held for sale. Fair value is estimated in a process which considers current local commercial real estate market conditions and the judgment of the sales agent and often involves obtaining third party appraisals from certified real estate appraisers. The carrying amounts of these real estate holdings are regularly monitored by real estate professionals employed by the Company. These fair value measurements are classified as Level 3. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. The loss recognized in the first nine months of 2012 resulted primarily from the Company's decision to market certain property adjacent to a downtown Kansas City office building, also held for sale, which required a write-down to fair value less selling costs.

Table of Contents

13. Fair Value of Financial Instruments

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

The fair values of loans are estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC 820 “Fair Value Measurements and Disclosures”. Expected future cash flows for each individual loan are based on contractual features, and for loans with optionality, such as variable rates and prepayment features, are based on a multi-rate path process. Each loan's expected future cash flows are discounted using the LIBOR/swap curve plus an appropriate spread. For business, construction and business real estate loans, internally-developed pricing spreads are developed which are based on loan type, term and credit score. The spread for personal real estate loans is generally based on newly originated loans with similar characteristics. For consumer loans, the spread is calculated at loan origination as part of the Bank's funds transfer pricing process (mentioned in Note 9), which is indicative of individual borrower credit worthiness. All consumer credit card loans are discounted at the same spread, depending on whether the rate is variable or fixed.

Table of Contents

The methods and inputs used in the estimation of fair value for the other financial instruments in the table below are discussed in the preceding Fair Value Measurements note and in the Fair Value of Financial Instruments note in the Company's 2011 Annual Report on Form 10-K. There have been no changes in these methods and inputs since December 31, 2011.

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

	Fair Value	September 30, 2012		December 31, 2011	
	Hierarchy	Carrying	Estimated	Carrying	Estimated
(In thousands)	Level	Amount	Fair Value	Amount	Fair Value
Financial Assets					
Loans:					
Business	Level 3	$3,098,908	$3,114,822	$2,808,265	$2,820,005
Real estate - construction and land	Level 3	335,113	337,794	386,598	388,723
Real estate - business	Level 3	2,193,206	2,224,323	2,180,100	2,197,535
Real estate - personal	Level 3	1,556,754	1,606,018	1,428,777	1,485,028
Consumer	Level 3	1,243,400	1,268,928	1,114,889	1,136,798
Revolving home equity	Level 3	453,527	461,776	463,587	471,086
Consumer credit card	Level 3	748,885	757,702	788,701	780,808
Overdrafts	Level 3	8,852	8,852	6,561	6,561
Loans held for sale	Level 2	2,909	2,920	24,394	26,597
Loans held for sale	Level 3	5,832	5,832	6,682	6,682
Investment securities:					
Available for sale	Level 1	386,750	386,750	384,963	384,963
Available for sale	Level 2	8,506,470	8,506,470		