COMMERCE BANCSHARES INC /MO/
Form 10-Q
May 06, 2013
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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 March 31, 2013

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 April 30, 2013, the registrant had outstanding 90,680,284 shares of its $5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited) (In thousands)	December 31, 2012
ASSETS		
Loans	$9,982,686	$9,831,384
Allowance for loan losses	(168,032)	(172,532)
Net loans	9,814,654	9,658,852
Loans held for sale	9,085	8,827
Investment securities:		
Available for sale ($733,496,000 and $736,183,000 pledged in 2013 and 2012, respectively, to secure repurchase agreements)	9,572,751	9,522,248
Trading	23,400	28,837
Non-marketable	118,620	118,650
Total investment securities	9,714,771	9,669,735
Short-term federal funds sold and securities purchased under agreements to resell	7,820	27,595
Long-term securities purchased under agreements to resell	1,200,000	1,200,000
Interest earning deposits with banks	199,956	179,164
Cash and due from banks	413,019	573,066
Land, buildings and equipment, net	355,464	357,612
Goodwill	125,585	125,585
Other intangible assets, net	4,870	5,300
Other assets	381,984	353,853
Total assets	$22,227,208	$22,159,589
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	$6,170,274	$6,299,903
Savings, interest checking and money market	9,802,838	9,817,943
Time open and C.D.'s of less than $100,000	1,061,350	1,074,618
Time open and C.D.'s of $100,000 and over	1,480,405	1,156,189
Total deposits	18,514,867	18,348,653
Federal funds purchased and securities sold under agreements to repurchase	1,126,858	1,083,550
Other borrowings	102,783	103,710
Other liabilities	303,509	452,102
Total liabilities	20,048,017	19,988,015
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 91,729,235 shares in 2013 and 2012	458,646	458,646
Capital surplus	1,101,445	1,102,507
Retained earnings	517,792	477,210

Treasury stock of 870,391 shares in 2013 and 196,922 shares in 2012, at cost	(32,501)	(7,580)
Accumulated other comprehensive income	129,763	136,344
Total Commerce Bancshares, Inc. stockholders' equity	2,175,145	2,167,127
Non-controlling interest	4,046	4,447
Total equity	2,179,191	2,171,574
Total liabilities and equity	$22,227,208	$22,159,589

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended March 31	
(In thousands, except per share data)	2013	2012
	(Unaudited)	
INTEREST INCOME		
Interest and fees on loans	$107,786	$111,756
Interest and fees on loans held for sale	85	105
Interest on investment securities	44,959	53,758
Interest on short-term federal funds sold and securities purchased under agreements to resell	9	17
Interest on long-term securities purchased under agreements to resell	5,829	4,275
Interest on deposits with banks	77	55
Total interest income	158,745	169,966
INTEREST EXPENSE		
Interest on deposits:		
Savings, interest checking and money market	3,924	5,081
Time open and C.D.'s of less than $100,000	1,749	2,106
Time open and C.D.'s of $100,000 and over	1,699	1,911
Interest on federal funds purchased and securities sold under agreements to repurchase	218	225
Interest on other borrowings	812	906
Total interest expense	8,402	10,229
Net interest income	150,343	159,737
Provision for loan losses	3,285	8,165
Net interest income after provision for loan losses	147,058	151,572
NON-INTEREST INCOME		
Bank card transaction fees	38,550	34,733
Trust fees	25,169	22,814
Deposit account charges and other fees	18,712	19,336
Capital market fees	4,391	6,871
Consumer brokerage services	2,686	2,526
Loan fees and sales	1,473	1,561
Other	8,896	6,742
Total non-interest income	99,877	94,583
INVESTMENT SECURITIES GAINS (LOSSES), NET		
Impairment reversals on debt securities	1,389	5,587
Noncredit-related reversals on securities not expected to be sold	(1,831)	(5,907)
Net impairment losses	(442)	(320)
Realized gains (losses) on sales and fair value adjustments	(1,723)	4,360
Investment securities gains (losses), net	(2,165)	4,040
NON-INTEREST EXPENSE		
Salaries and employee benefits	90,881	89,543
Net occupancy	11,235	11,260
Equipment	4,683	5,189
Supplies and communication	5,589	5,613
Data processing and software	18,951	17,469

Marketing	3,359	3,822
Deposit insurance	2,767	2,520
Other	17,572	15,045
Total non-interest expense	155,037	150,461
Income before income taxes	89,733	99,734
Less income taxes	28,925	32,920
Net income	60,808	66,814
Less non-controlling interest expense (income)	(209)	1,015
Net income attributable to Commerce Bancshares, Inc.	$61,017	$65,799
Net income per common share — basic	$.67	$.70
Net income per common share — diluted	$.67	$.70

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended March 31	
(In thousands)	2013	2012
	(Unaudited)	
Net income	$60,808	$66,814
Other comprehensive income (loss):		
Net unrealized gains on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	1,137	3,360
Net unrealized gains (losses) on other securities	(8,193)	3,706
Pension loss amortization	475	452
Other comprehensive income (loss)	(6,581)	7,518
Comprehensive income	54,227	74,332
Less non-controlling interest expense (income)	(209)	1,015
Comprehensive income attributable to Commerce Bancshares, Inc.	$54,436	$73,317

See accompanying notes to consolidated financial statements.

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, 2013	$458,646	$1,102,507	$477,210	$(7,580)	$136,344	$4,447	$2,171,574
Net income			61,017			(209)	60,808
Other comprehensive loss					(6,581)		(6,581)
Distributions to non-controlling interest						(192)	(192)
Purchase of treasury stock				(29,993)			(29,993)
Issuance of stock under purchase and equity compensation plans		(1,146)		3,752			2,606
Net tax benefit related to equity compensation plans		181					181
Stock-based compensation		1,223					1,223
Issuance of nonvested stock awards		(1,320)		1,320			—
Cash dividends ($.225 per share)			(20,435)				(20,435)
Balance March 31, 2013	$458,646	$1,101,445	$517,792	$(32,501)	$129,763	$4,046	$2,179,191
Balance January 1, 2012	$446,387	$1,042,065	$575,419	$(8,362)	$110,538	$4,314	$2,170,361
Net income			65,799			1,015	66,814
Other comprehensive income					7,518		7,518
Distributions to non-controlling interest						(1,459)	(1,459)
Purchase of treasury stock				(31,600)			(31,600)
Issuance of stock under purchase and equity compensation plans		(3,065)		9,019			5,954
Net tax benefit related to equity compensation plans		649					649
Stock-based compensation		1,407					1,407
Issuance of nonvested stock awards		(8,071)		8,071			—
Cash dividends ($.219 per share)			(20,438)				(20,438)
Balance March 31, 2012	$446,387	$1,032,985	$620,780	$(22,872)	$118,056	$3,870	$2,199,206

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31	
(In thousands)	2013	2012
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	$60,808	$66,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,285	8,165
Provision for depreciation and amortization	10,424	11,021
Amortization of investment security premiums, net	12,539	11,987
Investment securities (gains) losses, net(A)	2,165	(4,040)
Net gains on sales of loans held for sale	—	(358)
Proceeds from sales of loans held for sale	—	21,699
Net (increase) decrease in trading securities	9,609	(11,300)
Stock-based compensation	1,223	1,407
(Increase) decrease in interest receivable	(5)	3,825
Increase in interest payable	246	114
Increase in income taxes payable	26,894	23,496
Net tax benefit related to equity compensation plans	(181)	(649)
Other changes, net	(28,936)	(12,036)
Net cash provided by operating activities	98,071	120,145
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities(A)	52	6,986
Proceeds from maturities/pay downs of investment securities(A)	674,270	643,378
Purchases of investment securities(A)	(934,142)	(558,651)
Net increase in loans	(159,087)	(81,658)
Long-term securities purchased under agreements to resell	(50,000)	—
Repayments of long-term securities purchased under agreements to resell	50,000	—
Purchases of land, buildings and equipment	(5,867)	(5,393)
Sales of land, buildings and equipment	404	701
Net cash provided by (used in) investing activities	(424,370)	5,363
FINANCING ACTIVITIES:		
Net decrease in non-interest bearing, savings, interest checking and money market deposits	(138,419)	(84,876)
Net increase in time open and C.D.'s	310,948	35,703
Net increase (decrease) in short-term federal funds purchased and securities sold under agreements to repurchase	43,308	(133,093)
Repayment of long-term borrowings	(927)	(297)
Purchases of treasury stock	(29,993)	(31,600)
Issuance of stock under stock purchase and equity compensation plans	2,606	5,954
Net tax benefit related to equity compensation plans	181	649
Cash dividends paid on common stock	(20,435)	(1,074)
Net cash provided by (used in) financing activities	167,269	(208,634)
Decrease in cash and cash equivalents	(159,030)	(83,126)
Cash and cash equivalents at beginning of year	779,825	517,551
Cash and cash equivalents at March 31	$620,795	$434,425

(A) Available for sale and non-marketable securities

Income tax payments, net	$2,031	$9,271
Interest paid on deposits and borrowings	$8,156	$10,115
Loans transferred to foreclosed real estate	$3,925	$1,311
Cash dividends payable on common stock at end of period	$—	$19,364

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2013 (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 2012 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 month period ended March 31, 2013 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 2012 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 March 31, 2013 and December 31, 2012 are as follows:

(In thousands)	March 31, 2013	December 31, 2012
Commercial:		
Business	$3,206,594	$3,134,801
Real estate – construction and land	353,659	355,996
Real estate – business	2,213,353	2,214,975
Personal Banking:		
Real estate – personal	1,626,106	1,584,859
Consumer	1,408,246	1,289,650
Revolving home equity	420,219	437,567
Consumer credit card	750,671	804,245
Overdrafts	3,838	9,291
Total loans	$9,982,686	$9,831,384

At March 31, 2013, loans of $3.3 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 $1.3 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 months ended March 31, 2013 and 2012 follows:

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
(In thousands)	Commercial	Commercial

		Personal Banking	Total		Personal Banking	Total
Balance at January 1	$105,725	$66,807	$172,532	$122,497	$62,035	$184,532
Provision	(6,590)	9,875	3,285	(3,198)	11,363	8,165
Deductions:						
Loans charged off	705	11,801	12,506	2,528	13,389	15,917
Less recoveries on loans	1,391	3,330	4,721	703	4,049	4,752
Net loan charge-offs (recoveries)	(686)	8,471	7,785	1,825	9,340	11,165
Balance at March 31	$99,821	$68,211	$168,032	$117,474	$64,058	$181,532

The following table shows the balance in the allowance for loan losses and the related loan balance at March 31, 2013 and December 31, 2012, disaggregated on the basis of impairment methodology. Impaired loans evaluated under ASC 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

	Impaired Loans		All Other Loans	
	Allowance for	Loans	Allowance for	Loans
(In thousands)	Loan Losses	Outstanding	Loan Losses	Outstanding
March 31, 2013				
Commercial	$8,345	$79,857	$91,476	$5,693,749
Personal Banking	2,772	31,241	65,439	4,177,839
Total	$11,117	$111,098	$156,915	$9,871,588
December 31, 2012				
Commercial	$5,434	$80,807	$100,291	$5,624,965
Personal Banking	2,051	36,111	64,756	4,089,501
Total	$7,485	$116,918	$165,047	$9,714,466

Impaired loans

The table below shows the Company’s investment in impaired loans at March 31, 2013 and December 31, 2012. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section on page 13.

(In thousands)	Mar. 31, 2013	Dec. 31, 2012
Non-accrual loans	$44,739	$51,410
Restructured loans (accruing)	66,359	65,508
Total impaired loans	$111,098	$116,918

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The following table provides additional information about impaired loans held by the Company at March 31, 2013 and December 31, 2012, 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
March 31, 2013			
With no related allowance recorded:			
Business	$8,563	$9,000	$—
Real estate – construction and land	10,975	19,528	—
Real estate – business	5,692	8,776	—
	$25,230	$37,304	$—
With an allowance recorded:			
Business	$20,222	$24,477	$3,082
Real estate – construction and land	20,611	21,838	2,808
Real estate – business	13,794	20,119	2,455
Real estate – personal	11,952	14,930	1,536
Consumer	4,548	4,548	116
Revolving home equity	810	810	35
Consumer credit card	13,931	13,931	1,085
	$85,868	$100,653	$11,117
Total	$111,098	$137,957	$11,117
December 31, 2012			
With no related allowance recorded:			
Business	$9,964	$12,697	$—
Real estate – construction and land	8,440	15,102	—
Real estate – business	5,484	8,200	—
Real estate – personal	1,166	1,380	—
Revolving home equity	$510	$843	—
	$25,564	$38,222	$—
With an allowance recorded:			
Business	$19,358	$22,513	$1,888
Real estate – construction and land	20,446	25,808	1,762
Real estate – business	17,115	23,888	1,784
Real estate – personal	14,157	17,304	857
Consumer	4,779	4,779	93
Revolving home equity	779	779	18
Consumer credit card	14,720	14,720	1,083
	$91,354	$109,791	$7,485
Total	$116,918	$148,013	$7,485

Total average impaired loans for the three month periods ending March 31, 2013 and 2012, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended March 31, 2013			
Non-accrual loans	$41,108	$6,059	$47,167
Restructured loans (accruing)	38,642	27,291	65,933
Total	$79,750	$33,350	$113,100
For the three months ended March 31, 2012			
Non-accrual loans	$67,564	$7,409	$74,973
Restructured loans (accruing)	40,226	23,554	63,780
Total	$107,790	$30,963	$138,753

The table below shows interest income recognized during the three month periods ending March 31, 2013 and 2012 for impaired loans held at the end of each respective period. This interest relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section on page 13.

	For the Three Months Ended March 31	
(In thousands)	2013	2012
Interest income recognized on impaired loans:		
Business	$397	$105
Real estate – construction and land	202	250
Real estate – business	61	54
Real estate – personal	73	14
Consumer	93	—
Revolving home equity	9	—
Consumer credit card	240	326
Total	$1,075	$749

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 March 31, 2013 and December 31, 2012.

(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
March 31, 2013					
Commercial:					
Business	$3,178,043	$15,387	$1,085	$ 12,079	$3,206,594
Real estate – construction and land	328,115	12,570	—	12,974	353,659
Real estate – business	2,194,179	4,709	176	14,289	2,213,353
Personal Banking:					
Real estate – personal	1,608,631	9,721	2,368	5,386	1,626,106
Consumer	1,392,285	13,838	2,112	11	1,408,246
Revolving home equity	413,731	5,551	937	—	420,219
Consumer credit card	733,293	9,041	8,337	—	750,671
Overdrafts	2,684	1,154	—	—	3,838
Total	$9,850,961	$71,971	$15,015	$ 44,739	$9,982,686
December 31, 2012					
Commercial:					
Business	$3,110,403	$10,054	$1,288	$ 13,056	$3,134,801
Real estate – construction and land	325,541	16,721	56	13,678	355,996
Real estate – business	2,194,395	3,276	—	17,304	2,214,975
Personal Banking:					
Real estate – personal	1,564,281	10,862	2,854	6,862	1,584,859
Consumer	1,273,581	13,926	2,143	—	1,289,650
Revolving home equity	433,437	2,121	1,499	510	437,567
Consumer credit card	786,081	10,657	7,507	—	804,245
Overdrafts	8,925	366	—	—	9,291
Total	$9,696,644	$67,983	$15,347	$ 51,410	$9,831,384

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.

Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate-Business	Total
March 31, 2013				
Pass	$3,080,972	$ 296,540	$2,101,294	$5,478,806
Special mention	69,708	8,660	46,436	124,804
Substandard	43,835	35,485	51,334	130,654
Non-accrual	12,079	12,974	14,289	39,342
Total	$3,206,594	$ 353,659	$2,213,353	$5,773,606
December 31, 2012				
Pass	$3,018,062	$ 297,156	$2,103,913	$5,419,131
Special mention	58,793	11,400	38,396	108,589
Substandard	44,890	33,762	55,362	134,014
Non-accrual	13,056	13,678	17,304	44,038
Total	$3,134,801	$ 355,996	$2,214,975	$5,705,772

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain Personal Banking loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. At March 31, 2013, these were comprised of $222.3 million in personal real estate loans and $95.3 million in consumer loans, or 7.5% of the Personal Banking portfolio. At December 31, 2012, these were comprised of $224.5 million in personal real estate loans and $87.4 million in consumer loans, or 7.6% 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 March 31, 2013 and December 31, 2012 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
March 31, 2013				
FICO score:				
Under 600	2.0 %	6.0 %	2.3 %	4.5 %
600 - 659	3.4	11.6	5.2	12.3
660 - 719	9.8	24.5	16.1	33.6
720 - 779	27.0	27.1	30.6	28.3
780 and Over	57.8	30.8	45.8	21.3
Total	100.0 %	100.0 %	100.0 %	100.0 %
December 31, 2012				
FICO score:				
Under 600	2.3 %	6.7 %	2.6 %	4.4 %
600 - 659	3.2	11.3	5.3	11.7
660 - 719	10.4	24.4	15.2	32.1
720 - 779	26.6	26.4	30.0	28.2
780 and Over	57.5	31.2	46.9	23.6
Total	100.0 %	100.0 %	100.0 %	100.0 %

Troubled debt restructurings

As mentioned previously, the Company's impaired loans include loans which have been classified as troubled debt restructurings. Total restructured loans amounted to $92.8 million at March 31, 2013. Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected, and those non-accrual loans totaled $26.4 million at March 31, 2013. Other performing restructured loans totaled $66.4 million at March 31, 2013. These are are partly comprised of certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result were classified as troubled debt restructurings. These commercial loans totaled $42.3 million at March 31, 2013. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs, which totaled $13.9 million at March 31, 2013. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. The Company has classified additional loans as troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. At March 31, 2013, these loans totaled $10.2 million in personal real estate, revolving home equity, and consumer loans. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments.

The following table shows the outstanding balances of loans classified as troubled debt restructurings at March 31, 2013, 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)	March 31, 2013	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$25,520	$106
Real estate - construction and land	29,586	2,664
Real estate - business	10,204	3,906
Personal Banking:		
Real estate - personal	8,178	46
Consumer	4,537	209
Revolving home equity	810	163
Consumer credit card	13,931	881
Total restructured loans	$92,766	$7,975

For those loans on non-accrual status also classified as restructured, the modification did not create any further financial effect on the Company as those loans were already recorded at net realizable value. For those performing commercial loans classified as restructured, there were no concessions involving forgiveness of principal or interest and, therefore, there was no financial impact to the Company as a result of modification to these loans. No financial impact resulted from those performing loans where the debt was not reaffirmed in bankruptcy, as no changes to loan terms occurred in that process. However, the effects of modifications to consumer credit card loans were estimated to decrease interest income by approximately $1.5 million on an annual, pre-tax basis, compared to amounts contractually owed.

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

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

The Company had commitments of $14.9 million at March 31, 2013 to lend additional funds to borrowers with restructured loans.

The Company's holdings of foreclosed real estate totaled $14.2 million and $13.5 million at March 31, 2013 and December 31, 2012, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $2.6 million and $3.5 million at March 31, 2013 and December 31, 2012, respectively. These assets are carried at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell.

3. Investment Securities

Investment securities, at fair value, consisted of the following at March 31, 2013 and December 31, 2012.

(In thousands)	Mar. 31, 2013	Dec. 31, 2012
Available for sale	$9,572,751	$9,522,248
Trading	23,400	28,837
Non-marketable	118,620	118,650
Total investment securities	$9,714,771	$9,669,735

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 both March 31, 2013 and December 31, 2012. 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 $73.2 million at both March 31, 2013 and December 31, 2012.

A summary of the available for sale investment securities by maturity groupings as of March 31, 2013 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:		
After 1 but within 5 years	$245,326	$274,127
After 5 but within 10 years	79,911	93,321
After 10 years	72,452	69,860
Total U.S. government and federal agency obligations	397,689	437,308
Government-sponsored enterprise obligations:		
Within 1 year	12,637	12,734
After 1 but within 5 years	97,483	100,759
After 5 but within 10 years	169,711	168,919
After 10 years	171,279	171,290
Total government-sponsored enterprise obligations	451,110	453,702
State and municipal obligations:		
Within 1 year	105,160	105,961
After 1 but within 5 years	683,255	710,447
After 5 but within 10 years	559,371	570,030
After 10 years	280,828	272,730
Total state and municipal obligations	1,628,614	1,659,168
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	3,152,708	3,268,377
Non-agency mortgage-backed securities	229,520	243,907
Asset-backed securities	3,271,145	3,285,310
Total mortgage and asset-backed securities	6,653,373	6,797,594
Other debt securities:		
Within 1 year	38,213	39,484
After 1 but within 5 years	45,774	46,724
After 5 but within 10 years	86,381	85,811
Total other debt securities	170,368	172,019
Equity securities	19,255	52,960
Total available for sale investment securities	$9,320,409	$9,572,751

Investments in U.S. government securities are comprised mainly of U.S. Treasury inflation-protected securities (TIPS), which totaled $437.2 million, at fair value, at March 31, 2013. 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 $128.1 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 $37.0 million at March 31, 2013.

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
March 31, 2013				
U.S. government and federal agency obligations	$397,689	$42,212	$(2,593)	$437,308
Government-sponsored enterprise obligations	451,110	4,119	(1,527)	453,702
State and municipal obligations	1,628,614	46,279	(15,725)	1,659,168
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,152,708	117,875	(2,206)	3,268,377
Non-agency mortgage-backed securities	229,520	14,595	(208)	243,907
Asset-backed securities	3,271,145	15,967	(1,802)	3,285,310
Total mortgage and asset-backed securities	6,653,373	148,437	(4,216)	6,797,594
Other debt securities	170,368	2,333	(682)	172,019
Equity securities	19,255	33,705	—	52,960
Total	$9,320,409	$277,085	$(24,743)	$9,572,751
December 31, 2012				
U.S. government and federal agency obligations	$399,971	$40,395	$(1,607)	$438,759
Government-sponsored enterprise obligations	467,063	5,188	(677)	471,574
State and municipal obligations	1,585,926	46,076	(16,295)	1,615,707
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,248,007	132,953	(5)	3,380,955
Non-agency mortgage-backed securities	224,223	12,906	(118)	237,011
Asset-backed securities	3,152,913	15,848	(1,367)	3,167,394
Total mortgage and asset-backed securities	6,625,143	161,707	(1,490)	6,785,360
Other debt securities	174,727	3,127	(102)	177,752
Equity securities	5,695	27,401	—	33,096
Total	$9,258,525	$283,894	$(20,171)	$9,522,248

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 March 31, 2013, the fair value of securities on this watch list was $214.8 million compared to $220.7 million at December 31, 2012.

As of March 31, 2013, 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 $96.4 million. The cumulative credit-related portion of the impairment initially recorded on these securities totaled $12.0 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.

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

Significant Inputs	Range
Prepayment CPR	2% - 25%
Projected cumulative default	15% - 58%
Credit support	0% - 16%
Loss severity	17% - 95%

The following table shows changes in the credit losses recorded in earnings during the during the three months ended March 31, 2013 and 2012, for which a portion of an OTTI was recognized in other comprehensive income.

	For the Three Months Ended March 31	
(In thousands)	2013	2012
Balance at January 1	$11,306	$9,931
Credit losses on debt securities for which impairment was previously recognized	442	320
Increase in expected cash flows that are recognized over remaining life of security	(20)	(38)
Balance at March 31	$11,728	$10,213

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
March 31, 2013						
U.S. government and federal agency obligations	$69,860	$ 2,593	$—	$—	$69,860	$2,593
Government-sponsored enterprise obligations	177,432	1,527	—	—	177,432	1,527
State and municipal obligations	165,614	3,500	82,492	12,225	248,106	15,725
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	463,362	2,206	—	—	463,362	2,206
Non-agency mortgage-backed securities	22,953	131	8,026	77	30,979	208
Asset-backed securities	594,084	988	114,122	814	708,206	1,802
Total mortgage and asset-backed securities	1,080,399	3,325	122,148	891	1,202,547	4,216
Other debt securities	71,722	682	—	—	71,722	682
Total	$1,565,027	$ 11,627	$204,640	$13,116	$1,769,667	$24,743
December 31, 2012						
U.S. government and federal agency obligations	$71,464	$ 1,607	$—	$—	$71,464	$1,607
Government-sponsored enterprise obligations	102,082	677	—	—	102,082	677
State and municipal obligations	173,600	2,107	80,530	14,188	254,130	16,295
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	5,874	5	—	—	5,874	5
Non-agency mortgage-backed securities	—	—	12,609	118	12,609	118
Asset-backed securities	338,007	976	78,684	391	416,691	1,367
Total mortgage and asset-backed securities	343,881	981	91,293	509	435,174	1,490
Other debt securities	39,032	102	—	—	$39,032	$102
Total	$730,059	$ 5,474	$171,823	$14,697	$901,882	$20,171

The total available for sale portfolio consisted of approximately 1,700 individual securities at March 31, 2013. The portfolio included 197 securities, having an aggregate fair value of $1.8 billion, that were in an unrealized loss position at March 31, 2013, compared to 144 securities, with a fair value of $901.9 million, at December 31, 2012. The total amount of unrealized loss on these securities increased $4.6 million to $24.7 million at March 31, 2013, which was partly related to recent acquisitions of mortgage and asset-backed securities. At March 31, 2013, securities in an unrealized loss position for 12 months or longer included those with temporary impairment totaling $202.2 million, or 2.1% of the total portfolio value, and other securities identified as other-than-temporarily impaired totaling $2.4 million.

The Company’s holdings of state and municipal obligations included gross unrealized losses of $15.7 million at March 31, 2013. Of these losses, $12.2 million related to auction rate securities, which are discussed above, and $3.5 million related to other state and municipal obligations. This portfolio, exclusive of ARS, totaled $1.5 billion at fair value, or 16.0% 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 March 31, 2013			
Texas	10.0 %	5.5	Aa1
Florida	9.5	5.0	Aa2
Ohio	5.8	5.5	Aa2
Washington	5.6	5.1	Aa2
New York	5.1	7.0	Aa2
General obligation	31.9 %	5.0	Aa2
Housing	17.6	6.6	Aa1
Lease	15.4	5.0	Aa3
Transportation	13.2	4.6	Aa3
Limited tax	5.1	5.7	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 Three Months Ended March 31	
(In thousands)	2013	2012
Proceeds from sales of available for sale securities	$—	$4,951
Proceeds from sales of non-marketable securities	52	2,035
Total proceeds	$52	$6,986
Available for sale:		
Gains realized on sales	$—	$342
Other-than-temporary impairment recognized on debt securities	(442)	(320)
Non-marketable:		
Gains realized on sales	52	93
Losses realized on sales	—	(200)
Fair value adjustments, net	(1,775)	4,125
Investment securities gains (losses), net	$(2,165)	$4,040

At March 31, 2013, securities totaling $4.8 billion in fair value were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowings at the Federal Reserve Bank and FHLB. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated $733.5 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.

4. Goodwill and Other Intangible Assets

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

	March 31, 2013				December 31, 2012			
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$25,720	$ (21,353)	$—	$4,367	$25,720	$ (20,892)	$—	$4,828
Mortgage servicing rights	3,202	(2,363)	(336)	503	3,132	(2,267)	(393)	472
Total	$28,922	$ (23,716)	$ (336)	$4,870	$28,852	$ (23,159)	$ (393)	$5,300

Aggregate amortization expense on intangible assets was $557 thousand and $684 thousand, respectively, for the three month periods ended March 31, 2013 and 2012. 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 March 31, 2013. 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)	
2013	$1,740
2014	1,265
2015	923
2016	613
2017	343

Changes in the carrying amount of goodwill and net other intangible assets for the three month period ended March 31, 2013 is as follows.

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2013	$125,585	$4,828	$472
Originations	—	—	70
Amortization	—	(461)	(96)
Impairment reversal	—	—	57
Balance March 31, 2013	$125,585	$4,367	$503

Goodwill allocated to the Company’s operating segments at March 31, 2013 and December 31, 2012 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.

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 March 31, 2013 that net liability was $4.3 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 $334.2 million at March 31, 2013.

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 March 31, 2013, 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 March 31, 2013, the liability recorded for guarantor RPAs was $139 thousand, and the notional amount of the underlying swaps was $39.2 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 March 31	
(In thousands)	2013	2012
Service cost - benefits earned during the period	$132	$103
Interest cost on projected benefit obligation	1,122	1,287
Expected return on plan assets	(1,609)	(1,645)
Amortization of unrecognized net loss	767	730
Net periodic pension cost	$412	$475

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 2012, the Company made a discretionary contribution of $1.5 million to its defined benefit pension plan in order to reduce pension guarantee premiums, but has made no subsequent contributions to the defined benefit plan in 2013. 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 2013.

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 12.

	For the Three Months Ended March 31	
(In thousands, except per share data)	2013	2012
Basic income per common share:		
Net income attributable to Commerce Bancshares, Inc.	$61,017	$65,799
Less income allocated to nonvested restricted stockholders	594	562
Net income available to common stockholders	$60,423	$65,237
Weighted average common shares outstanding	90,211	92,632
Basic income per common share	$.67	$.70
Diluted income per common share:		
Net income attributable to Commerce Bancshares, Inc.	$61,017	$65,799
Less income allocated to nonvested restricted stockholders	593	561
Net income available to common stockholders	$60,424	$65,238
Weighted average common shares outstanding	90,211	92,632
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	233	352
Weighted average diluted common shares outstanding	90,444	92,984
Diluted income per common share	$.67	$.70

All unexercised stock options and stock appreciation rights were included in the computations of diluted income per share for the three month periods ended March 31, 2013 and 2012.

8. Accumulated Other Comprehensive Income

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

	Unrealized Gains (Losses) on Securities (1)		Pension Loss (2)	Total Accumulated Other Comprehensive Income
(In thousands)	OTTI	Other		
Balance January 1, 2013	$3,245	$160,263	$(27,164)	$136,344
Other comprehensive income before reclassifications	1,392	(13,215)	—	(11,823)
Amounts reclassified from accumulated other comprehensive income	442	—	767	1,209
Current period other comprehensive income (loss), before tax	1,834	(13,215)	767	(10,614)
Income tax expense (benefit)	(697)	5,022	(292)	4,033
Current period other comprehensive income (loss), net of tax	1,137	(8,193)	475	(6,581)
Balance March 31, 2013	$4,382	$152,070	$(26,689)	$129,763
Balance January 1, 2012	$(4,321)	$136,137	$(21,278)	$110,538
Other comprehensive income before reclassifications	5,100	6,319	—	11,419
Amounts reclassified from accumulated other comprehensive income	320	(342)	730	708
Current period other comprehensive income, before tax	5,420	5,977	730	12,127
Income tax expense	(2,060)	(2,271)	(278)	(4,609)
Current period other comprehensive income, net of tax	3,360	3,706	452	7,518
Balance March 31, 2012	$(961)	$139,843	$(20,826)	$118,056

(1) The pre-tax amounts reclassified from accumulated other comprehensive income are included in "investment securities gains (losses), net" in the consolidated statements of income.

(2) The pre-tax amounts reclassified from accumulated other comprehensive income are included in the computation of net periodic pension cost as "amortization of unrecognized net loss" (see Note 6).

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 following table presents selected financial information by segment and reconciliations of combined segment totals to consolidated totals. There were no material intersegment revenues among the three segments. 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 March 31, 2013						
Net interest income	$67,213	$ 70,959	$10,330	$148,502	$ 1,841	$ 150,343
Provision for loan losses	(8,211)	489	(48)	(7,770)	4,485	(3,285)
Non-interest income	26,725	44,506	28,703	99,934	(57)	99,877
Investment securities losses, net	—	—	—	—	(2,165)	(2,165)
Non-interest expense	(67,911)	(58,907)	(24,308)	(151,126)	(3,911)	(155,037)
Income before income taxes	$17,816	$ 57,047	$14,677	$89,540	$ 193	$ 89,733
Three Months Ended March 31, 2012						
Net interest income	$69,093	$ 71,529	$9,757	$150,379	$ 9,358	$ 159,737
Provision for loan losses	(9,307)	(1,831)	(42)	(11,180)	3,015	(8,165)
Non-interest income	27,188	42,894	26,155	96,237	(1,654)	94,583
Investment securities gains, net	—	—	—	—	4,040	4,040
Non-interest expense	(66,115)	(55,969)	(22,767)	(144,851)	(5,610)	(150,461)
Income before income taxes	$20,859	$ 56,623	$13,103	$90,585	$ 9,149	$ 99,734

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

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

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

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. This activity increased in the first quarter of 2013 due to higher customer demand. 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 late 2011, the Company curtailed the sales of these types of loans and did not hold such loans for sale at March 31, 2013 or December 31, 2012.

(In thousands)	March 31, 2013	December 31, 2012
Interest rate swaps	$424,750	$435,542
Interest rate caps	11,236	27,736
Credit risk participation agreements	42,297	43,243
Foreign exchange contracts	80,597	47,897
Total notional amount	$558,880	$554,418

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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 March 31, 2013, the Company had entered into three interest rate swaps with a notional amount of $12.8 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 March 31	
(In thousands)	2013	2012
Gain (loss) on interest rate swaps	$125	$88
Gain (loss) on loans	(122)	(85)
Amount of hedge ineffectiveness	$3	$3

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 March 31, 2013 was $411.9 million. The Company is party to master netting arrangements with many of its derivative counterparties; however, the Company does not offset assets and liabilities under these arrangements for balance sheet presentation, as the effect of offsetting is not significant. Additional information about the potential effects of offsetting and collateral amounts pledged by the Company is provided in Note 11 on Balance Sheet Offsetting.

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 March 31, 2013, the largest loss exposures were in the groups related to education, real estate, 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 $3.5 million (education), $3.1 million (real estate and building materials) and $2.2 million (manufacturing) at March 31, 2013.

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 13 on Fair Value Measurements.

	Asset Derivatives			Liability Derivatives		
	Balance Sheet	Mar. 31, 2013	Dec. 31, 2012	Balance Sheet	Mar. 31, 2013	Dec. 31, 2012
(In thousands)	Location	Fair Value		Location	Fair Value	
Derivatives designated as hedging instruments:						
Interest rate swaps	Other assets	$—	$—		$(597)	$(723)

				Other liabilities		
Total derivatives designated as hedging instruments		$—	$—		$(597)	$(723)
Derivatives not designated as hedging instruments:						
Interest rate swaps	Other assets	$14,879	$16,334	Other liabilities	$(14,882)	$(16,337)
Interest rate caps	Other assets	1	1	Other liabilities	(1)	(1)
Credit risk participation agreements	Other assets	8	9	Other liabilities	(139)	(196)
Foreign exchange contracts	Other assets	1,257	396	Other liabilities	(1,175)	(461)
Total derivatives not designated as hedging instruments		$16,145	$16,740		$(16,197)	$(16,995)
Total derivatives		$16,145	$16,740		$(16,794)	$(17,718)

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

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives For the Three Months Ended March 31	
(In thousands)		2013	2012
Derivatives in fair value hedging relationships:			
Interest rate swaps	Interest and fees on loans	$125	$88
Total		$125	$88
Derivatives not designated as hedging instruments:			
Interest rate swaps	Other non-interest income	$139	$117
Credit risk participation agreements	Other non-interest income	56	(2)
Foreign exchange contracts	Other non-interest income	147	(140)
Mortgage loan commitments	Loan fees and sales	—	(20)
Mortgage loan forward sale contracts	Loan fees and sales	—	11
Total		$342	$(34)

11. Balance Sheet Offsetting

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

The financial collateral securing these arrangements consists of marketable securities. These are valued daily, and adjustments to amounts received and pledged by the Company are made as appropriate to maintain proper collateralization for these transactions. Collateral posted by the Company to financial institution counterparties under derivative contracts is generally subject to thresholds and transfer minimums. By contract, it may be sold or re-pledged by the secured party until recalled at a subsequent valuation date by the pledging party. Derivative transactions with customers are generally secured by non-financial collateral, such as real and personal property, which is not shown in the table below. Collateral accepted or pledged in resell and repurchase agreements with other financial institutions also may be sold or re-pledged by the secured party, but is usually delivered to and held by third party trustees. The Company generally retains custody of securities pledged for repurchase agreements with customers.

(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Securities Collateral Received/Pledged	Net Amount
March 31, 2013						
Assets:						
Derivatives subject to master netting agreements	$15,752	$—	$15,752	$(1,180)	$ —	$14,572
Derivatives not subject to master netting agreements	393	—	393			
Total derivatives	16,145	—	16,145			
Total resell agreements, subject to master netting arrangements	1,500,000	(300,000)	1,200,000	—	(1,200,000)	—
Liabilities:						
Derivatives subject to master netting agreements	16,105	—	16,105	(1,180)	(13,558)	1,367
Derivatives not subject to master netting agreements	689	—	689			
Total derivatives	16,794	—	16,794			
Total repurchase agreements, subject to master netting arrangements	1,390,108	(300,000)	1,090,108	—	(1,090,108)	—
December 31, 2012						
Assets:						
Derivatives subject to master netting agreements	$16,475	$—	$16,475	$(603)	$ —	$15,872
Derivatives not subject to master netting agreements	265	—	265			
Total derivatives	16,740	—	16,740			
Total resell agreements, subject to master netting arrangements	1,500,000	(300,000)	1,200,000	—	(1,200,000)	—
Liabilities:						
Derivatives subject to master netting agreements	17,315	—	17,315	(603)	(16,017)	695
Derivatives not subject to master netting agreements	403	—	403			
Total derivatives	17,718	—	17,718			
Total repurchase agreements, subject to master netting arrangements	1,359,040	(300,000)	1,059,040	—	(1,059,040)	—

During 2012, the Company entered into several agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resell agreements with the same financial institution counterparty. These repurchase and resell agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the balance sheet, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled $300.0 million at both March 31, 2013 and December 31, 2012. At March 31, 2013, the Company had posted collateral consisting of $313.5 million in agency mortgage-backed securities and accepted $341.7 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds.

12. Stock-Based Compensation

The Company has historically issued stock-based compensation in the form of nonvested restricted stock, stock options and stock appreciation rights (SARs). The Company usually issues most of its annual stock-based compensation during the first quarter of each year. However, in 2013, due to plan administration considerations, this process was postponed until April. On April 17, 2013, 184,546 shares of nonvested restricted stock and SARs pertaining to 214,233 shares were granted.

The stock-based compensation expense that has been charged against income was $1.2 million and $1.4 million for the three month periods ended March 31, 2013 and 2012, respectively.

Nonvested stock awards generally vest in 4 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company’s nonvested share awards as of March 31, 2013, and changes during the three month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	882,803	$34.62
Granted	70,003	35.46
Vested	(35,812)	34.65
Forfeited	(9,795)	24.35
Canceled	(25,827)	30.59
Nonvested at March 31, 2013	881,372	$34.81

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

A summary of option activity during the first three months of 2013 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, 2013	768,773	$31.51		
Granted	—	—		
Forfeited	—	—		
Expired	—	—		
Exercised	(97,413)	27.42		
Outstanding at March 31, 2013	671,360	$32.11	1.5 years	$5,857

A summary of SAR activity during the first three months of 2013 is presented below.

	Rights	Weighted Average Exercise	Weighted Average Remaining	Aggregate Intrinsic Value

		Price	Contractual	
(Dollars in thousands, except per share data)			Term	
Outstanding at January 1, 2013	1,787,376	$36.07		
Granted	—	—		
Forfeited	(1,521)	31.31		
Expired	—	—		
Exercised	(48,070)	36.13		
Outstanding at March 31, 2013	1,737,785	$36.07	3.9 years	$8,267

13. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain financial and nonfinancial assets and liabilities and to determine fair value disclosures. Various financial instruments such as available for sale and trading securities, certain non-marketable securities relating to private equity activities, and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets and liabilities on a nonrecurring basis, such as 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.

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Instruments Measured at Fair Value on a Recurring Basis

The table below presents the March 31, 2013 and December 31, 2012 carrying values of assets and liabilities measured at fair value on a recurring basis. There were no transfers among levels during the first three months of 2013 or the year ended December 31, 2012.

		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)
March 31, 2013				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$437,308	$437,308	$—	$—
Government-sponsored enterprise obligations	453,702	—	453,702	—
State and municipal obligations	1,659,168	—	1,531,025	128,143
Agency mortgage-backed securities	3,268,377	—	3,268,377	—
Non-agency mortgage-backed securities	243,907	—	243,907	—
Other asset-backed securities	3,285,310	—	3,285,310	—
Other debt securities	172,019	—	172,019	—
Equity securities	52,960	34,563	18,397	—
Trading securities	23,400	—	23,400	—
Private equity investments	68,103	—	—	68,103
Derivatives *	16,145	—	16,137	8
Assets held in trust	6,531	6,531	—	—
Total assets	$9,686,930	$478,402	$9,012,274	$196,254
Liabilities:				
Derivatives *	$16,794	$—	$16,655	$139
Total liabilities	$16,794	$—	$16,655	$139
December 31, 2012				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$438,759	$438,759	$—	$—
Government-sponsored enterprise obligations	471,574	—	471,574	—
State and municipal obligations	1,615,707	—	1,489,293	126,414
Agency mortgage-backed securities	3,380,955	—	3,380,955	—
Non-agency mortgage-backed securities	237,011	—	237,011	—
Other asset-backed securities	3,167,394	—	3,167,394	—
Other debt securities	177,752	—	177,752	—
Equity securities	33,096	17,835	15,261	—
Trading securities	28,837	—	28,837	—
Private equity investments	68,167	—	—	68,167
Derivatives *	16,740	—	16,731	9
Assets held in trust	5,440	5,440	—	—
Total assets	$9,641,432	$462,034	$8,984,808	$194,590
Liabilities:				
Derivatives *	$17,718	$—	$17,522	$196

Total liabilities	$17,718	$—	$17,522	$196

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

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

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

Available for sale investment securities

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

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

- U.S. government and federal agency obligations

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

- Equity securities

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

The available for sale portfolio includes certain auction rate securities. The auction process by which auction rate securities are normally priced has not functioned 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

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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.

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 March 31, 2013				
Balance January 1, 2013	$126,414	$ 68,167	$ (187)	$194,394
Total gains or losses (realized/unrealized):				
Included in earnings	—	(1,775)	56	(1,719)
Included in other comprehensive income *	2,188	—	—	2,188
Investment securities called	(525)	—	—	(525)
Discount accretion	66	—	—	66
Purchases of private equity investments	—	1,650	—	1,650
Capitalized interest/dividends	—	61	—	61
Balance March 31, 2013	$128,143	$ 68,103	$ (131)	$196,115
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 March 31, 2013	$—	$ (1,775)	$ 56	$(1,719)
For the three months ended March 31, 2012				
Balance January 1, 2012	$135,621	$ 66,978	$ (123)	$202,476
Total gains or losses (realized/unrealized):				
Included in earnings	—	4,125	(11)	4,114
Included in other comprehensive income *	(5,458)	—	—	(5,458)
Investment securities called	(350)	—	—	(350)
Discount accretion	60	—	—	60
Purchase of private equity investments	—	3,275	—	3,275
Sale/pay down of private equity securities	—	(2,434)	—	(2,434)
Capitalized interest/dividend	—	177	—	177
Purchase of risk participation agreement	—	—	28	28
Balance March 31, 2012	$129,873	$ 72,121	$ (106)	$201,888
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 March 31, 2012	$—	$ 4,125	$ (2)	$4,123

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

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

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
For the three months ended March 31, 2013				
Total gains or losses included in earnings	$—	$ 56	$(1,775)	$(1,719)
Change in unrealized gains or losses relating to assets still held at March 31, 2013	$—	$ 56	$(1,775)	$(1,719)
For the three months ended March 31, 2012				
Total gains or losses included in earnings	$(9)	$ (2)	$4,125	$4,114
Change in unrealized gains or losses relating to assets still held at March 31, 2012	$—	$ (2)	$4,125	$4,123

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) held by the Bank and investments in portfolio concerns held by the Company's private equity subsidiaries. ARS are included in state and municipal securities and totaled $128.1 million at March 31, 2013, while private equity investments, included in non-marketable securities, totaled $68.1 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	2.2% - 3.5%
Private equity investments	Market comparable companies	EBITDA multiple	4.0 - 5.4

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.

Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during the first three months of 2013 and 2012, and still held as of March 31, 2013 and 2012, 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 March 31, 2013 and 2012.

		Fair Value Measurements Using			
(In thousands)	Fair Value	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 Three Months Ended Mar. 31
March 31, 2013					
Collateral dependent impaired loans	$1,900	$—	$—	$ 1,900	$(659)
Mortgage servicing rights	503	—	—	503	57
March 31, 2012					
Collateral dependent impaired loans	$19,579	$—	$—	$ 19,579	$(1,208)
Mortgage servicing rights	686	—	—	686	40
Foreclosed assets	330	—	—	330	(50)
Long-lived assets	4,647	—	—	4,647	(3,000)

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 March 31, 2013 and 2012 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 March 31, 2013, this portfolio consisted of student loans. Most of the portfolio is under contract to an agency which has 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 $5.7 million at March 31, 2013, net of an impairment reserve of $146 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.

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.

14. 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 methods and inputs used in the estimation of fair value for the 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 2012 Annual Report on Form 10-K. There have been no significant changes in these methods and inputs since December 31, 2012.

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	March 31, 2013		December 31, 2012	
	Hierarchy	Carrying	Estimated	Carrying	Estimated
(In thousands)	Level	Amount	Fair Value	Amount	Fair Value
Financial Assets					
Loans:					
Business	Level 3	$3,206,594	$3,204,949	$3,134,801	$3,144,989
Real estate - construction and land	Level 3	353,659	354,859	355,996	352,547
Real estate - business	Level 3	2,213,353	2,243,164	2,214,975	2,240,796
Real estate - personal	Level 3	1,626,106	1,683,396	1,584,859	1,642,820
Consumer	Level 3	1,408,246	1,432,017	1,289,650	1,309,403
Revolving home equity	Level 3	420,219	426,998	437,567	441,651
Consumer credit card	Level 3	750,671	755,540	804,245	823,560
Overdrafts	Level 3	3,838	3,838	9,291	9,291
Loans held for sale	Level 2	3,356	3,372	3,017	3,030
Loans held for sale	Level 3	5,729	5,729	5,810	5,810
Investment securities:					
Available for sale	Level 1	471,871	471,871	456,594	456,594
Available for sale	Level 2	8,972,737	8,972,737	8,939,240	8,939,240
Available for sale	Level 3	128,143	128,143	126,414	126,414
Trading	Level 2	23,400	23,400	28,837	28,837
Non-marketable	Level 3	118,620	118,620	118,650	118,650
Federal funds sold	Level 1	7,820	7,820	27,595	27,595
Securities purchased under agreements to resell	Level 3	1,200,000	1,211,324	1,200,000	1,215,234
Interest earning deposits with banks	Level 1	199,956	199,956	179,164	179,164
Cash and due from banks	Level 1	413,019	413,019	573,066	573,066
Derivative instruments	Level 2	16,137	16,137	16,731	16,731
Derivative instruments	Level 3	8	8	9	9
Financial Liabilities					
Non-interest bearing deposits	Level 1	$6,170,274	$6,170,274	$6,299,903	$6,299,903
Savings, interest checking and money market deposits	Level 1	9,802,838	9,802,838	9,817,943	9,817,943
Time open and certificates of deposit	Level 3	2,541,755	2,548,664	2,230,807	2,239,595
Federal funds purchased	Level 1	36,750	36,750	24,510	24,510

Securities sold under agreements to repurchase	Level 3	1,090,108	1,088,655	1,059,040	1,057,462
Other borrowings	Level 3	102,783	115,759	103,710	117,527
Derivative instruments	Level 2	16,655	16,655	17,522	17,522
Derivative instruments	Level 3	139	139	196	196

15. Legal Proceedings

On July 13, 2012, Visa and MasterCard each announced a preliminary settlement to resolve the plaintiffs' claims in the multi-district interchange litigation and also announced an agreement in principle to resolve the claims brought against them by certain individual retailers in that same litigation. The proposed settlement includes a cash payment to certain merchants of $6.6 billion, of which Visa is responsible for $4.4 billion, and a provision which would reduce credit card interchange income by 10 basis points over an 8 month period likely to begin in mid-2013, 60 days after a court-ordered period. Other provisions include the ability for merchants to surcharge customers for credit card usage, the ability for merchant buying groups to negotiate together with Visa and MasterCard, and the ability to cancel this proposed agreement if more than 25% of all affected merchants opt out of the agreement. The Company estimates that the pre-tax cost of the future reduction of 10 basis points in interchange income for an 8 month period, which is part of the above settlement, would amount to approximately $5.2 million. Accordingly, the Company established a liability in 2012 for these anticipated costs.

In December 2011, the Bank reached a class-wide settlement in a class action lawsuit captioned Wolfgeher v. Commerce Bank, Case No. 1:10-cv-22017 (MDL 2036, S.D. Fla.) which alleged that the Bank had improperly charged overdraft fees on certain debit card transactions and claimed refunds for the plaintiff individually and on behalf of other customers as a class. A formal Settlement Agreement and Release related to this lawsuit was signed by the Bank on July 26, 2012. The Bank, while admitting no wrongdoing, agreed to the settlement in order to resolve the litigation and avoid further expense. The settlement provided for a payment of $18.3 million into a class settlement fund, the proceeds of which will be used to issue refunds to class members and to pay attorneys' fees, administrative and other costs, in exchange for a complete release of all claims asserted against the Bank. The Bank also agreed to post debit card transactions in chronological order, which was implemented on February 21, 2013. As a result of the change in the posting order of debit card transactions, the Company currently estimates that overdraft income will be reduced on an annual basis by $6 million to $8 million. A second suit alleging the same facts and also seeking class-action status was filed on June 4, 2010 in Missouri state court. The second suit was stayed in deference to the earlier filed suit, and it is expected that the plaintiff in the Missouri state court suit will opt out of the class-action settlement and pursue his claims as an individual plaintiff. In the opinion of management, the Missouri state court suit is not expected to have a material effect on the financial condition and results of operations of the Company.

On January 4, 2013, the Company was named in a petition by Patrick J. Malloy III, Bankruptcy Trustee for the Bankruptcy Estate of George David Gordon Jr. (“Gordon”). The petition was filed in the District Court in and for Tulsa County, State of Oklahoma and removed to the United States District Court for the Northern District of Oklahoma, and alleges that Gordon was involved in securities fraud and that Bank South, an Oklahoma bank that was subsequently acquired by the Company, together with a lending officer employed by Bank South, are jointly and severally liable, as aiders and abettors of the fraudulent scheme, for losses suffered by defrauded investors. The losses suffered by investors who have assigned their claims to the Trustee are alleged to be in excess of $8 million. The claim alleges that Commerce Bank is liable as a successor by merger to Bank South. Based on facts available to the Company and after discussion with outside counsel handling the matter, it is not possible to determine at this time whether this litigation presents a loss contingency that is probable or estimable. The Company believes it has substantial defenses to this matter and anticipates the matter will be resolved without material loss. No liability has been recorded at this time, in accordance with accounting guidance at ASC 450-20. This matter will continue to be evaluated on an ongoing basis and if further developments result in a loss contingency related to this claim being both probable and estimable, the Company will establish an accrued liability with respect to such loss contingency and record it accordingly.

The Company has various other lawsuits pending at March 31, 2013, arising in the normal course of business. While some matters pending against the Company specify damages claimed by plaintiffs, others do not seek a specified amount of damages or are at very early stages of the legal process. The Company records a loss accrual for all legal matters for which it deems a loss is probable and can be reasonably estimated. Some legal matters, which are at early stages in the legal process, have not yet progressed to the point where a loss amount can be estimated.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and with the statistical information and financial data appearing in this report as well as the Company's 2012 Annual Report on Form 10-K. Results of operations for the three month period ended March 31, 2013 are not necessarily indicative of results to be attained for any other period.

Forward-Looking Information

This report may contain "forward-looking statements" that are subject to risks and uncertainties and include information about possible or assumed future results of operations. Many possible events or factors could affect the future financial results and performance of the Company. This could cause results or performance to differ materially from those expressed in the forward-looking statements. Words such as "expects", "anticipates", "believes", "estimates", variations of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed throughout this report. Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. Such possible events or factors include: changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, governmental legislation and regulation, fluctuations in interest rates, changes in liquidity requirements, demand for loans in the Company's market area, failure of litigation settlement agreements to become final in accordance with their terms, and competition with other entities that offer financial services.

Critical Accounting Policies

The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan losses, the valuation of certain investment securities, and accounting for income taxes. A discussion of these policies can be found in the sections captioned "Critical Accounting Policies" and "Allowance for Loan Losses" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2012 Annual Report on Form 10-K. There have been no changes in the Company's application of critical accounting policies since December 31, 2012.

Selected Financial Data

	Three Months Ended March 31	
	2013	2012
Per Share Data		
Net income per common share — basic	$.67	$.70
Net income per common share — diluted	.67	.70
Cash dividends	.225	.219
Book value	24.02	23.64
Market price	40.83	38.59
Selected Ratios		
(Based on average balance sheets)		
Loans to deposits [(1)]	54.65 %	55.53 %
Non-interest bearing deposits to total deposits	32.79	30.93
Equity to loans [(1)]	22.00	23.86
Equity to deposits	12.02	13.25
Equity to total assets	9.92	10.74
Return on total assets	1.13	1.29
Return on total equity	11.38	12.04
(Based on end-of-period data)		
Non-interest income to revenue [(2)]	39.92	37.19
Efficiency ratio [(3)]	61.76	58.91
Tier I risk-based capital ratio	13.63	14.85
Total risk-based capital ratio	14.94	16.19
Tangible common equity to assets ratio [(4)]	9.26	10.12
Tier I leverage ratio	8.92	9.70

(1) Includes loans held for sale.

(2) Revenue includes net interest income and non-interest income.

(3) The efficiency ratio is calculated as non-interest expense (excluding intangibles amortization) as a percent of revenue.

(4) The tangible common equity ratio is calculated as stockholders' equity reduced by goodwill and other intangible assets (excluding mortgage servicing rights) divided by total assets reduced by goodwill and other intangible assets (excluding mortgage servicing rights).

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Results of Operations

Summary

	Three Months Ended March 31		Increase (Decrease)	
(Dollars in thousands)	2013	2012	Amount	Percent
Net interest income	$150,343	$159,737	$(9,394)	(5.9)%
Provision for loan losses	(3,285)	(8,165)	(4,880)	(59.8)
Non-interest income	99,877	94,583	5,294	5.6
Investment securities gains (losses), net	(2,165)	4,040	(6,205)	N.M
Non-interest expense	(155,037)	(150,461)	4,576	3.0
Income taxes	(28,925)	(32,920)	(3,995)	(12.1)
Non-controlling interest income (expense)	209	(1,015)	(1,224)	N.M
Net income attributable to Commerce Bancshares, Inc.	$61,017	$65,799	$(4,782)	(7.3)%

For the quarter ended March 31, 2013, net income attributable to Commerce Bancshares, Inc. (net income) amounted to $61.0 million, a decrease of $4.8 million, or 7.3%, compared to the first quarter of the previous year, and a decrease of $5.8 million compared to the previous quarter. For the current quarter, the annualized return on average assets was 1.13%, the annualized return on average equity was 11.38%, and the efficiency ratio was 61.76%. Diluted earnings per share was $.67, a decrease of 4.3% compared to $.70 per share in the first quarter of 2012.

Compared to the first quarter of last year, net interest income decreased $9.4 million, or 5.9%, mainly due to a decrease of $8.8 million in interest on investment securities, coupled with a decrease of $4.0 million in interest and fees on loans. These declines were partly offset by a decrease of $1.7 million in interest expense on deposits. Non-interest income increased $5.3 million, or 5.6%, due to continued growth in bank card and trust fee income, and non-interest expense grew $4.6 million, or 3.0%, largely due to increases in data processing costs and salaries and benefits expense. Investment securities losses for the first quarter of 2013 amounted to $2.2 million compared to gains of $4.0 million during the first quarter of last year. The losses during the first quarter of 2013 related mainly to fair value adjustments on private equity investments. The provision for loan losses totaled $3.3 million for the current quarter, representing a decrease of $4.9 million, or 59.8%, from the first quarter of 2012.

Net Interest Income

The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates. Changes not solely due to volume or rate changes are allocated to rate.

Analysis of Changes in Net Interest Income

	Three Months Ended March 31, 2013 vs. 2012		
	Change due to		
(In thousands)	Average Volume	Average Rate	Total
Interest income, fully taxable equivalent basis:			
Loans	$8,348	$(12,269)	$(3,921)
Loans held for sale	(26)	6	(20)
Investment securities:			
U.S. government and federal agency securities	360	(2,643)	(2,283)
Government-sponsored enterprise obligations	917	(187)	730
State and municipal obligations	3,493	(1,626)	1,867
Mortgage-backed securities	(4,755)	(2,440)	(7,195)
Asset-backed securities	1,273	(1,907)	(634)
Other securities	364	(1,261)	(897)
Total interest on investment securities	1,652	(10,064)	(8,412)
Short-term federal funds sold and securities purchased under agreements to resell	(6)	(2)	(8)
Long-term securities purchased under agreements to resell	1,635	(81)	1,554
Interest earning deposits with banks	26	(4)	22
Total interest income	11,629	(22,414)	(10,785)
Interest expense:			
Deposits:			
Savings	20	(46)	(26)
Interest checking and money market	493	(1,624)	(1,131)
Time open & C.D.'s of less than $100,000	(145)	(212)	(357)
Time open & C.D.'s of $100,000 and over	(121)	(91)	(212)
Total interest on deposits	247	(1,973)	(1,726)
Federal funds purchased and securities sold under agreements to repurchase	(17)	10	(7)
Other borrowings	21	(115)	(94)
Total interest expense	251	(2,078)	(1,827)
Net interest income, fully taxable equivalent basis	$11,378	$(20,336)	$(8,958)

Net interest income for the first quarter of 2013 was $150.3 million, compared to $159.7 million in the first quarter of 2012 and $161.3 million in the fourth quarter of 2012. On a tax equivalent (T/E) basis, net interest income totaled $156.7 million, a decline of $11.7 million from the fourth quarter of 2012 and a decline of $9.0 million from the same quarter last year. These declines were due to lower yields in the current quarter, which were partly offset by lower rates paid on deposits and higher balances of loans and investment securities. The lower rate earned on investment securities was partly due to declines in inflation interest on the Company's inflation-protected securities (TIPS) as a result of the lower Consumer Price Indices published this quarter, on which this interest is based. Current quarter inflation interest declined $4.8 million from the previous quarter and $2.0 million from the same quarter last year.

Also, in the previous quarter the Company received a special dividend on a private equity investment totaling $2.2 million, and premium amortization was lowered by $1.7 million due to a slowing of prepayment speeds on mortgage-backed securities. The Company's net interest rate margin was 3.07% for the first quarter of 2013, compared to 3.35% in the previous quarter and 3.45% in the first quarter of 2012.

Total interest income (T/E) decreased $10.8 million, or 6.1%, from the first quarter of 2012. Interest income on loans, including loans held for sale, declined $3.9 million due to a 45 basis point decrease in average rates earned, while average loan balances increased 7.2%. The higher balances contributed $8.3 million to interest income and occurred mainly in business, consumer and personal real estate loans. The overall average rate earned on total loans declined to 4.49% during the current quarter compared to 4.94% in the first quarter of 2012, which resulted in a $12.3 million decrease in interest income. Most of the rate impact occurred in business, consumer, business real estate and personal real estate loans. The average rate earned on business real estate loans decreased 40 basis points and was partly offset by higher average balances of $45.6 million, or 2.1%. The average yield on personal real estate loans declined 50 basis points, while the average balance increased $158.6 million, or 11.0%. Average business loans increased $262.6 million, or 9.1%, which was offset by a decline of 35 basis points in rates earned. Average consumer loans increased $235.3 million, while the average yield fell 90 basis points. Reflected in the increase in average consumer loan balances were higher auto and fixed-rate home equity loan balances of $378.3 million, partly offset by a decrease of $89.3 million in marine and RV loans as that portfolio continues to pay down (since the Company no longer originates these types of loans). Average consumer credit card loans increased $24.1 million compared to the first quarter of 2012, while the average rate earned on these balances decreased to 11.38% from 11.78%.

Interest income on investment securities (T/E) was $49.9 million during the first quarter of 2013 compared to $58.3 million during the same period last year, which was a decrease of $8.4 million. As mentioned above, this decline included a $2.0 million decrease in TIPS inflation interest, which decreased from $341 thousand in the first quarter of 2012 to ($1.7) million in the current quarter. Also, lower average rates were earned on the remainder of the portfolio, with rate declines in state and municipal, mortgage-backed, and asset-backed securities of 38, 26 and 23 basis points, respectively. The average balance of the total portfolio (excluding fair value adjustments) increased $391.8 million, or 4.3%, compared to the first quarter of 2012. This growth mainly occurred in state and municipal obligations and asset-backed securities, which increased by $339.8 million and $445.0 million, respectively, while the average balance of mortgage-backed securities declined $676.6 million. The effect of the higher average total portfolio balance was offset by a lower overall average yield, which declined to 2.12% compared to 2.56% during the first quarter of 2012.

Interest income on long-term securities purchased under agreements to resell increased $1.6 million over the first quarter of 2012. This increase included $669 thousand of interest on collateral swaps, which are discussed in Note 11 to the consolidated financial statements. The remainder of the increase was due to higher average balances of $328.3 million, or 38.6%.

The average tax equivalent yield on total interest earning assets was 3.23% in the first quarter of 2013 compared to 3.66% in the first quarter of 2012.

Total interest expense decreased $1.8 million, or 17.9%, compared to the first quarter of 2012, mainly due to a $1.7 million decrease in interest expense on interest bearing deposits. The decrease in interest expense on deposits resulted primarily from declines of 7 basis points in average rates paid on both money market accounts and certificates of deposit of less than $100,000. Total average interest bearing deposits increased $689.5 million, or 6.0%, over the first quarter of 2012, as money market account balances increased $792.2 million, or 9.9%, while certificate of deposit balances declined $194.5 million, or 7.5%. The overall average rate incurred on all interest bearing liabilities decreased to .25% in the first quarter of 2013 compared to .32% in the first quarter of 2012.

Summaries of average assets and liabilities and the corresponding average rates earned/paid appear on the last page of this discussion.

Non-Interest Income

	Three Months Ended March 31		Increase (Decrease)	
(Dollars in thousands)	2013	2012	Amount	Percent
Bank card transaction fees	$38,550	$34,733	$3,817	11.0 %
Trust fees	25,169	22,814	2,355	10.3
Deposit account charges and other fees	18,712	19,336	(624)	(3.2)
Capital market fees	4,391	6,871	(2,480)	(36.1)
Consumer brokerage services	2,686	2,526	160	6.3
Loan fees and sales	1,473	1,561	(88)	(5.6)
Other	8,896	6,742	2,154	31.9

Total non-interest income	$99,877		$94,583		$5,294	5.6	%
Non-interest income as a % of total revenue*	39.9	%	37.2	%			

* Total revenue includes net interest income and non-interest income.

For the first quarter of 2013, total non-interest income amounted to $99.9 million compared with $94.6 million in the same quarter last year, which was an increase of $5.3 million, or 5.6%. Bank card fees for the quarter increased $3.8 million, or 11.0%, over the first quarter of last year, as a result of a 19.4% increase in corporate card fees, which totaled $18.7 million this quarter. Merchant fees grew by 12.2% due to higher transaction volumes, and totaled $6.3 million for the quarter, while credit card fees grew 5.5% and totaled $5.3 million. Trust fees for the quarter increased $2.4 million, or 10.3%, over the same quarter last year, resulting mainly from growth in personal (up 12.0%) and institutional (up 11.1%) trust fees. Deposit account fees declined $624 thousand, or 3.2%, compared to last year as overdraft fees declined by $958 thousand, but were partly offset by growth in various other deposit fees of $310 thousand, or 10.4%. A new debit posting routine mandated by a previously disclosed legal settlement took effect in late February 2013 and had the effect of reducing overdraft income by approximately $500 thousand this quarter. Capital market fees for the current quarter decreased $2.5 million, to $4.4 million, as fees were very strong last year and more recently have been affected by low interest rates, reducing customer demand. Consumer brokerage services revenue increased $160 thousand, or 6.3%, while loan fees and sales revenue was down $88 thousand, or 5.6%. Other non-interest income for the current quarter increased $2.2 million over the same quarter last year as a result of a $3.0 million fair value loss recorded last year on an office building which was held for sale, partly offset by a decline in tax credit sales income.

Investment Securities Gains (Losses), Net

Net gains and losses on investment securities which were recognized in earnings during the three months ended March 31, 2013 and 2012 are shown in the table below. Net securities losses amounted to $2.2 million in the first quarter of 2013, while net securities gains of $4.0 million were recorded in the first quarter of 2012. Included in these gains and losses are credit-related impairment losses on certain non-agency guaranteed mortgage-backed securities which have been identified as other-than-temporarily impaired. These identified securities had a total fair value of $96.4 million at March 31, 2013. During the current quarter, additional credit-related impairment losses of $442 thousand were recorded. The cumulative credit-related impairment loss initially recorded on these securities amounted to $12.0 million. Also shown below are net gains and losses relating to non-marketable private equity investments, which are primarily held by the Parent's majority-owned private equity subsidiaries. These include fair value adjustments, in addition to gains and losses realized upon disposition. The portion of this activity attributable to minority interests is reported as non-controlling interest in the consolidated statements of income, and resulted in income of $350 thousand during the first three months of 2013 and expense of $817 thousand during the same period last year.

	Three Months Ended March 31	
(In thousands)	2013	2012
Available for sale:		
Agency mortgage-backed bonds	$—	$342
OTTI losses on non-agency mortgage-backed bonds	(442)	(320)
Non-marketable:		
Private equity investments	(1,723)	4,018
Total investment securities gains (losses), net	$(2,165)	$4,040

Non-Interest Expense

	Three Months Ended March 31	Increase (Decrease)
(Dollars in thousands)		