COMMERCE BANCSHARES INC /MO/
Form 10-Q
August 06, 2015
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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 June 30, 2015

OR

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of July 31, 2015, the registrant had outstanding 93,335,596 shares of its $5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

Form 10-Q

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
	(Unaudited)	
	(In thousands)	
ASSETS		
Loans	$11,928,481	$11,469,238
Allowance for loan losses	(151,532)	(156,532)
Net loans	11,776,949	11,312,706
Loans held for sale, at fair value	7,852	—
Investment securities:		
Available for sale ($465,491,000 pledged at June 30, 2015 and $467,143,000 at December 31, 2014 to secure swap and repurchase agreements)	9,221,821	9,523,560
Trading	18,971	15,357
Non-marketable	108,346	106,875
Total investment securities	9,349,138	9,645,792
Federal funds sold and short-term securities purchased under agreements to resell	26,875	32,485
Long-term securities purchased under agreements to resell	1,050,000	1,050,000
Interest earning deposits with banks	264,683	600,744
Cash and due from banks	409,791	467,488
Land, buildings and equipment, net	353,366	357,871
Goodwill	138,921	138,921
Other intangible assets, net	6,978	7,450
Other assets	321,382	380,823
Total assets	$23,705,935	$23,994,280
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	$6,886,509	$6,811,959
Savings, interest checking and money market	10,369,031	10,541,601
Time open and C.D.'s of less than $100,000	833,161	878,433
Time open and C.D.'s of $100,000 and over	1,200,008	1,243,785
Total deposits	19,288,709	19,475,778
Federal funds purchased and securities sold under agreements to repurchase	1,666,043	1,862,518
Other borrowings	103,843	104,058
Other liabilities	331,980	217,680
Total liabilities	21,390,575	21,660,034
Commerce Bancshares, Inc. stockholders’ equity:		
Preferred stock, $1 par value		
Authorized 2,000,000 shares; issued 6,000 shares	144,784	144,784
Common stock, $5 par value		
Authorized 120,000,000 shares;		
issued 96,830,977 shares	484,155	484,155
Capital surplus	1,261,307	1,229,075

Retained earnings	514,451	426,648
Treasury stock of 3,362,811 shares at June 30, 2015 and 367,487 shares at December 31, 2014, at cost	(143,565)	(16,562)
Accumulated other comprehensive income	48,789	62,093
Total Commerce Bancshares, Inc. stockholders' equity	2,309,921	2,330,193
Non-controlling interest	5,439	4,053
Total equity	2,315,360	2,334,246
Total liabilities and equity	$23,705,935	$23,994,280

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands, except per share data)	2015	2014	2015	2014
	(Unaudited)			
INTEREST INCOME				
Interest and fees on loans	$113,467	$111,496	$224,753	$222,198
Interest and fees on loans held for sale	39	—	60	—
Interest on investment securities	53,264	53,016	91,700	98,035
Interest on federal funds sold and short-term securities purchased under agreements to resell	15	24	24	50
Interest on long-term securities purchased under agreements to resell	3,670	2,943	6,721	7,094
Interest on deposits with banks	122	88	301	188
Total interest income	170,577	167,567	323,559	327,565
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	3,287	3,358	6,595	6,664
Time open and C.D.'s of less than $100,000	818	1,063	1,698	2,183
Time open and C.D.'s of $100,000 and over	1,504	1,515	2,914	2,967
Interest on federal funds purchased and securities sold under agreements to repurchase	421	263	788	466
Interest on other borrowings	890	875	1,769	1,726
Total interest expense	6,920	7,074	13,764	14,006
Net interest income	163,657	160,493	309,795	313,559
Provision for loan losses	6,757	7,555	11,177	17,215
Net interest income after provision for loan losses	156,900	152,938	298,618	296,344
NON-INTEREST INCOME				
Bank card transaction fees	45,672	44,444	87,971	86,161
Trust fees	30,531	27,765	60,117	54,338
Deposit account charges and other fees	19,637	19,709	38,136	38,299
Capital market fees	2,738	3,246	5,740	7,116
Consumer brokerage services	3,364	2,972	6,552	5,719
Loan fees and sales	2,183	1,211	4,272	2,420
Other	9,967	9,416	17,730	17,337
Total non-interest income	114,092	108,763	220,518	211,390
INVESTMENT SECURITIES GAINS (LOSSES), NET				
Change in fair value of other-than-temporarily impaired securities	(88)	(785)	(315)	(848)
Portion recognized in other comprehensive income	(378)	154	(168)	(129)
Net impairment losses recognized in earnings	(466)	(631)	(483)	(977)
Realized gains (losses) on sales and fair value adjustments	2,609	(1,927)	8,661	8,456
Investment securities gains (losses), net	2,143	(2,558)	8,178	7,479
NON-INTEREST EXPENSE				
Salaries and employee benefits	99,655	94,849	197,729	189,112
Net occupancy	10,999	11,151	22,560	22,767
Equipment	4,679	4,525	9,382	9,029
Supplies and communication	5,226	5,486	10,807	11,185
Data processing and software	21,045	19,578	40,551	38,665

Marketing	4,307	3,949	8,225	7,630
Deposit insurance	3,019	2,892	6,020	5,786
Other	16,390	20,123	33,743	40,341
Total non-interest expense	165,320	162,553	329,017	324,515
Income before income taxes	107,815	96,590	198,297	190,698
Less income taxes	32,492	30,690	60,960	60,677
Net income	75,323	65,900	137,337	130,021
Less non-controlling interest expense (income)	970	(631)	1,929	(823)
Net income attributable to Commerce Bancshares, Inc.	74,353	66,531	135,408	130,844
Less preferred stock dividends	2,250	—	4,500	—
Net income available to common shareholders	$72,103	$66,531	$130,908	$130,844
Net income per common share — basic	$.75	$.67	$1.36	$1.31
Net income per common share — diluted	$.75	$.66	$1.36	$1.30

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 June 30		For the Six Months Ended June 30	
(In thousands)	2015	2014	2015	2014
	(Unaudited)			
Net income	$75,323	$65,900	$137,337	$130,021
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	149	(58)	21	108
Net unrealized gains (losses) on other securities	(43,483)	43,650	(14,137)	74,029
Pension loss amortization	406	223	812	446
Other comprehensive income (loss)	(42,928)	43,815	(13,304)	74,583
Comprehensive income	32,395	109,715	124,033	204,604
Less non-controlling interest expense (income)	970	(631)	1,929	(823)
Comprehensive income attributable to Commerce Bancshares, Inc.	$31,425	$110,346	$122,104	$205,427

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Commerce Bancshares, Inc. Shareholders							
(In thousands, except per share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
	(Unaudited)							
Balance January 1, 2015	$144,784	$484,155	$1,229,075	$426,648	$(16,562)	$62,093	$4,053	$2,334,246
Net income				135,408			1,929	137,337
Other comprehensive loss						(13,304)		(13,304)
Distributions to non-controlling interest							(543)	(543)
Purchases of treasury stock					(143,575)			(143,575)
Accelerated share repurchase forward contract			(20,000)					(20,000)
Settlement of accelerated share repurchase forward contract			60,000					60,000
Issuance of stock under purchase and equity compensation plans			(14,682)		16,572			1,890
Excess tax benefit related to equity compensation plans			1,662					1,662
Stock-based compensation			5,252					5,252
Cash dividends on common stock ($.450 per share)				(43,105)				(43,105)
Cash dividends on preferred stock ($.750 per share)				(4,500)				(4,500)
Balance June 30, 2015	$144,784	$484,155	$1,261,307	$514,451	$(143,565)	$48,789	$5,439	$2,315,360
Balance January 1, 2014	$—	$481,224	$1,279,948	$449,836	$(10,097)	$9,731	$3,755	$2,214,397
Net income				130,844			(823)	130,021
Other comprehensive income						74,583		74,583
Distributions to non-controlling interest							(554)	(554)
	144,816							144,816

Issuance of preferred stock								
Purchases of treasury stock					(208,989)			(208,989)
Accelerated share repurchase forward contract			(60,000)					(60,000)
Issuance of stock under purchase and equity compensation plans			(10,671)		15,912			5,241
Excess tax benefit related to equity compensation plans			1,091					1,091
Stock-based compensation			4,468					4,468
Cash dividends on common stock ($.429 per share)				(42,921)				(42,921)
Balance June 30, 2014	$144,816	$481,224	$1,214,836	$537,759	$(203,174)	$84,314	$ 2,378	$2,262,153

See accompanying notes to consolidated financial statements.

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

(In thousands)	For the Six Months Ended June 30 2015	2014
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	$137,337	$130,021
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,177	17,215
Provision for depreciation and amortization	21,287	21,033
Amortization of investment security premiums, net	17,797	8,323
Investment securities gains, net(A)	(8,178)	(7,479)
Net gains on sales of loans held for sale	(1,234)	—
Originations of loans held for sale	(50,143)	—
Proceeds from sales of loans held for sale	43,593	—
Net (increase) decrease in trading securities	(1,310)	16,845
Stock-based compensation	5,252	4,468
(Increase) decrease in interest receivable	(618)	104
Decrease in interest payable	(201)	(11)
Increase in income taxes payable	17,622	14,719
Excess tax benefit related to equity compensation plans	(1,662)	(1,091)
Other changes, net	2,842	4,705
Net cash provided by operating activities	193,561	208,852
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities(A)	683,202	63,899
Proceeds from maturities/pay downs of investment securities(A)	1,323,921	928,075
Purchases of investment securities(A)	(1,710,977)	(1,196,956)
Net increase in loans	(477,902)	(520,767)
Long-term securities purchased under agreements to resell	—	(250,000)
Repayments of long-term securities purchased under agreements to resell	—	450,000
Purchases of land, buildings and equipment	(15,523)	(14,583)
Sales of land, buildings and equipment	3,430	2,074
Net cash used in investing activities	(193,849)	(538,258)
FINANCING ACTIVITIES:		
Net increase (decrease) in non-interest bearing, savings, interest checking and money market deposits	34,287	(272,723)
Net increase (decrease) in time open and C.D.'s	(89,049)	252,702
Repayment of long-term securities sold under agreements to repurchase	—	(150,000)
Net decrease in federal funds purchased and short-term securities sold under agreements to repurchase	(196,475)	(42,235)
Repayment of other long-term borrowings	(215)	(214)
Net decrease in other short-term borrowings	—	(2,000)
Proceeds from issuance of preferred stock	—	144,816
Purchases of treasury stock	(83,575)	(208,989)
Accelerated stock repurchase agreements	(20,000)	(60,000)
Issuance of stock under equity compensation plans	1,890	5,241
Excess tax benefit related to equity compensation plans	1,662	1,091
Cash dividends paid on common stock	(43,105)	(42,921)

Cash dividends paid on preferred stock	(4,500)	—
Net cash used in financing activities	(399,080)	(375,232)
Decrease in cash and cash equivalents	(399,368)	(704,638)
Cash and cash equivalents at beginning of year	1,100,717	1,269,514
Cash and cash equivalents at June 30	$701,349	$564,876
(A) Available for sale and non-marketable securities		
Income tax net payments	$42,077	$45,154
Interest paid on deposits and borrowings	$13,964	$13,942
Loans transferred to foreclosed real estate	$2,133	$3,769
Settlement of accelerated stock repurchase agreement and receipt of treasury stock	$60,000	$—

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

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

1. Principles of Consolidation and Presentation

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

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

The Company invests in low-income housing partnerships which supply funds for the construction and operation of apartment complexes that provide affordable housing to lower income families. As permitted by ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects," issued by the Financial Accounting Standards Board, the Company adopted a new method of accounting for these investments on January 1, 2015. The new method is the practical expedient to the proportional amortization method, which allows the Company to record the amortization of its investments in income tax expense, rather than in non-interest expense. The Company made this change because it believes that presenting the investment performance net of taxes more fairly represents the economics and returns on such investments. The amortization recognized as a component of income tax expense for the six months ended June 30, 2015 was $995 thousand. As required by the ASU, all prior period information in this report has been revised to reflect the adoption, resulting in a decrease to non-interest expense and an increase to income tax expense (as originally reported) of $756 thousand for the six months ended June 30, 2014.

2. Loans and Allowance for Loan Losses

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

(In thousands)	June 30, 2015	December 31, 2014
Commercial:		
Business	$4,267,997	$3,969,952
Real estate – construction and land	448,887	403,507

Real estate – business	2,276,231	2,288,215
Personal Banking:		
Real estate – personal	1,901,671	1,883,092
Consumer	1,848,457	1,705,134
Revolving home equity	430,880	430,873
Consumer credit card	750,731	782,370
Overdrafts	3,627	6,095
Total loans	$11,928,481	$11,469,238

At June 30, 2015, loans of $3.5 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.

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Allowance for loan losses

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

(In thousands)	For the Three Months Ended June 30 Commercial	Personal Banking	Total	For the Six Months Ended June 30 Commercial	Personal Banking	Total
Balance at beginning of period	$88,906	$64,626	$153,532	$89,622	$66,910	$156,532
Provision	(2,361)	9,118	6,757	(4,113)	15,290	11,177
Deductions:						
Loans charged off	1,408	11,297	12,705	2,132	22,873	25,005
Less recoveries on loans	1,192	2,756	3,948	2,952	5,876	8,828
Net loan charge-offs (recoveries)	216	8,541	8,757	(820)	16,997	16,177
Balance June 30, 2015	$86,329	$65,203	$151,532	$86,329	$65,203	$151,532
Balance at beginning of period	$97,881	$63,651	$161,532	$94,189	$67,343	$161,532
Provision	486	7,069	7,555	4,553	12,662	17,215
Deductions:						
Loans charged off	1,218	11,752	12,970	2,348	24,503	26,851
Less recoveries on loans	1,779	3,636	5,415	2,534	7,102	9,636
Net loan charge-offs (recoveries)	(561)	8,116	7,555	(186)	17,401	17,215
Balance June 30, 2014	$98,928	$62,604	$161,532	$98,928	$62,604	$161,532

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

(In thousands)	Impaired Loans Allowance for Loan Losses	Loans Outstanding	All Other Loans Allowance for Loan Losses	Loans Outstanding
June 30, 2015				
Commercial	$1,943	$31,276	$84,386	$6,961,839
Personal Banking	1,813	24,300	63,390	4,911,066
Total	$3,756	$55,576	$147,776	$11,872,905
December 31, 2014				
Commercial	$4,527	$55,551	$85,095	$6,606,123
Personal Banking	2,314	25,537	64,596	4,782,027
Total	$6,841	$81,088	$149,691	$11,388,150

Impaired loans

The table below shows the Company's investment in impaired loans at June 30, 2015 and December 31, 2014. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section on page 14.

(In thousands)	June 30, 2015	Dec. 31, 2014
Non-accrual loans	$26,645	$40,775
Restructured loans (accruing)	28,931	40,313
Total impaired loans	$55,576	$81,088

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

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2015			
With no related allowance recorded:			
Business	$9,779	$11,911	$—
Real estate – construction and land	3,102	8,554	—
Real estate – business	2,213	3,629	—
Real estate – personal	618	815	—
	$15,712	$24,909	$—
With an allowance recorded:			
Business	$7,303	$9,408	$836
Real estate – construction and land	3,658	5,129	321
Real estate – business	5,221	9,299	786
Real estate – personal	8,710	11,832	1,030
Consumer	5,378	5,492	91
Revolving home equity	523	523	21
Consumer credit card	9,071	9,071	671
	$39,864	$50,754	$3,756
Total	$55,576	$75,663	$3,756
December 31, 2014			
With no related allowance recorded:			
Business	$9,237	$11,532	$—
Real estate – construction and land	4,552	8,493	—
Real estate – business	13,453	17,258	—
Revolving home equity	1,227	1,384	—
	$28,469	$38,667	$—
With an allowance recorded:			
Business	$12,326	$13,846	$1,844
Real estate – construction and land	8,148	9,610	1,081
Real estate – business	7,835	15,025	1,602
Real estate – personal	9,096	12,465	1,441
Consumer	4,244	4,244	50
Revolving home equity	529	529	9
Consumer credit card	10,441	10,441	814
	$52,619	$66,160	$6,841
Total	$81,088	$104,827	$6,841

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

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended June 30, 2015			
Non-accrual loans	$25,063	$5,948	$31,011
Restructured loans (accruing)	14,254	18,968	33,222
Total	$39,317	$24,916	$64,233
For the six months ended June 30, 2015			
Non-accrual loans	$28,155	$6,102	$34,257
Restructured loans (accruing)	18,245	19,176	37,421
Total	$46,400	$25,278	$71,678
For the three months ended June 30, 2014			
Non-accrual loans	$35,908	$7,131	$43,039
Restructured loans (accruing)	40,167	20,745	60,912
Total	$76,075	$27,876	$103,951
For the six months ended June 30, 2014			
Non-accrual loans	$38,093	$7,347	$45,440
Restructured loans (accruing)	39,285	21,086	60,371
Total	$77,378	$28,433	$105,811

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands)	2015	2014	2015	2014
Interest income recognized on impaired loans:				
Business	$42	$181	$84	$361
Real estate – construction and land	42	142	84	283
Real estate – business	15	46	30	91
Real estate – personal	48	58	96	115
Consumer	85	71	169	142
Revolving home equity	6	7	11	14
Consumer credit card	179	228	357	456
Total	$417	$733	$831	$1,462

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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 June 30, 2015 and December 31, 2014.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
June 30, 2015					
Commercial:					
Business	$4,252,087	$3,643	$411	$ 11,856	$4,267,997
Real estate – construction and land	438,905	4,903	1,479	3,600	448,887
Real estate – business	2,264,297	6,291	—	5,643	2,276,231
Personal Banking:					
Real estate – personal	1,885,544	8,480	2,201	5,446	1,901,671
Consumer	1,832,142	14,179	2,036	100	1,848,457
Revolving home equity	427,644	1,912	1,324	—	430,880
Consumer credit card	736,213	7,751	6,767	—	750,731
Overdrafts	3,345	282	—	—	3,627
Total	$11,840,177	$47,441	$14,218	$ 26,645	$11,928,481
December 31, 2014					
Commercial:					
Business	$3,946,144	$11,152	$1,096	$ 11,560	$3,969,952
Real estate – construction and land	397,488	827	35	5,157	403,507
Real estate – business	2,266,688	3,661	—	17,866	2,288,215
Personal Banking:					
Real estate – personal	1,868,606	6,618	1,676	6,192	1,883,092
Consumer	1,687,285	16,053	1,796	—	1,705,134
Revolving home equity	428,478	1,552	843	—	430,873
Consumer credit card	764,599	9,559	8,212	—	782,370
Overdrafts	5,721	374	—	—	6,095
Total	$11,365,009	$49,796	$13,658	$ 40,775	$11,469,238

Credit quality

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

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Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate-Business	Total
June 30, 2015				
Pass	$4,179,038	$ 439,769	$2,210,059	$6,828,866
Special mention	46,321	1,111	15,842	63,274
Substandard	30,782	4,407	44,687	79,876
Non-accrual	11,856	3,600	5,643	21,099
Total	$4,267,997	$ 448,887	$2,276,231	$6,993,115
December 31, 2014				
Pass	$3,871,569	$ 385,831	$2,184,541	$6,441,941
Special mention	62,904	3,865	40,668	107,437
Substandard	23,919	8,654	45,140	77,713
Non-accrual	11,560	5,157	17,866	34,583
Total	$3,969,952	$ 403,507	$2,288,215	$6,661,674

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain Personal Banking loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. At June 30, 2015, these were comprised of $246.3 million in personal real estate loans, or 5.0% of the Personal Banking portfolio, compared to $244.3 million at December 31, 2014. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at June 30, 2015 and December 31, 2014 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
June 30, 2015				
FICO score:				
Under 600	1.6 %	4.8 %	1.8 %	3.9 %
600 - 659	3.2	9.7	3.9	11.7
660 - 719	9.7	22.5	13.3	32.4
720 - 779	26.8	26.9	25.7	28.0
780 and over	58.7	36.1	55.3	24.0
Total	100.0 %	100.0 %	100.0 %	100.0 %
December 31, 2014				
FICO score:				
Under 600	1.4 %	5.2 %	1.8 %	4.1 %
600 - 659	3.1	10.2	4.4	11.8
660 - 719	9.9	22.9	13.7	32.4
720 - 779	26.7	28.0	32.8	27.8
780 and over	58.9	33.7	47.3	23.9
Total	100.0 %	100.0 %	100.0 %	100.0 %

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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 $45.4 million at June 30, 2015. Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected, and those non-accrual loans totaled $16.4 million at June 30, 2015. Other performing restructured loans totaled $28.9 million at June 30, 2015. These include certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result the loans were classified as troubled debt restructurings. These commercial loans totaled $10.9 million at June 30, 2015. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs, which totaled $9.1 million at June 30, 2015. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. The Company has classified additional loans as troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. At June 30, 2015, these loans totaled $8.5 million in personal real estate, revolving home equity, and consumer loans. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments under the terms of the loan agreements.

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

(In thousands)	June 30, 2015	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$14,945	$—
Real estate - construction and land	6,418	181
Real estate - business	3,495	—
Personal Banking:		
Real estate - personal	5,606	192
Consumer	5,303	84
Revolving home equity	523	91
Consumer credit card	9,071	693
Total restructured loans	$45,361	$1,241

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

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

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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 $2.2 million at June 30, 2015 to lend additional funds to borrowers with restructured loans.

Loans held for sale

Beginning January 1, 2015, certain long-term fixed rate personal real estate loan originations have been designated as held for sale, and the Company has elected the fair value option for these loans. The election of the fair value option aligns the accounting for these loans with the related economic hedges discussed in Note 10. At June 30, 2015, the fair value of these loans was $7.9 million, and the unpaid principal balance was $7.8 million. The unrealized gain in fair value was recognized in loan fees and sales in the consolidated statement of income. None of these loans were on non-accrual status or 90 days or more past due. Interest income with respect to loans held for sale is accrued based on the principal amount outstanding and the loan's contractual interest rate.

Foreclosed real estate/repossessed assets

The Company’s holdings of foreclosed real estate totaled $4.2 million and $5.5 million at June 30, 2015 and December 31, 2014, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $2.8 million and $2.4 million at June 30, 2015 and December 31, 2014, respectively. These assets are carried at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell.

3. Investment Securities

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

(In thousands)	June 30, 2015	Dec. 31, 2014
Available for sale	$9,221,821	$9,523,560
Trading	18,971	15,357
Non-marketable	108,346	106,875
Total investment securities	$9,349,138	$9,645,792

Most of the Company’s investment securities are classified as available for sale, and this portfolio is discussed in more detail below. Securities which are classified as non-marketable include Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank stock held for debt and regulatory purposes, which totaled $46.7 million at June 30, 2015 and $46.6 million at December 31, 2014. Investment in Federal Reserve Bank stock is based on the capital structure of the investing bank, and investment in FHLB stock is tied to the level of borrowings from the FHLB. Non-marketable securities also include private equity investments, which amounted to $61.3 million at June 30, 2015 and $60.2 million at December 31, 2014.

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

(In thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	$90,775	$91,331
After 1 but within 5 years	167,145	174,685
After 5 but within 10 years	117,077	119,760
After 10 years	52,624	49,090
Total U.S. government and federal agency obligations	427,621	434,866
Government-sponsored enterprise obligations:		
Within 1 year	43,033	43,300
After 1 but within 5 years	481,824	484,932
After 5 but within 10 years	357,783	352,912
After 10 years	5,630	5,357
Total government-sponsored enterprise obligations	888,270	886,501
State and municipal obligations:		
Within 1 year	139,111	139,708
After 1 but within 5 years	657,544	673,868
After 5 but within 10 years	851,707	848,846
After 10 years	159,222	154,679
Total state and municipal obligations	1,807,584	1,817,101
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	2,531,365	2,587,693
Non-agency mortgage-backed securities	682,114	690,938
Asset-backed securities	2,494,905	2,498,506
Total mortgage and asset-backed securities	5,708,384	5,777,137
Other debt securities:		
Within 1 year	3,999	4,063
After 1 but within 5 years	62,023	62,069
After 5 but within 10 years	191,771	187,374
After 10 years	12,000	11,601
Total other debt securities	269,793	265,107
Equity securities	5,678	41,109
Total available for sale investment securities	$9,107,330	$9,221,821

Investments in U.S. government and federal agency obligations are comprised mainly of U.S. Treasury inflation-protected securities, which totaled $434.8 million, at fair value, at June 30, 2015. Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index. Included in state and municipal obligations are $92.9 million, at fair value, of auction rate securities, which were previously purchased from bank customers. Included in equity securities is common and preferred stock held by the holding company, Commerce Bancshares, Inc. (the Parent), with a fair value of $41.1 million at June 30, 2015.

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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
June 30, 2015				
U.S. government and federal agency obligations	$427,621	$11,597	$(4,352)	$434,866
Government-sponsored enterprise obligations	888,270	4,462	(6,231)	886,501
State and municipal obligations	1,807,584	22,700	(13,183)	1,817,101
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,531,365	63,083	(6,755)	2,587,693
Non-agency mortgage-backed securities	682,114	11,079	(2,255)	690,938
Asset-backed securities	2,494,905	7,410	(3,809)	2,498,506
Total mortgage and asset-backed securities	5,708,384	81,572	(12,819)	5,777,137
Other debt securities	269,793	416	(5,102)	265,107
Equity securities	5,678	35,431	—	41,109
Total	$9,107,330	$156,178	$(41,687)	$9,221,821
December 31, 2014				
U.S. government and federal agency obligations	$497,336	$9,095	$(5,024)	$501,407
Government-sponsored enterprise obligations	968,574	2,593	(8,040)	963,127
State and municipal obligations	1,789,215	32,340	(8,354)	1,813,201
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,523,377	75,923	(5,592)	2,593,708
Non-agency mortgage-backed securities	372,911	11,061	(1,228)	382,744
Asset-backed securities	3,090,174	6,922	(5,103)	3,091,993
Total mortgage and asset-backed securities	5,986,462	93,906	(11,923)	6,068,445
Other debt securities	140,784	420	(2,043)	139,161
Equity securities	3,931	34,288	—	38,219
Total	$9,386,302	$172,642	$(35,384)	$9,523,560

The Company’s impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis and analysis is placed on securities whose credit rating has fallen below A3 (Moody's) or A- (Standard & Poor's), whose fair values have fallen more than 20% below purchase price for an extended period of time, or have been identified based on management’s judgment. These securities are placed on a watch list, and for all such securities, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At June 30, 2015, the fair value of securities on this watch list was $109.2 million compared to $123.9 million at December 31, 2014.

As of June 30, 2015, the Company had recorded other-than-temporary impairment (OTTI) on certain non-agency mortgage-backed securities, part of the watch list mentioned above, which had an aggregate fair value of $50.7 million. The cumulative credit-related portion of the impairment on these securities, which was recorded in earnings, totaled $14.2 million. The Company does not intend to sell these securities and believes it is not likely that it will be required to sell the securities before the recovery of their amortized cost.

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

Significant Inputs	Range		
Prepayment CPR	1%	-	25%
Projected cumulative default	18%	-	54%
Credit support	0%	-	20%
Loss severity	21%	-	63%

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

(In thousands)	For the Six Months Ended June 30 2015	2014
Cumulative OTTI credit losses at January 1	$13,734	$12,499
Credit losses on debt securities for which impairment was not previously recognized	76	—
Credit losses on debt securities for which impairment was previously recognized	407	977
Increase in expected cash flows that are recognized over remaining life of security	(51)	(66)
Cumulative OTTI credit losses at June 30	$14,166	$13,410

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
June 30, 2015						
U.S. government and federal agency obligations	$24,495	$ 482	$31,984	$3,870	$56,479	$4,352
Government-sponsored enterprise obligations	193,644	882	157,187	5,349	350,831	6,231
State and municipal obligations	515,521	5,907	124,227	7,276	639,748	13,183
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	214,715	1,417	315,002	5,338	529,717	6,755
Non-agency mortgage-backed securities	369,784	1,861	54,265	394	424,049	2,255
Asset-backed securities	806,300	1,259	144,478	2,550	950,778	3,809
Total mortgage and asset-backed securities	1,390,799	4,537	513,745	8,282	1,904,544	12,819
Other debt securities	202,489	3,998	25,411	1,104	227,900	5,102
Total	$2,326,948	$ 15,806	$852,554	$25,881	$3,179,502	$41,687
December 31, 2014						
U.S. government and federal agency obligations	$90,261	$ 818	$32,077	$4,206	$122,338	$5,024
Government-sponsored enterprise obligations	224,808	922	224,779	7,118	449,587	8,040
State and municipal obligations	172,980	646	215,702	7,708	388,682	8,354
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	55,128	429	381,617	5,163	436,745	5,592
Non-agency mortgage-backed securities	141,655	609	43,659	619	185,314	1,228
Asset-backed securities	1,424,457	2,009	159,098	3,094	1,583,555	5,103
Total mortgage and asset-backed securities	1,621,240	3,047	584,374	8,876	2,205,614	11,923
Other debt securities	16,434	55	80,203	1,988	96,637	2,043
Total	$2,125,723	$ 5,488	$1,137,135	$29,896	$3,262,858	$35,384

The total available for sale portfolio consisted of approximately 2,000 individual securities at June 30, 2015. The portfolio included 514 securities, having an aggregate fair value of $3.2 billion, that were in an unrealized loss position at June 30, 2015, compared to 363 securities, with a fair value of $3.3 billion, at December 31, 2014. The total amount of unrealized losses on these securities increased $6.3 million to $41.7 million at June 30, 2015. At June 30, 2015, the fair value of securities in an unrealized loss position for 12 months or longer totaled $852.6 million, or 9.2% of the total portfolio value, and did not include any securities identified as other-than-temporarily impaired.

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The Company’s holdings of state and municipal obligations included gross unrealized losses of $13.2 million at June 30, 2015. Of these losses, $6.0 million related to auction rate securities and $7.2 million related to other state and municipal obligations. This portfolio, exclusive of auction rate securities, totaled $1.7 billion at fair value, or 18.7% of total available for sale securities. The average credit quality of the portfolio, excluding auction rate securities, is Aa2 as rated by Moody’s. The portfolio is diversified in order to reduce risk, and information about the top five largest holdings, by state and economic sector, is shown in the table below. The Company has processes and procedures in place to monitor its holdings, identify signs of financial distress and, if necessary, exit its positions in a timely manner.

	% of Portfolio	Average Life (in years)	Average Rating (Moody’s)
At June 30, 2015			
Texas	12.6 %	5.8	Aa2
Florida	7.7	4.0	Aa3
Ohio	6.5	5.7	Aa2
New York	6.2	6.4	Aa2
Washington	5.3	5.1	Aa2
General obligation	34.7 %	5.6	Aa2
Lease	19.1	5.6	Aa3
Housing	12.5	3.8	Aa1
Transportation	12.1	4.8	A1
Limited tax	8.4	6.6	Aa2

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

	For the Six Months Ended June 30	
(In thousands)	2015	2014
Proceeds from sales of available for sale securities	$675,870	$30,998
Proceeds from sales of non-marketable securities	7,332	32,901
Total proceeds	$683,202	$63,899
Available for sale:		
Gains realized on sales	$2,813	$—
Losses realized on sales	—	(5,197)
Gain realized on donation	—	1,570
Other-than-temporary impairment recognized on debt securities	(483)	(977)
Non-marketable:		
Gains realized on sales	1,673	1,472
Losses realized on sales	—	(134)
Fair value adjustments, net	4,175	10,745
Investment securities gains, net	$8,178	$7,479

At June 30, 2015, securities totaling $4.6 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 $465.5 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.

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4. Goodwill and Other Intangible Assets

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

(In thousands)	June 30, 2015 Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	December 31, 2014 Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$31,270	$(25,534)	$—	$5,736	$31,270	$(24,698)	$—	$6,572
Mortgage servicing rights	4,113	(2,827)	(44)	1,242	3,693	(2,718)	(97)	878
Total	$35,383	$(28,361)	$(44)	$6,978	$34,963	$(27,416)	$(97)	$7,450

Aggregate amortization expense on intangible assets was $472 thousand and $549 thousand, respectively, for the three month periods ended June 30, 2015 and 2014, and $945 thousand and $1.1 million for the six month periods ended June 30, 2015 and 2014. 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 June 30, 2015. The Company’s actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2015	$1,713
2016	1,339
2017	1,004
2018	762
2019	629

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

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2015	$138,921	$6,572	$878
Originations	—	—	420
Amortization	—	(836)	(109)
Impairment reversal	—	—	53
Balance June 30, 2015	$138,921	$5,736	$1,242

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

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

5. Guarantees

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

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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 June 30, 2015, that net liability was $3.4 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 $330.4 million at June 30, 2015.

The Company periodically enters into risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral and at June 30, 2015, believes sufficient collateral is available to cover potential swap losses. The RPAs are carried at fair value throughout their term with all changes in fair value, including those due to a change in the third party's creditworthiness, recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 3 to 11 years. At June 30, 2015, the fair value of the Company's guarantee liabilities for RPAs was $177 thousand, and the notional amount of the underlying swaps was $67.8 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated but is dependent upon the fair value of the interest rate swaps at the time of default.

6. Pension

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands)	2015	2014	2015	2014
Service cost - benefits earned during the period	$126	$133	$252	$266
Interest cost on projected benefit obligation	1,216	1,262	2,432	2,523
Expected return on plan assets	(1,523)	(1,561)	(3,046)	(3,122)
Amortization of unrecognized net loss	654	360	1,309	720
Net periodic pension cost	$473	$194	$947	$387

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

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7. Common and Preferred Stock *

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands, except per share data)	2015	2014	2015	2014
Basic income per common share:				
Net income attributable to Commerce Bancshares, Inc.	$74,353	$66,531	$135,408	$130,844
Less preferred stock dividends	2,250	—	4,500	—
Net income available to common shareholders	72,103	66,531	130,908	130,844
Less income allocated to nonvested restricted stock	997	856	1,793	1,658
Net income allocated to common stock	$71,106	$65,675	$129,115	$129,186
Weighted average common shares outstanding	94,380	98,206	94,832	98,855
Basic income per common share	$.75	$.67	$1.36	$1.31
Diluted income per common share:				
Net income available to common shareholders	$72,103	$66,531	$130,908	$130,844
Less income allocated to nonvested restricted stock	995	854	1,789	1,653
Net income allocated to common stock	$71,108	$65,677	$129,119	$129,191
Weighted average common shares outstanding	94,380	98,206	94,832	98,855
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	322	403	311	423
Weighted average diluted common shares outstanding	94,702	98,609	95,143	99,278
Diluted income per common share	$.75	$.66	$1.36	$1.30

Unexercised stock options and stock appreciation rights of 359 thousand and 138 thousand were excluded in the computation of diluted income per common share for the six month periods ended June 30, 2015 and 2014, respectively, because their inclusion would have been anti-dilutive.

On June 19, 2014, the Company issued and sold 6,000,000 depositary shares, representing 6,000 shares of 6.00% Series B Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share, having an aggregate liquidation preference of $150.0 million ("Series B Preferred Stock"). Each depositary share has a liquidation preference of $25 per share. Dividends on the Series B Preferred Stock, if declared, accrue and are payable quarterly, in arrears, at a rate of 6.00%. The Series B Preferred Stock qualifies as Tier 1 capital for the purposes of the regulatory capital calculations. In the event that the Company does not declare and pay dividends on the Series B Preferred Stock for the most recent dividend period, the ability of the Company to declare or pay dividends on, purchase, redeem or otherwise acquire shares of its common stock or any securities of the Company that rank junior to the Series B Preferred Stock is subject to certain restrictions under the terms of the Series B Preferred Stock.

The net proceeds from the issuance and sale of the Series B Preferred Stock, totaling approximately $144.8 million, were used to fund an accelerated share repurchase (ASR) program. Under this ASR agreement, the Company paid $200.0 million to Morgan Stanley & Co. LLC (Morgan Stanley) and received from Morgan Stanley 3,208,206 shares of the Company's common stock on June 20, 2014. Final settlement occurred on June 24, 2015, at which time the remaining shares, totaling 1,480,378, were received by the Company. The specific number of shares that the Company ultimately repurchased was based on the volume-weighted-average price per share of the Company's common stock

during the repurchase period.
The Company entered into a second ASR agreement on May 21, 2015, under which it paid $100.0 million to Morgan Stanley and received from Morgan Stanley 1,803,427 shares of common stock, representing approximately 80% of the estimated total number of shares to be delivered by Morgan Stanley at the conclusion of the program. Upon final settlement, which is expected to occur in November 2015, the Company expects to receive the balance of the shares.
* All prior year share and per share amounts in this note have been restated for the 5% common stock dividend distributed in December 2014.

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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, 2015	$3,791	$81,310	$(23,008)	$62,093
Other comprehensive income (loss) before reclassifications	(449)	(19,988)	—	(20,437)
Amounts reclassified from accumulated other comprehensive income	483	(2,813)	1,309	(1,021)
Current period other comprehensive income (loss), before tax	34	(22,801)	1,309	(21,458)
Income tax (expense) benefit	(13)	8,664	(497)	8,154
Current period other comprehensive income (loss), net of tax	21	(14,137)	812	(13,304)
Transfer of unrealized gain on securities for which impairment was not previously recognized	43	(43)	—	—
Balance June 30, 2015	$3,855	$67,130	$(22,196)	$48,789
Balance January 1, 2014	$4,203	$21,303	$(15,775)	$9,731
Other comprehensive income (loss) before reclassifications	(803)	115,774	—	114,971
Amounts reclassified from accumulated other comprehensive income	977	3,627	720	5,324
Current period other comprehensive income, before tax	174	119,401	720	120,295
Income tax expense	(66)	(45,372)	(274)	(45,712)
Current period other comprehensive income, net of tax	108	74,029	446	74,583
Balance June 30, 2014	$4,311	$95,332	$(15,329)	$84,314

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

9. Segments

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

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

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

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/Elimination	Consolidated Totals
Three Months Ended June 30, 2015						
Net interest income	$66,517	$ 73,631	$10,739	$150,887	$ 12,770	$ 163,657
Provision for loan losses	(8,572)	(201)	1	(8,772)	2,015	(6,757)
Non-interest income	30,206	49,618	34,737	114,561	(469)	114,092
Investment securities gains, net	—	—	—	—	2,143	2,143
Non-interest expense	(67,587)	(65,714)	(27,004)	(160,305)	(5,015)	(165,320)
Income before income taxes	$20,564	$ 57,334	$18,473	$96,371	$ 11,444	$ 107,815
Six Months Ended June 30, 2015						
Net interest income	$132,182	$ 144,378	$21,530	$298,090	$ 11,705	$ 309,795
Provision for loan losses	(16,895)	676	8	(16,211)	5,034	(11,177)
Non-interest income	56,600	97,199	68,294	222,093	(1,575)	220,518
Investment securities gains, net	—	—	—	—	8,178	8,178
Non-interest expense	(134,250)	(130,317)	(54,287)	(318,854)	(10,163)	(329,017)
Income before income taxes	$37,637	$ 111,936	$35,545	$185,118	$ 13,179	$ 198,297
Three Months Ended June 30, 2014						
Net interest income	$66,440	$ 71,301	$9,991	$147,732	$ 12,761	$ 160,493
Provision for loan losses	(8,312)	323	533	(7,456)	(99)	(7,555)
Non-interest income	28,825	47,533	31,507	107,865	898	108,763
Investment securities losses, net	—	—	—	—	(2,558)	(2,558)
Non-interest expense	(66,366)	(63,048)	(23,991)	(153,405)	(9,148)	(162,553)
Income before income taxes	$20,587	$ 56,109	$18,040	$94,736	$ 1,854	$ 96,590
Six Months Ended June 30, 2014						
Net interest income	$131,968	$ 142,387	$19,902	$294,257	$ 19,302	$ 313,559
Provision for loan losses	(17,510)	(60)	492	(17,078)	(137)	(17,215)
Non-interest income	54,632	94,637	61,502	210,771	619	211,390
Investment securities gains, net	—	—	—	—	7,479	7,479
Non-interest expense	(131,320)	(124,681)	(48,773)	(304,774)	(19,741)	(324,515)
Income before income taxes	$37,770	$ 112,283	$33,123	$183,176	$ 7,522	$ 190,698

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.

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10. Derivative Instruments

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

(In thousands)	June 30, 2015	December 31, 2014
Interest rate swaps	$874,809	$ 647,709
Interest rate caps	49,914	53,587
Credit risk participation agreements	75,484	75,943
Foreign exchange contracts	13,047	19,791
Mortgage loan commitments	13,683	—
Mortgage loan forward sale contracts	6,267	—
Forward TBA contracts	13,000	—
Total notional amount	$1,046,204	$ 797,030

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

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

The banking customer counterparties are engaged in a variety of businesses, including real estate and building materials, manufacturing, education, communications, retail product distribution, and retirement communities. At June 30, 2015, the largest potential loss exposures were in the groups related to education, real estate, and distribution. If the counterparties in these groups failed to perform, and if the underlying collateral proved to be of no value, the Company estimates that it would incur losses of $1.1 million (education), $3.8 million (real estate), and $1.6 million (distribution) at June 30, 2015.

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

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

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

	Asset Derivatives		Liability Derivatives	
	June 30, 2015	Dec. 31, 2014	June 30, 2015	Dec. 31, 2014
(In thousands)	Fair Value		Fair Value	
Derivative instruments:				
Interest rate swaps	$10,067	$10,144	$(10,067)	$(10,166)
Interest rate caps	30	62	(30)	(62)
Credit risk participation agreements	2	3	(177)	(226)
Foreign exchange contracts	109	248	(33)	(494)
Mortgage loan commitments	353	—	(8)	—
Mortgage loan forward sale contracts	14	—	(13)	—
Forward TBA contracts	46	—	(20)	—
Total	$10,621	$10,457	$(10,348)	$(10,948)

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

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives			
		For the Three Months Ended June 30		For the Six Months Ended June 30	
(In thousands)		2015	2014	2015	2014
Derivative instruments:					
Interest rate swaps	Other non-interest income	$1,627	$366	$2,810	$811
Credit risk participation agreements	Other non-interest income	75	93	48	198
Foreign exchange contracts	Other non-interest income	761	128	322	(42)
Mortgage loan commitments	Loan fees and sales	(63)	—	345	—
Mortgage loan forward sale contracts	Loan fees and sales	4	—	1	—
Forward TBA contracts	Loan fees and sales	390	—	385	—
Total		$2,794	$587	$3,911	$967

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

The Company is party to master netting arrangements with most of its swap derivative counterparties; however, the Company does not offset derivative assets and liabilities under these arrangements on its consolidated balance sheet.

Collateral, usually in the form of marketable securities, is exchanged between the Company and dealer bank counterparties and is generally subject to thresholds and transfer minimums. By contract, it may be sold or re-pledged by the secured party until recalled at a subsequent valuation date by the pledging party. For those swap transactions requiring central clearing, the Company posts cash and securities to its clearing agency. At June 30, 2015, the Company had a net liability position with dealer bank and clearing agency counterparties totaling $7.0 million, and had posted securities with a fair value of $3.4 million and cash totaling $9.9 million. Collateral positions are valued daily, and adjustments to amounts received and pledged by the Company are made as appropriate to maintain proper collateralization for these transactions. Swap derivative transactions with customers are generally secured by rights to non-financial collateral, such as real and personal property, which is not shown in the table below.

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(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Collateral Received/Pledged	Net Amount
June 30, 2015						
Assets:						
Derivatives subject to master netting agreements	$10,145	$—	$10,145	$(45)	$ —	$10,100
Derivatives not subject to master netting agreements	476	—	476			
Total derivatives	10,621	—	10,621			
Liabilities:						
Derivatives subject to master netting agreements	$10,294	$—	$10,294	$(45)	$ (7,580)	$2,669
Derivatives not subject to master netting agreements	54	—	54			
Total derivatives	10,348	—	10,348			
December 31, 2014						
Assets:						
Derivatives subject to master netting agreements	$10,209	$—	$10,209	$(251)	$ —	$9,958
Derivatives not subject to master netting agreements	248	—	248			
Total derivatives	10,457	—	10,457			
Liabilities:						
Derivatives subject to master netting agreements	$10,454	$—	$10,454	$(251)	$ (8,738)	$1,465
Derivatives not subject to master netting agreements	494	—	494			
Total derivatives	10,948	—	10,948			

11. Resale and Repurchase Agreements

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

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

The Company is party to several agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resale agreements with the same financial institution counterparty. These repurchase and resale agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the balance sheet, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled $450.0 million at both June 30, 2015 and December 31, 2014. At June 30, 2015, the Company had posted collateral of $462.0 million in marketable securities, consisting mainly of agency mortgage-backed bonds, and had accepted $490.7 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds.

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				Gross Amounts Not Offset in the Balance Sheet		
(In thousands)	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Financial Instruments	Securities Collateral Received/Pledged	Net Amount
June 30, 2015						
Total resale agreements, subject to master netting arrangements	$1,500,000	$(450,000)	$1,050,000	$—	$ (1,050,000)	$—
Total repurchase agreements, subject to master netting arrangements	2,115,693	(450,000)	1,665,693	—	(1,665,693)	—
December 31, 2014						
Total resale agreements, subject to master netting arrangements	$1,500,000	$(450,000)	$1,050,000	$—	$ (1,049,370)	$630
Total repurchase agreements, subject to master netting arrangements	2,308,678	(450,000)	1,858,678	—	(1,858,678)	—

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

	Remaining Contractual Maturity of the Agreements			
(In thousands)	Overnight and continuous	Up to 90 days	Greater than 90 days	Total
June 30, 2015				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	$124,241	$24,799	$10,219	$159,259
Government-sponsored enterprise obligations	349,799	41,830	22,122	413,751
Agency mortgage-backed securities	340,790	103,537	324,659	768,986
Asset-backed securities	653,697	120,000	—	773,697
Total repurchase agreements, gross amount recognized	$1,468,527	$290,166	$357,000	$2,115,693

12. Stock-Based Compensation

The Company has historically issued stock-based compensation in the form of nonvested restricted stock, stock options and stock appreciation rights (SARs). During the first six months of 2015, stock-based compensation was issued in the form of nonvested restricted stock and SARs. The stock-based compensation expense that has been charged against income was $2.5 million and $2.2 million in the three month periods ended June 30, 2015 and 2014, respectively, and $5.3 million and $4.5 million in the six months ended June 30, 2015 and 2014, respectively.

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

Shares

		Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	1,259,689	$34.41
Granted	208,623	41.60
Vested	(136,747)	29.95
Forfeited	(8,368)	34.46
Nonvested at June 30, 2015	1,323,197	$36.00

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

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

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

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

(Dollars in thousands, except per share data)	Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2015	1,780,578	$33.96		
Granted	240,267	41.40		
Forfeited	(3,485)	39.37		
Expired	(668)	37.33		
Exercised	(362,378)	32.88		
Outstanding at June 30, 2015	1,654,314	$35.27	4.5 years	$19,029

A summary of option activity during the first six months of 2015 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, 2015	68,675	$29.27		
Granted	—	—		
Forfeited	—	—		
Expired	—	—		
Exercised	(67,865)	29.25		
Outstanding at June 30, 2015	810	$31.26	0.2 years	$13

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13. Fair Value Measurements

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

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

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

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

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Instruments Measured at Fair Value on a Recurring Basis

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

(In thousands)	Total Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015				
Assets:				
Residential mortgage loans held for sale	$7,852	$—	$7,852	$—
Available for sale securities:				
U.S. government and federal agency obligations	434,866	434,866	—	—
Government-sponsored enterprise obligations	886,501	—	886,501	—
State and municipal obligations	1,817,101	—	1,724,161	92,940
Agency mortgage-backed securities	2,587,693	—	2,587,693	—
Non-agency mortgage-backed securities	690,938	—	690,938	—
Asset-backed securities	2,498,506	—	2,498,506	—
Other debt securities	265,107	—	265,107	—
Equity securities	41,109	20,272	20,837	—
Trading securities	18,971	—	18,971	—
Private equity investments	58,726	—	—	58,726
Derivatives *	10,621	—	10,266	355
Assets held in trust	9,375	9,375	—	—
Total assets	$9,327,366	$464,513	$8,710,832	$152,021
Liabilities:				
Derivatives *	$10,348	$—	$10,163	$185
Total liabilities	$10,348	$—	$10,163	$185
December 31, 2014				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$501,407	$501,407	$—	$—
Government-sponsored enterprise obligations	963,127	—	963,127	—
State and municipal obligations	1,813,201	—	1,718,058	95,143
Agency mortgage-backed securities	2,593,708	—	2,593,708	—
Non-agency mortgage-backed securities	382,744	—	382,744	—
Asset-backed securities	3,091,993	—	3,091,993	—
Other debt securities	139,161	—	139,161	—
Equity securities	38,219	17,975	20,244	—
Trading securities	15,357	—	15,357	—
Private equity investments	57,581	—	—	57,581
Derivatives *	10,457	—	10,454	3
Assets held in trust	8,848	8,848	—	—
Total assets	$9,615,803	$528,230	$8,934,846	$152,727
Liabilities:				

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

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

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

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

Residential mortgage loans held for sale

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

Available for sale investment securities

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

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

- U.S. government and federal agency obligations

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

- Government-sponsored enterprise obligations

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

- State and municipal obligations, excluding auction rate securities

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

- Mortgage and asset-backed securities

Collateralized mortgage obligations and other asset-backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche-

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specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

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

• Other debt securities

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

• Equity securities

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

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

Trading securities

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

Private equity investments

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

Derivatives

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

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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.

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

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

Assets held in trust

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

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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 June 30, 2015				
Balance March 31, 2015	$93,271	$ 61,162	$ 158	$154,591
Total gains or losses (realized/unrealized):				
Included in earnings	—	875	12	887
Included in other comprehensive income *	(352)	—	—	(352)
Discount accretion	21	—	—	21
Purchases of private equity investments	—	1,437	—	1,437
Sale/pay down of private equity investments	—	(4,800)	—	(4,800)
Capitalized interest/dividends	—	52	—	52
Balance June 30, 2015	$92,940	$ 58,726	$ 170	$151,836
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 June 30, 2015	$—	$ 875	$ 420	$1,295
For the six months ended June 30, 2015				
Balance January 1, 2015	$95,143	$ 57,581	$ (223)	$152,501
Total gains or losses (realized/unrealized):				
Included in earnings	—	4,175	393	4,568
Included in other comprehensive income *	(354)	—	—	(354)
Investment securities called	(2,000)	—	—	(2,000)
Discount accretion	151	—	—	151
Purchases of private equity investments	—	1,653	—	1,653
Sale/pay down of private equity investments	—	(4,800)	—	(4,800)
Capitalized interest/dividends	—	117	—	117
Balance June 30, 2015	$92,940	$ 58,726	$ 170	$151,836
Total gains or losses for the six months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2015	$—	$ 4,175	$ 393	$4,568
For the three months ended June 30, 2014				
Balance March 31, 2014	$126,979	$ 76,446	$ (67)	$203,358
Total gains or losses (realized/unrealized):				
Included in earnings	—	(4,858)	93	(4,765)
Included in other comprehensive income *	5,088	—	—	5,088
Discount accretion	41	—	—	41
Purchases of private equity investments	—	4,000	—	4,000
Sale/pay down of private equity investments	—	(31,409)	—	(31,409)
Capitalized interest/dividends	—	13	—	13
Sale of risk participation agreement	—	—	(214)	(214)
Balance June 30, 2014	$132,108	$ 44,192	$ (188)	$176,112
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 June 30, 2014	$—	$ (4,858)	$ 89	$(4,769)
For the six months ended June 30, 2014				

Balance January 1, 2014	$127,724	$ 56,612	$ (65)	$184,271
Total gains or losses (realized/unrealized):				
Included in earnings	—	11,936	198	12,134
Included in other comprehensive income *	4,304	—	—	4,304
Discount accretion	80	—	—	80
Purchases of private equity investments	—	7,000	—	7,000
Sale/pay down of private equity investments	—	(31,423)	—	(31,423)
Capitalized interest/dividends	—	67	—	67
Sale of risk participation agreement	—	—	(321)	(321)
Balance June 30, 2014	$132,108	$ 44,192	$ (188)	$176,112
Total gains or losses for the six months included in earnings attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2014	$—	$ (6,457)	$ 194	$(6,263)

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

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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 June 30, 2015				
Total gains or losses included in earnings	$(63)	$ 75	$875	$887
Change in unrealized gains or losses relating to assets still held at June 30, 2015	$345	$ 75	$875	$1,295
For the six months ended June 30, 2015				
Total gains or losses included in earnings	$345	$ 48	$4,175	$4,568
Change in unrealized gains or losses relating to assets still held at June 30, 2015	$345	$ 48	$4,175	$4,568
For the three months ended June 30, 2014				
Total gains or losses included in earnings	$—	$ 93	$(4,858)	$(4,765)
Change in unrealized gains or losses relating to assets still held at June 30, 2014	$—	$ 89	$(4,858)	$(4,769)
For the six months ended June 30, 2014				
Total gains or losses included in earnings	$—	$ 198	$11,936	$12,134
Change in unrealized gains or losses relating to assets still held at June 30, 2014	$—	$ 194	$(6,457)	$(6,263)

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, investments in portfolio concerns held by the Company's private equity subsidiaries, and held for sale residential mortgage loan commitments. ARS are included in state and municipal securities and totaled $92.9 million at June 30, 2015, while private equity investments, included in non-marketable securities, totaled $58.7 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		Weighted Average
Auction rate securities	Discounted cash flow	Estimated market recovery period	3	-5 years	
		Estimated market rate	2.0%	-5.0%	
Private equity investments	Market comparable companies	EBITDA multiple	4.0	-5.5	
Mortgage loan commitments	Discounted cash flow	Probability of funding	64.7%	-100.0%	85.2%
		Embedded servicing value	.7%	-1.0%	1.0%

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 are held, and most sales are 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 the ARS portfolio is reviewed on a quarterly basis by the Company's chief investment officers.

The fair values of the Company's private equity investments are based on a determination of fair value of the investee company less 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

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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 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.

The significant unobservable inputs used in the fair value measurement of the Company’s derivative commitments to originate residential mortgage loans are the percentage of commitments that are actually funded and the mortgage servicing value that is inherent in the underlying loan value. A significant increase in the rate of loans that fund would result in a larger derivative asset or liability. A significant increase in the inherent mortgage servicing value would result in an increase in the derivative asset or a reduction in the derivative liability. The probability of funding and the inherent mortgage servicing values are directly impacted by changes in market rates and will generally move in the same direction as interest rates.

Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during the first six months of 2015 and 2014, and still held as of June 30, 2015 and 2014, 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 June 30, 2015 and 2014.

(In thousands)	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) Recognized During the Six Months Ended June 30
June 30, 2015					
Collateral dependent impaired loans	$3,897	$—	$—	$ 3,897	$(1,340)
Mortgage servicing rights	1,242	—	—	1,242	53
Foreclosed assets	608	—	—	608	(162)
Long-lived assets	2,425	—	—	2,425	(1,667)
June 30, 2014					
Collateral dependent impaired loans	$10,603	$—	$—	$ 10,603	$(3,124)
Private equity investments	1,309	—	—	1,309	(1,191)
Mortgage servicing rights	793	—	—	793	1
Foreclosed assets	1,191	—	—	1,191	(319)
Long-lived assets	7,246	—	—	7,246	(1,408)

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 June 30, 2015 and 2014 are shown in the table above.

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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.

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 if the property is held for sale, they are written down to estimated fair value less cost to sell. Fair value is estimated in a process which considers current local commercial real estate market conditions and the judgment of the sales agent and often involves obtaining third party appraisals from certified real estate appraisers. The carrying amounts of these real estate holdings are regularly monitored by real estate professionals employed by the Company. These fair value measurements are classified as Level 3. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. The measurements in 2015 pertained mainly to two branch facility sites which are currently being marketed for sale or re-developed.

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 2014 Annual Report on Form 10-K. There have been no significant changes in these methods and inputs since December 31, 2014.

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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:

(In thousands)	Fair Value Hierarchy Level	June 30, 2015 Carrying Amount	Estimated Fair Value	December 31, 2014 Carrying Amount	Estimated Fair Value
Financial Assets					
Loans:					
Business	Level 3	$4,267,997	$4,282,667	$3,969,952	$3,982,531
Real estate - construction and land	Level 3	448,887	454,531	403,507	407,905
Real estate - business	Level 3	2,276,231	2,308,581	2,288,215	2,315,378
Real estate - personal	Level 3	1,901,671	1,932,967	1,883,092	1,933,456
Consumer	Level 3	1,848,457	1,843,240	1,705,134	1,701,037
Revolving home equity	Level 3	430,880	433,447	430,873	433,508
Consumer credit card	Level 3	750,731	763,226	782,370	794,929
Overdrafts	Level 3	3,627	3,627	6,095	6,095
Loans held for sale	Level 2	7,852	7,852	—	—
Investment securities:					
Available for sale	Level 1	455,138	455,138	519,382	519,382
Available for sale	Level 2	8,673,743	8,673,743	8,909,035	8,909,035
Available for sale	Level 3	92,940	92,940	95,143	95,143
Trading	Level 2	18,971	18,971	15,357	15,357
Non-marketable	Level 3	108,346	108,346	106,875	106,875
Federal funds sold	Level 1	26,875	26,875	32,485	32,485
Securities purchased under agreements to resell	Level 3	1,050,000	1,050,400	1,050,000	1,048,866
Interest earning deposits with banks	Level 1	264,683	264,683	600,744	600,744
Cash and due from banks	Level 1	409,791	409,791	467,488	467,488
Derivative instruments	Level 2	10,266	10,266	10,454	10,454
Derivative instruments	Level 3	355	355	3	3
Financial Liabilities					
Non-interest bearing deposits	Level 1	$6,886,509	$6,886,509	$6,811,959	$6,811,959
Savings, interest checking and money market deposits	Level 1	10,369,031	10,369,031	10,541,601	10,541,601
Time open and certificates of deposit	Level 3	2,033,169	2,031,121	2,122,218	2,121,114
Federal funds purchased	Level 1	350	350	3,840	3,840
Securities sold under agreements to repurchase	Level 3	1,665,693	1,665,751	1,858,678	1,858,731
Other borrowings	Level 3	103,843	110,087	104,058	111,102
Derivative instruments	Level 2	10,163	10,163	10,722	10,722
Derivative instruments	Level 3	185	185	226	226

15. Legal Proceedings

On August 15, 2014, a customer filed a purported class action complaint against the Bank in the Circuit Court, Jackson County, Missouri. The case is Cassandra Warren, et al v. Commerce Bank (Case No. 1416-CV19197). In the case, the customer alleges violation of the Missouri usury statute in connection with the Bank charging overdraft fees in connection with point-of-sale/debit and automated-teller machine cards. The case seeks class-action status for Missouri customers of the Bank who may have been similarly affected. The Company believes the complaint lacks merit and will defend itself vigorously. The amount of any ultimate exposure cannot be determined with certainty at this time.

The Company has various other lawsuits pending at June 30, 2015, 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 determined to be probable and estimable.

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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 2014 Annual Report on Form 10-K. Results of operations for the three and six month periods ended June 30, 2015 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, changes in accounting and tax principles, estimates made on income taxes, competition with other entities that offer financial services, and such other factors as discussed in Part I Item 1A - "Risk Factors" and Part II Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2014 Annual Report on Form 10-K.

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 2014 Annual Report on Form 10-K. There have been no changes in the Company's application of critical accounting policies since December 31, 2014.

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Selected Financial Data

	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014		2015	2014	
Per Share Data						
Net income per common share — basic	$.75	$.67	*	$1.36	$1.31	*
Net income per common share — diluted	.75	.66	*	1.36	1.30	*
Cash dividends on common stock	.225	.214	*	.450	.429	*
Book value per common share				23.26	22.01	*
Market price				46.77	44.29	*
Selected Ratios						
(Based on average balance sheets)						
Loans to deposits (1)	60.75 %	59.71	%	60.24 %	59.53	%
Non-interest bearing deposits to total deposits	34.92	33.13		34.61	33.26	
Equity to loans (1)	20.33	20.33		20.47	20.34	
Equity to deposits	12.35	12.14		12.33	12.11	
Equity to total assets	10.05	10.10		10.05	10.08	
Return on total assets	1.26	1.18		1.15	1.17	
Return on common equity	12.91	11.79		11.81	11.67	
(Based on end-of-period data)						
Non-interest income to revenue (2)	41.08	40.39		41.58	40.27	
Efficiency ratio (3)	59.36	60.16		61.87	61.61	
Tier I common risk-based capital ratio (4)				11.76	NA	
Tier I risk-based capital ratio (4)				12.62	13.39	
Total risk-based capital ratio (4)				13.62	14.58	
Tangible common equity to tangible assets ratio (5)				8.58	8.61	
Tier I leverage ratio (4)				9.08	9.12	

* Restated for the 5% stock dividend distributed in December 2014.
(1) Includes loans held for sale.
(2) Revenue includes net interest income and non-interest income.
(3) The efficiency ratio is calculated as non-interest expense (excluding intangibles amortization) as a percent of revenue.
(4) Risk-based capital information at June 30, 2015 was prepared under Basel III requirements, which were effective January 1, 2015. Risk-based capital information at June 30, 2014 was prepared under Basel I requirements.
(5) The tangible common equity to tangible assets ratio is a measurement which management believes is a useful indicator of capital adequacy and utilization. It provides a meaningful basis for period to period and company to company comparisons, and also assists regulators, investors and analysts in analyzing the financial position of the Company. Tangible common equity and tangible assets are non-GAAP measures and should not be viewed as substitutes for, or superior to, data prepared in accordance with GAAP.

The following table is a reconciliation of the GAAP financial measures of total equity and total assets to the non-GAAP measures of total tangible common equity and total tangible assets.

	June 30	
(Dollars in thousands)	2015	2014
Total equity	$2,315,360	$2,262,153
Less non-controlling interest	5,439	2,378
Less preferred stock	144,784	144,816
Less goodwill	138,921	138,921

Less core deposit premium	5,736	7,456
Total tangible common equity (a)	$2,020,480	$1,968,582
Total assets	$23,705,935	$23,005,179
Less goodwill	138,921	138,921
Less core deposit premium	5,736	7,456
Total tangible assets (b)	$23,561,278	$22,858,802
Tangible common equity to tangible assets ratio (a)/(b)	8.58 %	8.61 %

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Results of Operations

Summary

	Three Months Ended June 30			Six Months Ended June 30		
(Dollars in thousands)	2015	2014	% change	2015	2014	% change
Net interest income	$163,657	$160,493	2.0 %	$309,795	$313,559	(1.2)%
Provision for loan losses	(6,757)	(7,555)	(10.6)	(11,177)	(17,215)	(35.1)
Non-interest income	114,092	108,763	4.9	220,518	211,390	4.3
Investment securities gains (losses), net	2,143					