COMMERCE BANCSHARES INC /MO/
Form 10-Q
May 07, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes 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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth 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 £	Emerging growth company £

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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 May 1, 2018, the registrant had outstanding 106,597,248 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

	March 31, 2018 (Unaudited)	December 31, 2017
	(In thousands)	
ASSETS		
Loans	$13,893,361	$13,983,674
Allowance for loan losses	(159,532)	(159,532)
Net loans	13,733,829	13,824,142
Loans held for sale (including $6,480,000 and $15,327,000 of residential mortgage loans carried at fair value at March 31, 2018 and December 31, 2017, respectively)	16,435	21,398
Investment securities:		
Available for sale debt ($659,378,000 and $662,515,000 pledged at March 31, 2018 and December 31, 2017, respectively, to secure swap and repurchase agreements)	8,432,180	8,725,442
Trading debt	32,025	18,269
Equity	51,512	50,591
Other	108,320	99,005
Total investment securities	8,624,037	8,893,307
Federal funds sold and short-term securities purchased under agreements to resell	17,000	42,775
Long-term securities purchased under agreements to resell	700,000	700,000
Interest earning deposits with banks	134,697	30,631
Cash and due from banks	423,048	438,439
Land, buildings and equipment, net	332,253	335,110
Goodwill	138,921	138,921
Other intangible assets, net	7,893	7,618
Other assets	483,129	401,074
Total assets	$24,611,242	$24,833,415
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	$6,953,430	$7,158,962
Savings, interest checking and money market	11,828,138	11,499,620
Time open and C.D.'s of less than $100,000	615,401	634,646
Time open and C.D.'s of $100,000 and over	1,141,502	1,132,218
Total deposits	20,538,471	20,425,446
Federal funds purchased and securities sold under agreements to repurchase	1,132,329	1,507,138
Other borrowings	9,214	1,758
Other liabilities	225,500	180,889
Total liabilities	21,905,514	22,115,231
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 107,081,397 shares	535,407	535,407

Capital surplus	1,802,785	1,815,360
Retained earnings	325,390	221,374
Treasury stock of 272,802 shares at March 31, 2018 and 276,968 shares at December 31, 2017, at cost	(15,681)	(14,473)
Accumulated other comprehensive income (loss)	(89,563)	14,108
Total Commerce Bancshares, Inc. stockholders' equity	2,703,122	2,716,560
Non-controlling interest	2,606	1,624
Total equity	2,705,728	2,718,184
Total liabilities and equity	$24,611,242	$24,833,415

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Three Months Ended March 31 2018	2017
	(Unaudited)	
INTEREST INCOME		
Interest and fees on loans	$147,015	$128,323
Interest and fees on loans held for sale	304	196
Interest on investment securities	53,242	55,265
Interest on federal funds sold and short-term securities purchased under agreements to resell	180	23
Interest on long-term securities purchased under agreements to resell	4,114	3,793
Interest on deposits with banks	1,140	397
Total interest income	205,995	187,997
INTEREST EXPENSE		
Interest on deposits:		
Savings, interest checking and money market	5,589	3,890
Time open and C.D.'s of less than $100,000	662	644
Time open and C.D.'s of $100,000 and over	2,839	2,763
Interest on federal funds purchased and securities sold under agreements to repurchase	4,001	1,539
Interest on other borrowings	12	888
Total interest expense	13,103	9,724
Net interest income	192,892	178,273
Provision for loan losses	10,396	11,128
Net interest income after provision for loan losses	182,496	167,145
NON-INTEREST INCOME		
Bank card transaction fees	41,453	35,751
Trust fees	36,062	32,014
Deposit account charges and other fees	22,982	21,942
Capital market fees	2,291	2,342
Consumer brokerage services	3,768	3,649
Loan fees and sales	2,862	3,168
Other	10,272	10,747
Total non-interest income	119,690	109,613
INVESTMENT SECURITIES GAINS (LOSSES), NET	5,410	(772)
NON-INTEREST EXPENSE		
Salaries and employee benefits	115,894	112,369
Net occupancy	11,584	11,443
Equipment	4,431	4,609
Supplies and communication	5,313	5,709
Data processing and software	20,690	19,905
Marketing	4,805	3,224
Deposit insurance	3,457	3,471
Community service	729	2,944
Other	15,374	15,703
Total non-interest expense	182,277	179,377

Income before income taxes	125,319	96,609
Less income taxes	23,258	24,907
Net income	102,061	71,702
Less non-controlling interest expense	1,077	198
Net income attributable to Commerce Bancshares, Inc.	100,984	71,504
Less preferred stock dividends	2,250	2,250
Net income available to common shareholders	$98,734	$69,254
Net income per common share — basic	$.92	$.65
Net income per common share — diluted	$.92	$.65

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended March 31	
(In thousands)	2018	2017
	(Unaudited)	
Net income	$102,061	$71,702
Other comprehensive income (loss):		
Net unrealized gains on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	45	95
Net unrealized gains (losses) on other securities	(73,721)	19,002
Pension loss amortization	393	340
Other comprehensive income (loss)	(73,283)	19,437
Comprehensive income	28,778	91,139
Less non-controlling interest expense	1,077	198
Comprehensive income attributable to Commerce Bancshares, Inc.	$27,701	$90,941

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 December 31, 2017	$144,784	$535,407	$1,815,360	$221,374	$(14,473)	$ 14,108	$ 1,624	$2,718,184
Adoption of ASU 2018-02				(2,932)		2,932		—
Adoption of ASU 2016-01				33,320		(33,320)		—
Net income				100,984			1,077	102,061
Other comprehensive income (loss)						(73,283)		(73,283)
Distributions to non-controlling interest							(95)	(95)
Purchases of treasury stock					(17,067)			(17,067)
Issuance of stock under purchase and equity compensation plans			(15,865)		15,859			(6)
Stock-based compensation			3,290					3,290
Cash dividends on common stock ($.235 per share)				(25,106)				(25,106)
Cash dividends on preferred stock ($.375 per depositary share)				(2,250)				(2,250)
Balance March 31, 2018	$144,784	$535,407	$1,802,785	$325,390	$(15,681)	$ (89,563)	$ 2,606	$2,705,728
Balance December 31, 2016	$144,784	$510,015	$1,552,454	$292,849	$(15,294)	$ 10,975	$ 5,349	$2,501,132
Adoption of ASU 2016-09			3,441	(2,144)				1,297
Net income				71,504			198	71,702
Other comprehensive income						19,437		19,437
Distributions to non-controlling interest							(685)	(685)
Purchases of treasury stock					(7,284)			(7,284)
Issuance of stock under purchase and equity compensation plans			(14,996)		14,990			(6)
			3,135					3,135

Stock-based compensation								
Cash dividends on common stock ($.214 per share)				(22,913)				(22,913)
Cash dividends on preferred stock ($.375 per depositary share)				(2,250)				(2,250)
Balance March 31, 2017	$144,784	$510,015	$1,544,034	$337,046	$(7,588)	$ 30,412	$ 4,862	$2,563,565

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 Three Months Ended March 31 2018	2017
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	$102,061	$71,702
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10,396	11,128
Provision for depreciation and amortization	9,620	10,019
Amortization of investment security premiums, net	7,233	9,231
Investment securities (gains) losses, net (A)	(5,410)	772
Net gains on sales of loans held for sale	(1,147)	(866)
Originations of loans held for sale	(44,066)	(34,716)
Proceeds from sales of loans held for sale	49,255	34,446
Net (increase) decrease in trading debt securities	(18,543)	7,763
Stock-based compensation	3,290	3,135
(Increase) decrease in interest receivable	744	(686)
Increase (decrease) in interest payable	(732)	39
Increase in income taxes payable	22,076	21,156
Other changes, net	9,212	5,152
Net cash provided by operating activities	143,989	138,275
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities (A)	148,652	98
Proceeds from maturities/pay downs of investment securities (A)	358,690	483,090
Purchases of investment securities (A)	(298,554)	(482,642)
Net (increase) decrease in loans	78,838	(169,185)
Purchases of land, buildings and equipment	(4,982)	(5,456)
Sales of land, buildings and equipment	718	717
Net cash provided by (used in) investing activities	283,362	(173,378)
FINANCING ACTIVITIES:		
Net increase in non-interest bearing, savings, interest checking and money market deposits	54,986	49,469
Net increase (decrease) in time open and C.D.'s	(9,961)	174,052
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(374,809)	(402,756)
Repayment of long-term borrowings	(74)	(74)
Net increase in short-term borrowings	7,530	—
Purchases of treasury stock	(17,067)	(7,284)
Issuance of stock under equity compensation plans	(6)	(6)
Cash dividends paid on common stock	(25,106)	(22,913)
Cash dividends paid on preferred stock	(2,250)	(2,250)
Net cash used in financing activities	(366,757)	(211,762)
Increase (decrease) in cash, cash equivalents and restricted cash	60,594	(246,865)
Cash, cash equivalents and restricted cash at beginning of year	524,352	801,641
Cash, cash equivalents and restricted cash at March 31	$584,946	$554,776
(A) Available for sale debt securities, equity securities and other securities		
Income tax payments, net	$147	$2,850
Interest paid on deposits and borrowings	$13,835	$9,685
Loans transferred to foreclosed real estate	$1,028	$134

See accompanying notes to consolidated financial statements.

Restricted cash is comprised of cash collateral posted by the Company to secure interest rate swap agreements. This balance is included in other assets in the consolidated balance sheets and totaled $10.2 million and $16.2 million at March 31, 2018 and 2017, respectively.

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 (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 2017 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 month period ended March 31, 2018 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.

These financial statements reflect the adoption of several FASB Accounting Standards Updates (ASUs) on January 1, 2018. In some cases, the adoption of these ASUs resulted in changes to former accounting policies as described in Note 1 to the financial statements in the 2017 Annual Report on Form 10-K. The ASUs which affected the Company's 2018 financial statements include:

- ASU 2014-09, Revenue from Contracts with Customers, which is discussed further in Note 13.
- ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which is discussed further in Note 3 - Investment Securities, Note 8 - Accumulated Other Comprehensive Income, and Note 15 - Fair Value of Financial Instruments.
- ASU 2016-18, Restricted Cash, which requires that the beginning and end of period amounts shown on the statement of cash flows include not only cash and cash equivalents, but also restricted cash and restricted cash equivalents, as considered such by the reporting entity.
- ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which is discussed further in Note 6 - Pension.
- ASU 2018-02, Reclassification for Certain Tax Effects from Accumulated Other Comprehensive Income, which is discussed further in Note 8 - Accumulated Other Comprehensive Income.

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2. Loans and Allowance for Loan Losses

Major classifications within the Company’s held for investment loan portfolio at March 31, 2018 and December 31, 2017 are as follows:

(In thousands)	March 31, 2018	December 31, 2017
Commercial:		
Business	$4,960,614	$4,958,554
Real estate – construction and land	932,058	968,820
Real estate – business	2,724,584	2,697,452
Personal Banking:		
Real estate – personal	2,069,012	2,062,787
Consumer	2,069,235	2,104,487
Revolving home equity	382,825	400,587
Consumer credit card	752,651	783,864
Overdrafts	2,382	7,123
Total loans	$13,893,361	$13,983,674

At March 31, 2018, loans of $3.7 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 $1.7 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three months ended March 31, 2018 and 2017, respectively, follows:

	For the Three Months Ended March 31		
(In thousands)	Commercial	Personal Banking	Total
Balance at January 1	$93,704	$65,828	$159,532
Provision	(894)	11,290	10,396
Deductions:			
Loans charged off	366	13,365	13,731
Less recoveries on loans	621	2,714	3,335
Net loan charge-offs (recoveries)	(255)	10,651	10,396
Balance March 31, 2018	$93,065	$66,467	$159,532
Balance at January 1	$91,361	$64,571	$155,932
Provision	1,113	10,015	11,128
Deductions:			
Loans charged off	546	12,330	12,876
	1,023	2,625	3,648

Less recoveries on loans			
Net loan charge-offs (recoveries)	(477)	9,705	9,228
Balance March 31, 2017	$92,951	$64,881	$157,832

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The following table shows the balance in the allowance for loan losses and the related loan balance at March 31, 2018 and December 31, 2017, disaggregated on the basis of impairment methodology. Impaired loans evaluated under Accounting Standards Codification (ASC) 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

	Impaired Loans		All Other Loans	
(In thousands)	Allowance for Loan Losses	Loans Outstanding	Allowance for Loan Losses	Loans Outstanding
March 31, 2018				
Commercial	$2,391	$ 82,699	$90,674	$8,534,557
Personal Banking	1,107	20,828	65,360	5,255,277
Total	$3,498	$ 103,527	$156,034	$13,789,834
December 31, 2017				
Commercial	$3,067	$ 92,613	$90,637	$8,532,213
Personal Banking	1,176	22,182	64,652	5,336,666
Total	$4,243	$ 114,795	$155,289	$13,868,879

Impaired loans

The table below shows the Company’s investment in impaired loans at March 31, 2018 and December 31, 2017. 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. 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)	Mar. 31, 2018	Dec. 31, 2017
Non-accrual loans	$10,277	$11,983
Restructured loans (accruing)	93,250	102,812
Total impaired loans	$103,527	$114,795

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The following table provides additional information about impaired loans held by the Company at March 31, 2018 and December 31, 2017, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
March 31, 2018			
With no related allowance recorded:			
Business	$ 5,221	$9,000	$ —
Real estate – business	1,299	1,303	—
	$ 6,520	$10,303	$ —
With an allowance recorded:			
Business	$ 64,228	$64,448	$ 1,905
Real estate – construction and land	1,458	1,462	42
Real estate – business	10,493	11,021	444
Real estate – personal	8,589	11,412	415
Consumer	5,415	5,415	52
Revolving home equity	153	153	17
Consumer credit card	6,671	6,671	623
	$ 97,007	$100,582	$ 3,498
Total	$ 103,527	$110,885	$ 3,498
December 31, 2017			
With no related allowance recorded:			
Business	$ 5,356	$9,000	$ —
Real estate – business	1,299	1,303	—
Consumer	779	817	—
	$ 7,434	$11,120	$ —
With an allowance recorded:			
Business	$ 72,589	$73,168	$ 2,455
Real estate – construction and land	837	841	27
Real estate – business	12,532	13,071	585
Real estate – personal	9,126	11,914	532
Consumer	5,388	5,426	67
Revolving home equity	204	204	11
Consumer credit card	6,685	6,685	566
	$ 107,361	$111,309	$ 4,243
Total	$ 114,795	$122,429	$ 4,243

Total average impaired loans for the three month periods ended March 31, 2018 and 2017, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended March 31, 2018			
Non-accrual loans	$ 8,523	$2,928	$11,451
Restructured loans (accruing)	79,258	18,773	98,031
Total	$ 87,781	$21,701	$109,482
For the three months ended March 31, 2017			

Non-accrual loans	$ 10,613	$ 3,509	$ 14,122
Restructured loans (accruing)	31,885	16,204	48,089
Total	$ 42,498	$ 19,713	$ 62,211

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The table below shows interest income recognized during the three month periods ended March 31, 2018 and 2017, respectively, for impaired loans held at the end of each 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 March 31	
(In thousands)	2018	2017
Interest income recognized on impaired loans:		
Business	$760	$263
Real estate – construction and land	24	1
Real estate – business	113	62
Real estate – personal	111	37
Consumer	80	82
Revolving home equity	2	6
Consumer credit card	128	135
Total	$1,218	$586

Delinquent and non-accrual loans

The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at March 31, 2018 and December 31, 2017.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
March 31, 2018					
Commercial:					
Business	$4,928,806	$25,792	$ 459	$ 5,557	$4,960,614
Real estate – construction and land	929,113	2,940	—	5	932,058
Real estate – business	2,717,484	4,554	—	2,546	2,724,584
Personal Banking:					
Real estate – personal	2,059,965	5,962	916	2,169	2,069,012
Consumer	2,044,135	22,374	2,726	—	2,069,235
Revolving home equity	379,309	2,277	1,239	—	382,825
Consumer credit card	734,498	8,565	9,588	—	752,651
Overdrafts	2,123	259	—	—	2,382
Total	$13,795,433	$72,723	$ 14,928	$ 10,277	$13,893,361
December 31, 2017					
Commercial:					
Business	$4,949,148	$3,085	$ 374	$ 5,947	$4,958,554
Real estate – construction and land	967,321	1,473	21	5	968,820
Real estate – business	2,694,234	482	—	2,736	2,697,452
Personal Banking:					
Real estate – personal	2,050,787	6,218	3,321	2,461	2,062,787
Consumer	2,067,025	32,674	3,954	834	2,104,487
Revolving home equity	397,349	1,962	1,276	—	400,587

Consumer credit card	764,568	10,115	9,181	—	783,864
Overdrafts	6,840	283	—	—	7,123
Total	$13,897,272	$56,292	$ 18,127	$ 11,983	$13,983,674

The increase in business loans which were delinquent 30-89 days relates to one borrower who was past due at March 31, 2018 but has subsequently brought the loan to a current status.

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

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trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. It is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well-defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. Loans are placed on "non-accrual" when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment.

Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate-Business	Total
March 31, 2018				
Pass	$4,716,879	$ 919,050	$2,632,074	$8,268,003
Special mention	88,442	10,694	50,925	150,061
Substandard	149,736	2,309	39,039	191,084
Non-accrual	5,557	5	2,546	8,108
Total	$4,960,614	$ 932,058	$2,724,584	$8,617,256
December 31, 2017				
Pass	$4,740,013	$ 955,499	$2,593,005	$8,288,517
Special mention	59,177	10,614	50,577	120,368
Substandard	153,417	2,702	51,134	207,253
Non-accrual	5,947	5	2,736	8,688
Total	$4,958,554	$ 968,820	$2,697,452	$8,624,826

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 real estate loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. These loans totaled $216.2 million at March 31, 2018 and $219.2 million at December 31, 2017. The table also excludes consumer loans related to the Company's patient healthcare loan program, which totaled $148.9 million at March 31, 2018 and $145.0 million at December 31, 2017. As the healthcare loans are guaranteed by the hospital, FICO scores are not considered relevant for this program. The personal real estate loans and consumer loans excluded below totaled less than 7% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at March 31, 2018 and December 31, 2017 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
March 31, 2018				
FICO score:				
Under 600	1.3 %	3.5 %	1.1 %	5.2 %
600 - 659	1.7	5.3	1.7	15.1
660 - 719	10.0	17.3	9.1	36.1
720 - 779	26.0	26.9	23.2	25.6

780 and over	61.0		47.0		64.9		18.0	
Total	100.0	%	100.0	%	100.0	%	100.0	%
December 31, 2017								
FICO score:								
Under 600	1.3	%	3.3	%	1.1	%	4.7	%
600 - 659	2.1		5.5		1.7		14.4	
660 - 719	10.5		17.3		9.5		34.4	
720 - 779	25.6		26.8		21.4		26.0	
780 and over	60.5		47.1		66.3		20.5	
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, as shown in the table below. 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. Other performing restructured loans are comprised of certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result were classified as troubled debt restructurings. These 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. 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 also classified certain loans as troubled debt restructings because they were not reaffirmed by the borrower in bankruptcy proceedings. These loans are comprised of 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.

(In thousands)	March 31, 2018	December 31, 2017
Accruing loans:		
Non-market interest rates	$77,922	$ 88,588
Assistance programs	6,671	6,685
Bankruptcy non-affirmation	8,386	7,283
Other	271	256
Non-accrual loans	7,619	7,796
Total troubled debt restructurings	$100,869	$ 110,608

The table below shows the balance of troubled debt restructurings by loan classification at March 31, 2018, in addition to the outstanding balances of these restructured loans which the Company considers to have been in default at any time during the past twelve months. For purposes of this disclosure, the Company considers "default" to mean 90 days or more past due as to interest or principal.

(In thousands)	March 31, 2018	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$69,156	$ 43
Real estate - construction and land	1,399	—
Real estate - business	10,546	1,299
Personal Banking:		
Real estate - personal	7,476	389
Consumer	5,469	106
Revolving home equity	152	74
Consumer credit card	6,671	744

Total troubled debt restructurings	$ 100,869	$ 2,655

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 $896 thousand 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

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collect under contractual terms. Performing commercial loans have had no other concessions granted other than being renewed at an interest rate judged not to be market. As such, they have similar risk characteristics as non-troubled debt commercial loans and are collectively evaluated based on internal risk rating, loan type, delinquency, historical experience and current economic factors. Performing personal banking loans classified as troubled debt restructurings resulted from the borrower not reaffirming the debt during bankruptcy and have had no other concession granted, other than the Bank's future limitations on collecting payment deficiencies or in pursuing foreclosure actions. As such, they have similar risk characteristics as non-troubled debt personal banking loans and are evaluated collectively based on loan type, delinquency, historical experience and current economic factors.

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

The Company had commitments of $10.6 million at March 31, 2018 to lend additional funds to borrowers with restructured loans.

Loans held for sale
The Company designates certain long-term fixed rate personal real estate loans 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. The loans are primarily sold to FNMA, FHLMC, and GNMA. At March 31, 2018, the fair value of these loans was $6.5 million, and the unpaid principal balance was $6.3 million.

The Company also designates student loan originations as held for sale. The borrowers are credit-worthy students who are attending colleges and universities. The loans are intended to be sold in the secondary market, and the Company maintains contracts with Sallie Mae to sell the loans within 210 days after the last disbursement to the student. These loans are carried at lower of cost or fair value, which at March 31, 2018 totaled $10.0 million.

At March 31, 2018, none of the loans held for sale were on non-accrual status or 90 days past due and still accruing.

Foreclosed real estate/repossessed assets
The Company’s holdings of foreclosed real estate totaled $1.3 million and $681 thousand at March 31, 2018 and December 31, 2017, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $3.1 million and $2.7 million at March 31, 2018 and December 31, 2017, respectively. Upon acquisition, these assets are recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. They are subsequently carried at the lower of this cost basis or fair value less estimated selling costs.

3. Investment Securities
Investment securities as shown in this report reflect revised categories as required by the Company’s adoption of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”, on January 1, 2018. That new guidance refined the definition of equity securities and required their segregation from available for sale debt securities. For comparability purposes, prior period disclosures in this report have been revised to show the new categorization.

(In thousands)	March 31, 2018	December 31, 2017
Available for sale debt securities	$8,432,180	$8,725,442
Trading debt securities	32,025	18,269

Equity securities:		
Readily determinable fair value	49,784	48,838
No readily determinable fair value	1,728	1,753
Other:		
Federal Reserve Bank stock	33,369	33,253
Federal Home Loan Bank stock	10,000	10,000
Private equity investments	64,951	55,752
Total investment securities	$8,624,037	$8,893,307

While changes in the fair value of available for sale debt securities continue to be recorded in the equity category of accumulated other comprehensive income, the new guidance requires changes in the fair value of equity securities to be recorded in current

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earnings. As required by the new guidance, the unrealized gain in fair value on equity securities (recorded in accumulated other comprehensive income at December 31, 2017) was reclassified to retained earnings on January 1, 2018. The amount of the reclassification was $33.3 million, net of tax.

Equity securities include common and preferred stock with readily determinable fair values that totaled $4.4 million at cost and $49.8 million at fair value at March 31, 2018. The majority of these securities are expected to be redeemed for cash in a third party merger transaction expected to occur by the end of the third quarter of 2018. The portion of unrealized net gains on equity securities recognized in current earnings during the first quarter of 2018, which related to securities still held at March 31, 2018, totaled $947 thousand.

Equity securities also include securities with a carrying value of $1.7 million that do not have readily determinable fair values. The Company has elected, under the ASU, to measure these at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or similar investment of the same issuer. The Company did not record any impairment or other adjustments to the carrying amount of these investments during the period.

Other investment securities whose accounting is not addressed in the ASU include Federal Reserve Bank (FRB) stock, Federal Home Loan Bank (FHLB) stock, and investments in portfolio concerns held by the Company's private equity subsidiaries. FRB stock and FHLB stock are held for debt and regulatory purposes. Investment in FRB 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. These holdings are carried at cost. The private equity investments, in the absence of readily ascertainable market values, are carried at estimated fair value.

The majority of the Company’s investment portfolio is comprised of available for sale debt securities, which are carried at fair value with changes in fair value reported in accumulated other comprehensive income. A summary of the available for sale debt securities by maturity groupings as of March 31, 2018 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 but are collateralized by commercial and residential mortgages. 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.

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(In thousands)	Amortized Cost	Fair Value
U.S. government and federal agency obligations:		
Within 1 year	$52,205	$52,521
After 1 but within 5 years	644,016	636,542
After 5 but within 10 years	156,769	154,484
After 10 years	68,835	68,376
Total U.S. government and federal agency obligations	921,825	911,923
Government-sponsored enterprise obligations:		
Within 1 year	193,937	193,623
After 1 but within 5 years	121,580	120,181
After 5 but within 10 years	34,983	34,152
After 10 years	42,831	40,643
Total government-sponsored enterprise obligations	393,331	388,599
State and municipal obligations:		
Within 1 year	157,082	157,746
After 1 but within 5 years	567,474	569,318
After 5 but within 10 years	649,164	646,866
After 10 years	43,729	42,915
Total state and municipal obligations	1,417,449	1,416,845
Mortgage and asset-backed securities:		
Agency mortgage-backed securities	3,003,975	2,954,994
Non-agency mortgage-backed securities	966,401	960,612
Asset-backed securities	1,476,947	1,466,035
Total mortgage and asset-backed securities	5,447,323	5,381,641
Other debt securities:		
Within 1 year	3,999	3,981
After 1 but within 5 years	262,778	258,315
After 5 but within 10 years	73,723	70,876
Total other debt securities	340,500	333,172
Total available for sale debt securities	$8,520,428	$8,432,180

Investments in U.S. government and federal agency obligations include U.S. Treasury inflation-protected securities, which totaled $442.4 million, at fair value, at March 31, 2018. 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 $17.2 million, at fair value, of auction rate securities, which were purchased from bank customers in 2008. Interest on these bonds is currently being paid at the maximum failed auction rates.

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
U.S. government and federal agency obligations	$921,825	$ 1,617	$(11,519)	$911,923
Government-sponsored enterprise obligations	393,331	—	(4,732)	388,599
State and municipal obligations	1,417,449	7,572	(8,176)	1,416,845
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,003,975	8,074	(57,055)	2,954,994
Non-agency mortgage-backed securities	966,401	6,530	(12,319)	960,612
Asset-backed securities	1,476,947	2,323	(13,235)	1,466,035
Total mortgage and asset-backed securities	5,447,323	16,927	(82,609)	5,381,641
Other debt securities	340,500	9	(7,337)	333,172
Total	$8,520,428	$ 26,125	$(114,373)	$8,432,180
December 31, 2017				
U.S. government and federal agency obligations	$917,494	$ 4,096	$(4,443)	$917,147
Government-sponsored enterprise obligations	408,266	26	(1,929)	406,363
State and municipal obligations	1,592,707	21,413	(2,754)	1,611,366
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,046,701	17,956	(23,744)	3,040,913
Non-agency mortgage-backed securities	903,920	6,710	(4,837)	905,793
Asset-backed securities	1,495,380	2,657	(5,237)	1,492,800
Total mortgage and asset-backed securities	5,446,001	27,323	(33,818)	5,439,506
Other debt securities	350,988	1,250	(1,178)	351,060
Total	$8,715,456	$ 54,108	$(44,122)	$8,725,442

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 who have been identified based on management’s judgment. These securities are placed on a watch list, and for all such securities, cash flow analyses are prepared. For more complex analyses, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At March 31, 2018, the fair value of securities on this watch list was $62.8 million compared to $68.0 million at December 31, 2017.

As of March 31, 2018, 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 $24.8 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

March 31, 2018 included the following:

Significant Inputs	Range
Prepayment CPR	0% - 25%
Projected cumulative default	15% - 52%
Credit support	0% - 63%
Loss severity	15% - 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 Three Months Ended March 31 2018	2017
Cumulative OTTI credit losses at January 1	$14,199	$14,080
Credit losses on debt securities for which impairment was not previously recognized	58	—
Credit losses on debt securities for which impairment was previously recognized	10	109
Increase in expected cash flows that are recognized over remaining life of security	(54)	(73)
Cumulative OTTI credit losses at March 31	$14,213	$14,116

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

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2018						
U.S. government and federal agency obligations	$653,945	$ 9,647	$59,435	$ 1,872	$713,380	$ 11,519
Government-sponsored enterprise obligations	338,752	4,588	49,847	144	388,599	4,732
State and municipal obligations	529,699	6,427	44,474	1,749	574,173	8,176
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	1,922,859	35,455	591,341	21,600	2,514,200	57,055
Non-agency mortgage-backed securities	729,615	9,447	137,775	2,872	867,390	12,319
Asset-backed securities	884,800	11,101	207,087	2,134	1,091,887	13,235
Total mortgage and asset-backed securities	3,537,274	56,003	936,203	26,606	4,473,477	82,609
Other debt securities	305,412	6,462	19,779	875	325,191	7,337
Total	$5,365,082	$ 83,127	$1,109,738	$ 31,246	$6,474,820	$ 114,373
December 31, 2017						
U.S. government and federal agency obligations	$618,617	$ 4,443	$—	$ —	$618,617	$ 4,443
Government-sponsored enterprise obligations	286,393	1,712	49,766	217	336,159	1,929
State and municipal obligations	282,843	1,752	49,339	1,002	332,182	2,754
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	1,320,689	9,433	619,300	14,311	1,939,989	23,744
Non-agency mortgage-backed securities	577,017	2,966	153,813	1,871	730,830	4,837
Asset-backed securities	786,048	3,168	264,295	2,069	1,050,343	5,237
Total mortgage and asset-backed securities	2,683,754	15,567	1,037,408	18,251	3,721,162	33,818
Other debt securities	144,090	727	20,202	451	164,292	1,178
Total	$4,015,697	$ 24,201	$1,156,715	$ 19,921	$5,172,412	$ 44,122

The available for sale debt portfolio included $6.5 billion of securities that were in a loss position at March 31, 2018, compared to $5.2 billion at December 31, 2017. The total amount of unrealized loss on these securities was $114.4 million at March 31, 2018, an increase of $70.3 million compared to the loss at December 31, 2017. This increase in losses was mainly due to a rising rate environment.

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

	For the Three Months Ended March 31	
(In thousands)	2018	2017
Proceeds from sales of securities:		
Available for sale debt securities	$148,637	$—
Equity securities	15	—
Other	—	98
Total proceeds	$148,652	$98
Investment securities gains (losses), net:		
Available for sale debt securities:		
Gains realized on sales	$212	$—
Gains realized on donations of securities	—	2,157
Other-than-temporary impairment recognized on debt securities	(68)	(109)
Equity securities:		
Gains realized on sales	14	—
Fair value adjustments, net	947	—
Other:		
Gains realized on sales	—	58
Fair value adjustments, net	4,305	(2,878)
Total investment securities gains (losses), net	$5,410	$(772)

At March 31, 2018, securities totaling $3.7 billion in fair value were pledged to secure public fund deposits, securities sold under agreements to repurchase, trust funds, and borrowings at the FRB and FHLB. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated $659.4 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.

	March 31, 2018				December 31, 2017			
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$31,270	$ (28,482)	$ —	$ 2,788	$31,270	$ (28,305)	$ —	$ 2,965
Mortgage servicing rights	8,493	(3,388)	—	5,105	7,906	(3,244)	(9)	4,653
Total	$39,763	$ (31,870)	$ —	$ 7,893	$39,176	$ (31,549)	$ (9)	$ 7,618

Aggregate amortization expense on intangible assets was $321 thousand and $348 thousand for the three month periods ended March 31, 2018 and 2017, respectively. The following table shows the estimated annual amortization expense for the next five fiscal years. This expense is based on existing asset balances and the interest rate environment as of March 31, 2018. 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)	
2018	$ 1,202
2019	1,043
2020	893
2021	777
2022	684

Changes in the carrying amount of goodwill and net other intangible assets for the three month period ended March 31, 2018 are as follows:

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance January 1, 2018	$138,921	$ 2,965	$ 4,653
Originations	—	—	587
Amortization	—	(177)	(144)
Impairment reversal	—	—	9
Balance March 31, 2018	$138,921	$ 2,788	$ 5,105

Goodwill allocated to the Company’s operating segments at March 31, 2018 and December 31, 2017 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.

Upon issuance of standby letters of credit, the Company recognizes a liability for the fair value of the obligation undertaken, which is estimated to be equivalent to the amount of fees received from the customer over the life of the agreement. At March 31, 2018, that net liability was $2.3 million, which will be accreted into income over the remaining life of the respective commitments. The contractual amount of these letters of credit, which represents the maximum potential future payments guaranteed by the Company, was $389.6 million at March 31, 2018.

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The Company periodically enters into credit risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral and at March 31, 2018, 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 2 to 11 years. At March 31, 2018, the fair value of the Company's guarantee liabilities for RPAs was $91 thousand, and the notional amount of the underlying swaps was $103.9 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated but is dependent upon the fair value of the interest rate swaps at the time of default.

6. Pension

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

	For the Three Months Ended March 31	
(In thousands)	2018	2017
Service cost - benefits earned during the period	$153	$129
Interest cost on projected benefit obligation	950	973
Expected return on plan assets	(1,437)	(1,438)
Amortization of prior service cost	(68)	(68)
Amortization of unrecognized net loss	592	617
Net periodic pension cost	$190	$213

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 three months of 2018, 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 2018.

The Company adopted ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", on January 1, 2018. This guidance requires that the service cost component of net periodic pension cost be reported in the same income statement line item as other compensation costs, while other components of net periodic pension cost be reported separately from the service cost component. Historically, the Company has reported all components of pension cost in salaries and employee benefits. Beginning in 2018, only the service cost component has been included in this category, and the other components have been recorded in other non-interest expense. Prior period financial statements have not been revised because the amount of the reclassification was not significant.

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7. Common Stock *

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

	For the Three Months Ended March 31	
(In thousands, except per share data)	2018	2017
Basic income per common share:		
Net income attributable to Commerce Bancshares, Inc.	$100,984	$71,504
Less preferred stock dividends	2,250	2,250
Net income available to common shareholders	98,734	69,254
Less income allocated to nonvested restricted stock	1,121	945
Net income allocated to common stock	$97,613	$68,309
Weighted average common shares outstanding	105,634	105,389
Basic income per common share	$.92	$.65
Diluted income per common share:		
Net income available to common shareholders	$98,734	$69,254
Less income allocated to nonvested restricted stock	1,118	942
Net income allocated to common stock	$97,616	$68,312
Weighted average common shares outstanding	105,634	105,389
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	332	416
Weighted average diluted common shares outstanding	105,966	105,805
Diluted income per common share	$.92	$.65

Unexercised stock appreciation rights of 264 thousand and 90 thousand were excluded in the computation of diluted income per common share for the three month periods ended March 31, 2018 and 2017, respectively, because their inclusion would have been anti-dilutive.

* All prior year share and per share amounts in this note have been restated for the 5% common stock dividend distributed in December 2017.

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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 debt 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	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)	OTTI	Other		
Balance January 1, 2018	$3,411	$30,326	$(19,629)	$ 14,108
ASU 2018-02 Reclassification of tax rate change	715	6,359	(4,142)	2,932
ASU 2016-01 Reclassification of unrealized gain on equity securities	—	(33,320)	—	(33,320)
Other comprehensive income (loss) before reclassifications to current earnings	(8)	(98,081)	—	(98,089)
Amounts reclassified to current earnings from accumulated other comprehensive income	68	(212)	524	380
Current period other comprehensive income (loss), before tax	60	(98,293)	524	(97,709)
Income tax (expense) benefit	(15)	24,572	(131)	24,426
Current period other comprehensive income (loss), net of tax	45	(73,721)	393	(73,283)
Transfer of unrealized gain on securities for which impairment was not previously recognized	12	(12)	—	—
Balance March 31, 2018	$4,183	$(70,368)	$(23,378)	$ (89,563)
Balance January 1, 2017	$2,975	$27,328	$(19,328)	$ 10,975
Other comprehensive income before reclassifications to current earnings	44	32,805	—	32,849
Amounts reclassified to current earnings from accumulated other comprehensive income	109	(2,157)	549	(1,499)
Current period other comprehensive income, before tax	153	30,648	549	31,350
Income tax expense	(58)	(11,646)	(209)	(11,913)
Current period other comprehensive income, net of tax	95	19,002	340	19,437
Balance March 31, 2017	$3,070	$46,330	$(18,988)	$ 30,412

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

The requirement to revalue deferred tax assets and liabilities in the period of enactment stranded the effects of the tax rate change, mandated by the Tax Cuts and Jobs Act, in accumulated other comprehensive income. In response, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”, which the Company adopted on January 1, 2018. This ASU allowed the reclassification of the stranded tax effects from accumulated other comprehensive income (as shown in the table above) to retained earnings.

As mentioned in Note 3, additional new accounting guidance, which was effective January 1, 2018, required the reclassification of unrealized gains on equity securities from accumulated other comprehensive income to retained earnings (also shown above).

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 consists of various consumer loan and deposit products offered through its retail branch network of approximately 180 locations. This segment also includes indirect and other consumer loan financing businesses, along with debit and credit card loan and fee businesses. Residential mortgage origination, sales and servicing functions are included in this Consumer segment, but residential mortgage loans retained by the Company are not considered part of this segment. The Commercial segment provides corporate lending, leasing, and international services, along with business and governmental deposit products and commercial cash management services. This segment includes both merchant and commercial bank card products. It also includes the Capital Markets Group which sells fixed income securities and provides safekeeping and accounting services to its business and correspondent bank customers. The Wealth segment provides traditional trust and estate planning, advisory and discretionary investment management, and brokerage services. This segment also provides various loan and deposit related services to its private banking customers.

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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. Management periodically makes changes to methods of assigning costs and income to its business segments to better reflect operating results. If appropriate, these changes are reflected in prior year information presented below.

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/Elimination	Consolidated Totals
Three Months Ended March 31, 2018						
Net interest income	$71,437	$82,095	$11,445	$164,977	$27,915	$192,892
Provision for loan losses	(10,515)	180	(64)	(10,399)	3	(10,396)
Non-interest income	30,216	49,211	42,101	121,528	(1,838)	119,690
Investment securities gains, net	—	—	—	—	5,410	5,410
Non-interest expense	(70,171)	(72,798)	(31,859)	(174,828)	(7,449)	(182,277)
Income before income taxes	$20,967	$58,688	$21,623	$101,278	$24,041	$125,319
Three Months Ended March 31, 2017						
Net interest income	$67,354	$79,870	$11,844	$159,068	$19,205	$178,273
Provision for loan losses	(9,662)	513	(23)	(9,172)	(1,956)	(11,128)
Non-interest income	27,163	44,910	37,706	109,779	(166)	109,613
Investment securities losses, net	—	—	—	—	(772)	(772)
Non-interest expense	(67,417)	(70,365)	(30,319)	(168,101)	(11,276)	(179,377)
Income before income taxes	$17,438	$54,928	$19,208	$91,574	$5,035	$96,609

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 procedures and methods, which have been developed to reflect the underlying economics of the businesses. The methodologies are 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)	March 31, 2018	December 31, 2017
Interest rate swaps	$1,787,029	$ 1,741,412
Interest rate caps	31,630	31,776
Credit risk participation agreements	153,219	133,488
Foreign exchange contracts	10,907	11,826
Mortgage loan commitments	16,297	17,110
Mortgage loan forward sale contracts	688	2,566
Forward TBA contracts	16,500	25,000
Total notional amount	$2,016,270	$ 1,963,178

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 regulated clearinghouse who becomes the Company's legal 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 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.

Under its program to sell residential mortgage loans in the secondary market, the Company designates certain newly-originated residential mortgage loans as held for sale. Derivative instruments arising from this activity include mortgage loan commitments and forward loan 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 TBA 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. Information about the valuation methods used to determine fair value is provided in Note 15 on Fair Value Measurements in the 2017 Annual Report on Form 10-K.

The Company's policy is to present its derivative assets and derivative liabilities on a gross basis in its consolidated balance sheets, and these are reported in other assets and other liabilities. However, in January 2017, a clearinghouse rule change required that variation margin on centrally cleared derivatives, formerly treated as collateral, be treated as settlements of derivative exposure. As a result, the fair values of the respective derivative contracts must be reduced by variation margin payments and reported as a single, net amount. Accordingly, at March 31, 2018 in the table below, the positive fair values of cleared swaps were reduced by $12.2 million and the negative fair values of cleared swaps were reduced by $484 thousand. At December 31, 2017, the positive fair values of cleared swaps were reduced by $4.5 million and the negative fair values of cleared swaps were reduced by $4.3 million.

	Asset Derivatives		Liability Derivatives	
	Mar. 31, 2018	Dec. 31, 2017	Mar. 31, 2018	Dec. 31, 2017
(In thousands)	Fair Value		Fair Value	
Derivative instruments:				
Interest rate swaps	$4,403	$7,674	$(16,120)	$(7,857)
Interest rate caps	26	16	(26)	(16)
Credit risk participation agreements	29	46	(91)	(123)
Foreign exchange contracts	51	21	(61)	(40)
Mortgage loan commitments	582	580	—	—
Mortgage loan forward sale contracts	1	8	—	(7)
Forward TBA contracts	—	4	(75)	(31)
Total	$5,092	$8,349	$(16,373)	$(8,074)

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

	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		For the Three Months Ended March 31	
(In thousands)		2018	2017
Derivative instruments:			
Interest rate swaps	Other non-interest income	$505	$143
Credit risk participation agreements	Other non-interest income	164	10
Foreign exchange contracts	Other non-interest income	9	(20)
Mortgage loan commitments	Loan fees and sales	1	554
Mortgage loan forward sale contracts	Loan fees and sales	—	66
Forward TBA contracts	Loan fees and sales	542	(98)
Total		$1,221	$655

The following table shows the extent to which assets and liabilities relating to derivative instruments have been offset in the consolidated balance sheets. It also provides 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 this 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. Most of the derivatives in the following table were transacted under master netting arrangements that contain a conditional right of offset, such as close-out netting, upon default.

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Collateral exchanged between the Company and dealer bank counterparties is generally subject to thresholds and transfer minimums, and usually consists of marketable securities. By contract, these 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 or securities to its clearing agent. 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.

				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 Available for Offset	Collateral Received/Pledged	Net Amount
March 31, 2018						
Assets:						
Derivatives subject to master netting agreements	$ 4,471	$ —	$ 4,471	$ (451)	$ (1,505)	$ 2,515
Derivatives not subject to master netting agreements	621	—	621			
Total derivatives	5,092	—	5,092			
Liabilities:						
Derivatives subject to master netting agreements	$ 16,237	$ —	$ 16,237	$ (451)	$ (1,188)	$ 14,598
Derivatives not subject to master netting agreements	136	—	136			
Total derivatives	16,373	—	16,373			
December 31, 2017						
Assets:						
Derivatives subject to master netting agreements	$ 7,726	$ —	$ 7,726	$ (233)	$ (824)	$ 6,669
Derivatives not subject to master netting agreements	623	—	623			
Total derivatives	8,349	—	8,349			
Liabilities:						
Derivatives subject to master netting agreements	$ 7,935	$ —	$ 7,935	$ (233)	$ (1,570)	$ 6,132
Derivatives not subject to master netting agreements	139	—	139			
Total derivatives	8,074	—	8,074			

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.

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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 consolidated balance sheets, as permitted under the netting provisions of ASC 210-20-45. The collateral swaps totaled $650.0 million at both March 31, 2018 and December 31, 2017. At March 31, 2018, the Company had posted collateral of $659.1 million in marketable securities, consisting of agency mortgage-backed bonds and treasuries, and had accepted $659.8 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds.

				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 Available for Offset	Securities Collateral Received/Pledged	Net Amount
March 31, 2018						
Total resale agreements, subject to master netting arrangements	$1,350,000	$(650,000)	$700,000	$ —	$(700,000)	$ —
Total repurchase agreements, subject to master netting arrangements	1,677,389	(650,000)	1,027,389	—	(1,027,389)	—
December 31, 2017						
Total resale agreements, subject to master netting arrangements	$1,350,000	$(650,000)	$700,000	$ —	$(700,000)	$ —
Total repurchase agreements, subject to master netting arrangements	1,954,768	(650,000)	1,304,768	—	(1,304,768)	—

The table below shows the remaining contractual maturities of repurchase agreements outstanding at March 31, 2018 and December 31, 2017, 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
March 31, 2018				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	$217,927	$100,000	$350,000	$667,927
Government-sponsored enterprise obligations	91,930	—	—	91,930
Agency mortgage-backed securities	486,517	16,500	200,000	703,017
Non-agency mortgage-backed securities	13,514	—	—	13,514
Asset-backed securities	73,542	65,000	—	138,542
Other debt securities	62,459	—	—	62,459
Total repurchase agreements, gross amount recognized	$945,889	$181,500	$550,000	$1,677,389
December 31, 2017				
Repurchase agreements, secured by:				
U.S. government and federal agency obligations	$271,820	$1,731	$450,000	$723,551

Government-sponsored enterprise obligations	149,111	—	—	149,111
Agency mortgage-backed securities	737,975	9,750	200,000	947,725
Asset-backed securities	89,601	30,000	—	119,601
Other debt securities	14,780	—	—	14,780
Total repurchase agreements, gross amount recognized	$1,263,287	$41,481	$650,000	$1,954,768

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12. Stock-Based Compensation

The Company issues stock-based compensation in the form of nonvested restricted stock and stock appreciation rights (SARs). Most of the awards are issued during the first quarter of each year. The stock-based compensation expense that has been charged against income was $3.3 million and $3.1 million in the three months ended March 31, 2018 and 2017, respectively.

Nonvested stock awards generally vest in 4 to 7 years and contain restrictions as to transferability, sale, pledging, or assigning, among others, prior to the end of the vesting period. Dividend and voting rights are conferred upon grant. A summary of the status of the Company's nonvested share awards as of March 31, 2018, and changes during the three month period then ended, is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2018	1,254,518	$38.67
Granted	197,883	58.45
Vested	(266,058)	32.56
Forfeited	(2,604)	49.62
Nonvested at March 31, 2018	1,183,739	$43.33

SARs 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. In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of SARs 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	$12.44
Assumptions:	
Dividend yield	1.6 %
Volatility	20.6 %
Risk-free interest rate	2.7 %
Expected term	6.6 years

A summary of SAR activity during the first three months of 2018 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, 2018	1,179,286	$37.13		
Granted	168,716	58.42		
Forfeited	(323)	37.52		
Expired	—	—		
Exercised	(195,980)	28.93		
Outstanding at March 31, 2018	1,151,699	$41.65	7.4 years	$ 21,035

13. Revenue from Contracts with Customers

The Company adopted ASU 2014-09, "Revenue from Contracts with Customers", and its related amendments on January 1, 2018. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For the three months ended March 31, 2018, approximately 62% of the Company’s total revenue was comprised of net interest income, which is not within the scope of this guidance. Of the remaining revenue, those items that were subject to this guidance mainly included fees for bank card, trust, deposit account services and consumer brokerage services.

The Company has concluded that the new guidance did not require any significant change to its revenue recognition processes. However, application of the new guidance resulted in a reclassification of certain bank card related network and rewards costs, previously classified as non-interest expense, to a reduction to non-interest income in the Company’s consolidated statements of income. The reclassification had no effect on prior period net income or net income per share. The Company adopted ASU 2014-09 on a full retrospective basis, in which each prior reporting period has been presented in accordance with the new guidance.

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The table below shows the effect of this reclassification on bank card fee income and non-interest expense for the three months ended March 31, 2017.

(In thousands)	Three Months Ended March 31, 2017		
	As Previously Reported	Adoption of ASU 2014-09	As Adjusted
Non-interest income:			
Bank card transaction fees	$43,204	$(7,453)	$ 35,751
Total non-interest income	117,066	(7,453)	109,613
Non-interest expense:			
Data processing and software	$23,097	$(3,192)	$ 19,905
Other	19,964	(4,261)	15,703
Total non-interest expense	186,830	(7,453)	179,377

The following table disaggregates non-interest income subject to ASU 2014-09 by major product line.

	Three Months Ended March 31	
(In thousands)	2018	2017
Bank card transaction fees	$41,453	$35,751
Trust fees	36,062	32,014
Deposit account charges and other fees	22,982	21,942
Consumer brokerage services	3,768	3,649
Other non-interest income	7,311	7,597
Total non-interest revenue from contracts with customers	111,576	100,953
Other non-interest revenue [(a)]	8,114	8,660
Total non-interest income	$119,690	$109,613

(a) This revenue is not within the scope of ASU 2014-09, and includes fees relating to capital market activities, loan fees and sales, derivative instruments, standby letters of credit and various other transactions.

The following table presents the opening and closing receivable balances of the three month periods ended March 31, 2018 and 2017 for the Company's significant revenue categories subject to ASU 2014-09.

(In thousands)	March 31, 2018	December 31, 2017	March 31, 2017	December 31, 2016
Bank card transaction fees	$ 10,978	$ 13,315	$ 10,810	$ 14,686
Trust fees	3,116	2,802	2,627	2,681
Deposit account charges and other fees	4,682	5,597	4,467	5,735
Consumer brokerage services	690	380	353	309

For these revenue categories, none of the transaction price has been allocated to performance obligations that are unsatisfied as of the end of a reporting period.

A description of these revenue categories follows.

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Bank Card Transaction Fees

The following table presents the components of bank card fee income.

	Three Months Ended March 31	
(In thousands)	2018	2017
Debit card:		
Fee income	$9,762	$9,641
Expense for network charges	(371)	(1,650)
Net debit card fees	9,391	7,991
Credit card:		
Fee income	6,045	5,740
Expense for network charges and rewards	(2,944)	(2,746)
Net credit card fees	3,101	2,994
Corporate card:		
Fee income	47,876	42,419
Expense for network charges and rewards	(23,708)	(22,455)
Net corporate card fees	24,168	19,964
Merchant:		
Fee income	7,301	7,939
Fees to cardholder banks	(1,725)	(2,089)
Expense for network charges	(783)	(1,048)
Net merchant fees	4,793	4,802
Total bank card transaction fees	$41,453	$35,751

The majority of debit and credit card fees are reported in the Consumer segment, while corporate card and merchant fees are reported in the Commercial segment.

Debit and Credit Card Fees

The Company issues debit and credit cards to its retail and commercial banking customers who use the cards to purchase goods and services from merchants through an electronic payment system. As a card issuer, the Company earns fees, including interchange income, for processing the cardholder’s purchase transaction with a merchant through a settlement network. Purchases are charged directly to a customer’s checking account (in the case of a debit card), or are posted to a customer’s credit card account. The fees earned are established by the settlement network and are dependent on the type of transaction processed but are typically based on a per unit charge. Interchange income, the largest component of debit and credit card fees, is settled daily through the networks. The services provided to the cardholders include issuing and maintaining cards, settling purchases with merchants, and maintaining memberships in various card networks to facilitate processing. These services are considered one performance obligation as one of the services would not be performed without the others. The performance obligation is satisfied as services are rendered for each purchase transaction, and income is immediately recognized.

In order to participate in the settlement network process, the Company must pay various transaction-related costs, established by the networks, including membership fees and a per unit charge for each transaction. These expenses are recorded net of the card fees earned.

Consumer credit card products offer cardholders rewards that can be later redeemed for cash or goods or services to encourage card usage. Reward programs must meet network requirements based on the type of card issued. The expense associated with the rewards granted are recorded net of the credit card fees earned.

Commercial card products offer cash rewards to corporate cardholders to encourage card usage in facilitating corporate payments. The Company pays cash rewards based on contractually agreed upon amounts, normally as a percent of each sales transaction. The expense associated with the cash rewards program is recorded net of the corporate card fees earned.

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Merchant Fees

The Company offers merchant processing services to its business customers to enable them to accept credit and debit card payments. Merchant processing activities include gathering merchant sales information, authorizing sales transactions and collecting the funds from card issuers using the networks. The merchant is charged a merchant discount fee for the services based on agreed upon pricing between the merchant and the Company. Merchant fees are recorded net of outgoing interchange costs paid to the card issuing banks and net of other network costs as show in the table above.

Merchant services provided are considered one performance obligation as one of the services would not be performed without the others. The performance obligation is satisfied as services are rendered for each settlement transaction and income is immediately recognized. Income earned from merchant fees settles with the customer according to terms negotiated in individual customer contracts. The majority of customers settle with the Company at least monthly.

Trust Fees

The following table shows the components of revenue within trust fees.

	Three Months Ended March 31	
(In thousands)	2018	2017
Private client	$26,868	$23,762
Institutional	7,411	6,494
Other	1,783	1,758
Total trust fees	$36,062	$32,014

This revenue is reported in the Wealth segment.

The Company provides trust and asset management services to both private client and institutional trust customers including asset custody, investment advice, and reporting and administrative services. Other specialized services such as tax preparation, financial planning, representation and other related services are provided as needed. Trust fees are generally earned monthly and billed based on a rate multiplied by the fair value of the customer trust assets. The majority of customer trust accounts are billed monthly. However, some accounts are billed quarterly, and a small number of accounts are billed semi-annually or annually, in accordance with agreements in place with the customer. The Company accrues trust fees monthly based on an estimate of fees due and either directly charges the customer's account the following month or invoices the customer for fees due.

The Company maintains written product pricing information which is used to bill each trust customer based on the services provided. Providing trust services is considered to be a single performance obligation that is satisfied on a monthly basis, involving the monthly custody of customer assets, statement rendering, periodic investment advice where applicable, and other specialized services as needed. As such, performance obligations are considered to be satisfied at the conclusion of each month while trust fee income is also recorded monthly.

Deposit Account Charges and Other Fees

The following table shows the components of revenue within deposit account charges and other fees.

	Three Months Ended March 31	
(In thousands)	2018	2017
Corporate cash management fees	$9,397	$8,911
Overdraft and return item fees	7,512	7,180
Other service charges on deposit accounts	6,073	5,851
Total deposit account charges and other fees	$22,982	$21,942

Approximately half of this revenue is reported in the Consumer segment, while the remainder is reported in the Commercial segment.

The Company provides corporate cash management services to its business and non-profit customers to meet their various transaction processing needs. Such services include deposit and check processing, lockbox, remote deposit, reconciliation, on-line banking and other similar transaction processing services. The Company maintains unit prices for each type of service, and the customer is billed based on transaction volumes processed monthly. The customer is usually billed either monthly or quarterly, however, some customers may be billed semi-annually or annually. The customer may pay for the cash management services

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provided either by paying in cash or using the value of deposit balances (formula provided to the customer) held at the Company. The Company's performance obligation for corporate cash management services is the processing of items over a monthly term, and the obligations are satisfied at the conclusion of each month.

Overdraft fees are charged to customers when daily checks and other withdrawals to customers' accounts exceed balances on hand. Fees are based on a unit price multiplied by the number of items processed whose total amounts exceed the available account balance. The daily overdraft charge is calculated and the fee is posted to the customer's account each day. The Company's performance obligations for overdraft transactions is based on the daily transaction processed and the obligation is satisfied as each day's transaction processing is concluded.

Other deposit fees include numerous smaller fees such as monthly statement fees, foreign ATM processing fees, identification restoration fees, and stop payment fees. Such fees are mostly billed to customers directly on their monthly deposit account statements, or in the case of ATM fees, the fee is charged to the customer on the day that transactions are processed. Performance obligations for all of these various services are satisfied at the time that the service is rendered.

Consumer Brokerage Services

The following shows the components of revenue within consumer brokerage services.

	Three Months Ended March 31	
(In thousands)	2018	2017
Commission income	$2,092	$2,230
Managed account services	1,676	1,419
Total consumer brokerage services	$3,768	$3,649

Nearly all of this revenue is reported in the Company's Wealth segment.

Consumer brokerage services revenue is comprised of commissions received upon the execution of purchases and sales of mutual fund shares and equity securities, in addition to sales of annuities and certain limited insurance products in an agency capacity. Also, fees are earned on professionally managed advisory programs through arrangements with sub-advisors. Payment from the customer is due upon settlement date for purchases and sales of securities, at the purchase date for annuities and insurance products, and upon inception of the service period for advisory programs.

Most of the contracts (except advisory contracts) encompass two types of performance obligations. The first is an obligation to provide account maintenance, record keeping and custodial services throughout the contract term. The second is the obligation to provide trade execution services for the customers' purchases and sales of products mentioned above. The first obligation is satisfied over time as the service period elapses, while the second type of obligation is satisfied upon the execution of each purchase/sale transaction. Contracts for advisory services contain a single performance obligation comprised of providing the management services and related reporting/administrative services over the contract term.

The transaction price of the contracts (except advisory contracts) is a commission charged at the time of trade execution. The commission varies across different security types, insurance products and mutual funds. It is generally determined by standardized price lists published by the Company and its mutual fund and insurance vendors. Because the transaction price relates specifically to the trade execution, it has been allocated to that performance obligation and is recorded at the time of execution. The fee for advisory services is charged to the customer in advance of the quarterly service period, based on the account balance at the beginning of the period. Revenue is recognized ratably over the service period.

Other Non-Interest Revenue from Contracts with Customers

Other non-interest revenue consists mainly of various customer deposit related fees such as ATM fees and gains on sales of tax credits, foreclosed assets, and bank premises and equipment. Performance obligations for these services consist mainly of the execution of transactions for sales of various properties or providing specific deposit related transactions. Fees from these revenue sources are recognized when the performance obligation is completed, at which time cash is received by the Company.

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14. 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 debt securities, equity securities, trading debt securities, certain investments 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.

The valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis are described in the Fair Value Measurements note in the Company's 2017 Annual Report on Form 10-K. There have been no significant changes in these methodologies since then.

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Instruments Measured at Fair Value on a Recurring Basis

The table below presents the March 31, 2018 and December 31, 2017 carrying values of assets and liabilities measured at fair value on a recurring basis. There were no transfers among levels during the first three months of 2018 or the year ended December 31, 2017.

		Fair Value Measurements Using		
(In thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2018				
Assets:				
Residential mortgage loans held for sale	$ 6,480	$—	$ 6,480	$ —
Available for sale debt securities:				
U.S. government and federal agency obligations	911,923	911,923	—	—
Government-sponsored enterprise obligations	388,599	—	388,599	—
State and municipal obligations	1,416,845	—	1,399,687	17,158
Agency mortgage-backed securities	2,954,994	—	2,954,994	—
Non-agency mortgage-backed securities	960,612	—	960,612	—
Asset-backed securities	1,466,035	—	1,466,035	—
Other debt securities	333,172	—	333,172	—
Trading debt securities	32,025	—	32,025	—
Equity securities	49,784	20,151	29,633	—
Private equity investments	64,951	—	—	64,951
Derivatives *	5,092	—	4,481	611
Assets held in trust for deferred compensation plan	13,582	13,582	—	—
Total assets	8,604,094	945,656	7,575,718	82,720
Liabilities:				
Derivatives *	16,373	—	16,282	91
Liabilities held in trust for deferred compensation plan	13,582	13,582	—	—
Total liabilities	$ 29,955	$ 13,582	$ 16,282	$ 91
December 31, 2017				
Assets:				
Residential mortgage loans held for sale	$ 15,327	$—	$ 15,327	$ —
Available for sale debt securities:				
U.S. government and federal agency obligations	917,147	917,147	—	—
Government-sponsored enterprise obligations	406,363	—	406,363	—
State and municipal obligations	1,611,366	—	1,594,350	17,016
Agency mortgage-backed securities	3,040,913	—	3,040,913	—
Non-agency mortgage-backed securities	905,793	—	905,793	—
Asset-backed securities	1,492,800	—	1,492,800	