

COMMERCE BANCSHARES INC /MO/  
Form 10-Q  
November 07, 2012  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark  
One)

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

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For the quarterly period ended September 30, 2012

OR

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

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

COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri

43-0889454

(State of Incorporation)

(IRS Employer Identification No.)

1000 Walnut,

64106

Kansas City, MO

(Address of principal executive offices)

(Zip Code)

(816) 234-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

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

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Commerce Bancshares, Inc. and Subsidiaries

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## PART I: FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

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

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

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying notes to consolidated financial statements.

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## Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2012	2011	2012	2011
	(Unaudited)			
Net income	\$66,786	\$66,009	\$204,836	\$196,576
Other comprehensive income (loss):				
Available for sale debt securities for which a portion of an other-than-temporary impairment (OTTI) has been recorded in earnings:				
Unrealized holding gains (losses) subsequent to initial OTTI recognition	5,959	(1,091 )	12,245	4,572
Income tax (expense) benefit	(2,264	)415	(4,653	)(1,737 )
Net unrealized gains (losses) on OTTI securities	3,695	(676 )	7,592	2,835
Other available for sale investment securities:				
Unrealized holding gains	40,582	53,143	75,427	78,278
Reclassification adjustment for gains included in net income	—	—	(342	)(177 )
Net unrealized gains on securities	40,582	53,143	75,085	78,101
Income tax expense	(15,422	)(20,195 )	(28,533	)(29,679 )
Net unrealized gains on other securities	25,160	32,948	46,552	48,422
Prepaid pension cost:				
Amortization of accumulated pension loss	730	821	2,190	1,901
Income tax expense	(277	)(312 )	(832	)(722 )
Pension loss amortization	453	509	1,358	1,179
Other comprehensive income	29,308	32,781	55,502	52,436
Comprehensive income	96,094	98,790	260,338	249,012
Non-controlling interest expense	(780	)(657 )	(2,298	)(1,737 )
Comprehensive income attributable to Commerce Bancshares, Inc.	\$95,314	\$98,133	\$258,040	\$247,275

See accompanying notes to consolidated financial statements.



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

See accompanying notes to consolidated financial statements.



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Commerce Bancshares, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(A) Available for sale and non-marketable securities

Income tax payments, net	\$104,175	\$76,795
Interest paid on deposits and borrowings	\$30,198	\$44,828
Loans transferred to foreclosed real estate	\$7,178	\$20,630

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012 (Unaudited)

## 1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2011 data to conform to current year presentation. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations for the three and nine month periods ended September 30, 2012 are not necessarily indicative of results to be attained for the full year or any other interim periods.

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

## 2. Loans and Allowance for Loan Losses

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

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

At September 30, 2012, loans of \$3.2 billion were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of \$1.2 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

## Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2012 follows:

(In thousands)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total

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

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

(In thousands)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$ 127,263	\$ 64,275	\$ 191,538	\$ 119,946	\$ 77,592	\$ 197,538
Provision	1,503	9,892	11,395	16,783	22,589	39,372
Deductions:						
Loans charged off	4,047					