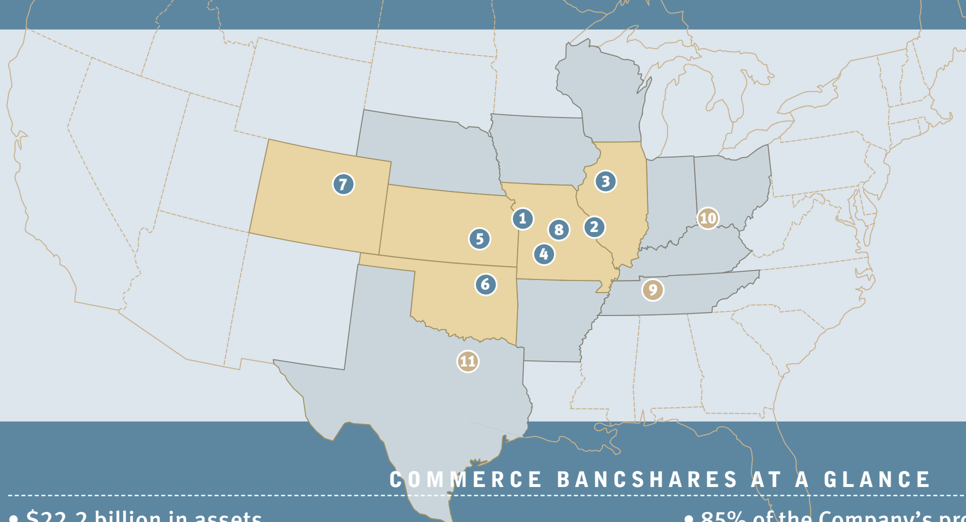
Commerce Bancshares, Inc.

2012 ANNUAL REPORT AND FORM 10-K

IMPROVEMENT | INNOVATION | INVESTMENT

COMPANY PROFILE

Commerce Bancshares, Inc. operates as a super-community bank offering an array of sophisticated financial products delivered with high-quality, personal customer service. The Company's customer promise ***we ask, listen and solve*** is not just its brand, but also its corporate focus. With this platform, Commerce is continually building its long-term franchise while paying strict attention to asset quality and expense management. Commerce provides a full range of financial products to consumer and commercial customers, including lending, payment processing, trust, brokerage and capital markets services. Serving its customers from 362 locations in Missouri, Kansas, Illinois, Oklahoma and Colorado and commercial offices throughout the nation's midsection, Commerce uses a variety of delivery platforms, including an expansive ATM network, full-featured online banking, and a central contact center, and has a nationwide presence in the commercial payments industry.



EIGHT KEY MARKETS

1. Kansas City
2. St. Louis
3. Peoria/Bloomington
4. Springfield
5. Wichita
6. Tulsa
7. Denver
8. Central Missouri

COMMERCIAL OFFICES

9. Nashville
10. Cincinnati
11. Dallas

Branch Footprint

Extended Commercial Market Area

COMMERCE BANCSHARES AT A GLANCE

- $22.2 billion in assets
- Super-community bank
- 362 locations
- 4,708 full-time equivalent (FTE) employees
- 85% of the Company's profitability comes from eight key markets, including Kansas City; St. Louis; Peoria / Bloomington, Illinois; Springfield, Missouri; Wichita, Kansas; Tulsa, Oklahoma; Denver, Colorado; and Central Missouri

MARKET STABILITY

Commerce values its employees, customers and shareholders while striving to produce consistent, solid returns. During the last 10 years, the Company's total shareholder return was 6.5% compared to the NASDAQ average bank return of (.1)%. In 2012, Commerce paid a regular cash dividend of $.88 per share[1] and in December, the Company paid a special dividend of $1.43 per share[1]. Also, for the 19th year in a row, the Company paid a 5% stock dividend. In February 2013, the Board of Directors approved an increase in the regular cash dividend, making it the 45th consecutive year of regular cash dividend increases.

ABOUT THE COVER

Each year, more than 2,200 critically ill or injured persons from around Illinois are sped by OSF HealthCare's helicopters to Regional Referral Centers and to Level 1 Trauma Centers in Peoria and Rockford. That makes the aeromedical transport services operated by OSF one of the nation's largest and busiest privately operated programs. In 2012, to upgrade its fleet, Commerce Bank purchased four new state-of-the-art helicopters for lease back to OSF. "Financing a helicopter is different from financing a medical office building," says Jeff White, chief operating officer and chief financial officer for the OSF affiliate responsible for aviation services. "We're fortunate Commerce has experts who understand both." (From left, **Sean Patrick,** director, aircraft finance, Commerce Bank; **Stephen Daggs,** business banking, Commerce Bank; **Sister Judith Ann,** O.S.F., chairperson, OSF HealthCare)

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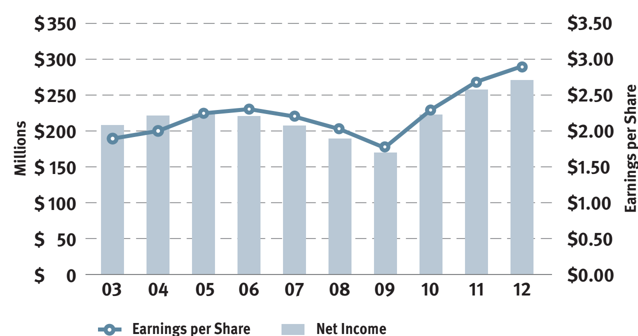
[1]Restated for December 2012 5% stock dividend.

FINANCIAL HIGHLIGHTS

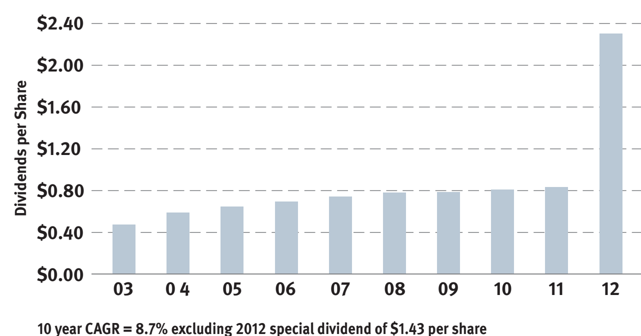
(In thousands, except per share data)	2008	2009	2010	2011	**2012**
OPERATING RESULTS					
Net interest income	$ 592,739	$ 635,502	$ 645,932	$ 646,070	$ 639,906
Provision for loan losses	108,900	160,697	100,000	51,515	27,287
Non-interest income	375,712	396,259	405,111	392,917	399,630
Investment securities gains (losses), net	30,294	(7,195)	(1,785)	10,812	4,828
Non-interest expense	615,380	621,737	631,134	617,249	618,469
Net income	188,655	169,075	221,710	256,343	269,329
Cash dividends	72,055	74,720	78,231	79,140	211,608**
AT YEAR END					
Total assets	$ 17,532,447	$ 18,120,189	$ 18,502,339	$ 20,649,367	$ 22,159,589
Loans, including held for sale	11,644,544	10,490,327	9,474,733	9,208,554	9,840,211
Investment securities	3,780,116	6,473,388	7,409,534	9,358,387	9,669,735
Deposits	12,894,733	14,210,451	15,085,021	16,799,883	18,348,653
Equity	1,579,467	1,885,905	2,023,464	2,170,361	2,171,574
Non-performing assets	79,077	116,670	97,320	93,803	64,863
Common shares outstanding*	92,124	96,093	95,503	93,400	91,414
Tier I capital ratio	10.92%	13.04%	14.38%	14.71%	13.60%
Total capital ratio	12.31	14.39	15.75	16.04	14.93
Leverage ratio	9.06	9.58	10.17	9.55	9.14
Tangible common equity to assets ratio	8.25	9.71	10.27	9.91	9.25
Efficiency ratio	63.08	59.88	59.71	59.10	59.26
OTHER FINANCIAL DATA (based on average balances)					
Return on total assets	1.15%	.96%	1.22%	1.32%	1.30%
Return on equity	11.81	9.76	11.15	12.15	12.00
Loans to deposits	92.11	79.79	70.02	59.15	55.80
Equity to assets	9.71	9.83	10.91	10.87	10.84
Net yield on interest earning assets (T/E)	3.96	3.93	3.89	3.65	3.41
Wtd. average common shares outstanding – diluted*	92,411	94,320	96,339	94,712	91,894
PER SHARE DATA					
Net income – basic*	$ 2.05	$ 1.79	$ 2.30	$ 2.70	$ 2.91
Net income – diluted*	2.04	1.78	2.29	2.69	2.90
Market price*	36.16	33.45	36.04	36.30	35.06
Book value*	17.14	19.63	21.19	23.24	23.76
Cash dividends*	.784	.790	.812	.834	2.305**
Cash dividend payout ratio	38.54%	44.15%	35.52%	31.06%	79.48%**

*Restated for the 5% stock dividend distributed December 2012.
**Includes the special fourth quarter cash dividend.

NET INCOME AND EARNINGS PER SHARE



CASH DIVIDENDS PER SHARE

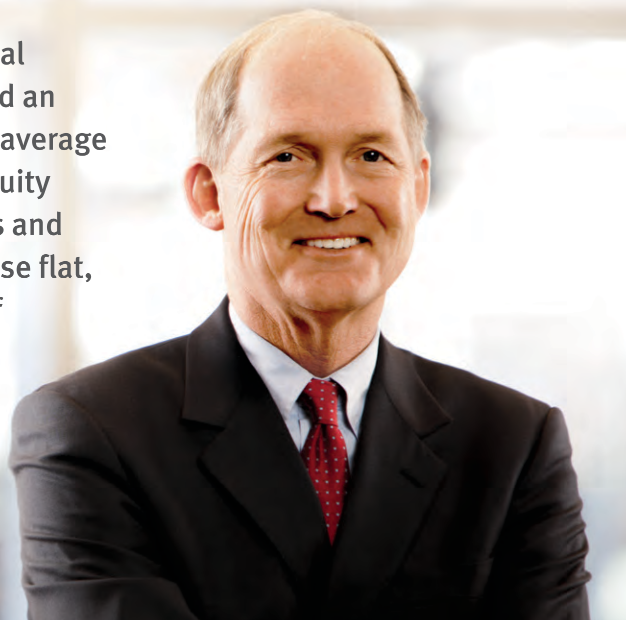


10 year CAGR = 8.7% excluding 2012 special dividend of $1.43 per share

To Our Shareholders

Commerce Bancshares enjoyed strong financial performance in 2012, with record earnings and an 8% increase in earnings per share. Return on average assets was 1.30%, while return on average equity totaled 12.0%. Our efforts to reduce unit costs and increase productivity kept non-interest expense flat, while loans began to grow after three years of decline. Credit quality remained excellent, as our non-performing assets decreased to .66% of loans, and our provision for loan losses declined 47% to pre-recessionary levels.

David W. Kemper, Chairman



More importantly, our management team continues to position Commerce Bancshares for growth in a consolidating domestic banking sector. Our banking offices in Denver, Tulsa, Cincinnati and Nashville showed strong top-line growth in both bank loans and fee services, and in April 2012, we opened a new office in Dallas. These expansion markets accounted for 20% of new commercial loans, which increased by 6% overall in 2012. While continuing to maintain our dominant position in our traditional Midwestern markets, we are actively seeking opportunities for controlled expansion in additional markets that demonstrate strong underlying economic and demographic growth.

Expansion markets accounted for 20% of new commercial loans, which increased by 6% overall in 2012.

Our portfolio of financial businesses performed well in 2012. Our fee businesses grew slightly to $400 million, despite absorbing more than $19 million in lost revenue from debit interchange due to the full implementation of federal price controls under the Durbin Amendment. Our wealth management business grew trust fees to $95 million with record new account production. Commerce Trust Company is emerging as one of the Midwest's leading family office financial advisors, and we are committed to further expanding our services in this area. We enjoyed record growth in our national payments businesses, with commercial card fees climbing 22% to $71 million. We continue to invest in new technology to bring our payments customers better information, lower costs and more efficient solutions.

The United States economy continues to recover despite lack of substantive reform on long-term fiscal and entitlement issues, and more intrusive governmental regulation. We enjoy excellent relationships with our regulators, but more

regulation and red tape add costs to the banking system and decrease both innovation and the availability of consumer credit. The outlook in 2013 for modest domestic growth and a continued exceptionally low interest rate environment should allow for some loan growth, but will put further pressure on banking industry earnings.

Given these macro challenges, we are especially pleased with our 2012 results and the growth opportunities we continue to see in our future.

PERFORMANCE HIGHLIGHTS

Among our significant 2012 achievements:

• Commerce reported earnings per share of $2.90, an 8% increase over 2011. Return on average assets (ROA) was 1.30%, and return on average equity (ROE) was 12.0%. Both ratios far exceed the average ROA and ROE for the top 50 U.S. banks, .95% and 8.7%, respectively.

• Net income was a record $269 million, an increase of 5% over 2011, reflecting strong growth in both trust and commercial card revenues, coupled with a 47% decline in loan losses. Additionally, our continued focus on lower unit cost, while still investing in new products and services, resulted in essentially flat core expenses over the past four years.

We enjoyed record growth in our national payments businesses, with commercial card fees climbing 22% to $71 million.

• In 2012, your Company paid a regular cash dividend of $.88 per share*, marking the 44th consecutive year in which cash dividends to shareholders increased. In addition, Commerce also paid a special dividend of $1.43* per share in the fourth quarter of 2012, taking advantage of our strong capital position and long history of solid earnings performance. For the 19th year in a row, the Company also paid a 5% stock dividend.

• Equity totaled $2.2 billion at year end, and the ratio of tangible common equity to assets amounted to 9.3%, exceeding the average ratio of 7.9% for the top 50 U.S. banks. In addition to funding the special dividend, we used our strong capital and liquidity positions to purchase 2.7 million shares of Company stock in 2012, reducing outstanding shares by approximately 3%.

• During 2012, total loans grew $654 million, or 7%, with loan growth coming from both businesses and consumers as lending demand improved in our markets. Deposits also grew $1.5 billion, or 9%.

• Commerce continued to garner industry recognition, being ranked #4 on *Bank Director* magazine's 2012 Bank Performance Scorecard, and for the fourth year in a row was among the top ten on *Forbes'* list of America's Best Banks. In addition, Commerce was named the top pick on *Money* magazine's list of safe, high-quality bank stocks.

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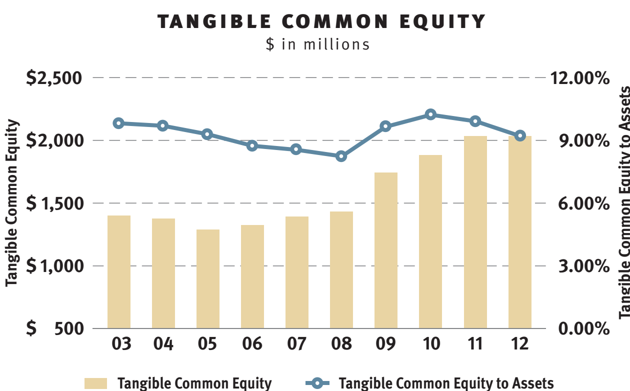
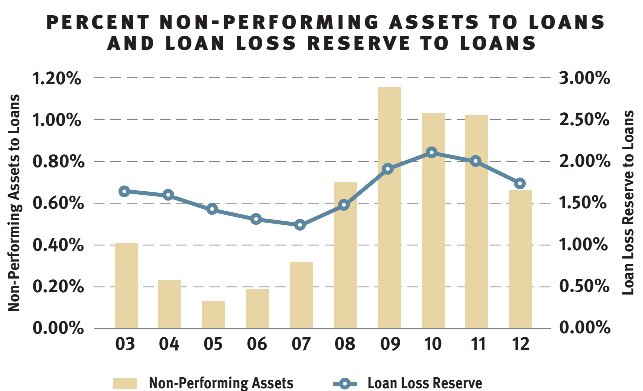
• Asset quality improved as our provision for loan losses declined by $24 million, or 47%. Net loan charge-offs declined 39%, totaling $39 million, the lowest level of loan

*Restated for December 2012 5% stock dividend.





losses since 2006. Non-accruing loans declined $24 million, and the ratio of non-accrual loans to total loans amounted to .52%, compared to the top 50 U.S. bank average of 1.43%.

• Our national commercial card business posted 2012 revenues of $71 million, up 22% over 2011, a result of continued strong new sales efforts. Trust revenues grew to $95 million, a 7% increase over 2011, on solid growth in our private client and institutional trust businesses. Trust assets also grew 11% in 2012 and now total more than $30 billion.

OVERVIEW OF THE COMPANY

We operate as a super-community bank, offering a strong service culture coupled with sophisticated financial products and services to businesses and consumers. The Company emphasizes three main lines of business: payments systems, lending and risk management, and wealth management. Over many years, Commerce has consistently focused on generating superior earnings results, while maintaining a strong balance sheet, industry-leading asset quality and robust capital.

The Company serves customers from 362 locations throughout Missouri, Kansas, Central Illinois, Oklahoma and Colorado. The Kansas City and St. Louis metropolitan areas are the Company's largest markets, together comprising 66% of our total deposits and 61% of our total loans. Other key markets include Springfield and Central Missouri; Wichita, Kansas; and Bloomington and Peoria, Illinois. Bank acquisitions in Tulsa and Denver, coupled with commercial banking offices in Cincinnati, Nashville and Dallas, have expanded our presence outside our traditional footprint. These newer markets offer significant opportunities for us to grow in all three business lines.

OUR PRIORITIES IN 2012

In an environment of unprecedented low interest rates, sluggish economic growth and significant new bank regulation, our main focus was on developing new quality loan relationships, to expand interest margins and create new cross-selling opportunities across our diverse product set.

We focused our efforts on higher-growth industry segments, including healthcare, food processing, consumer lending, energy and aviation. Significant investment in new product development yielded innovations such as myAdvance, a short-term lending solution for consumers; mySpending Card, a general purpose reloadable debit card; and ControlPay® EIPP , an integrated suite of corporate payables solutions. For our healthcare clients, we introduced two important new products: RemitConnect™ and PatientConnect, which help reduce back-office costs and improve cash management.

We also invested considerable resources in improving the operational efficiency of our back office and throughout our Company. Lost revenues associated with debit card fees and other regulatory changes led us to re-evaluate our internal processes and slightly reduce our branch locations.

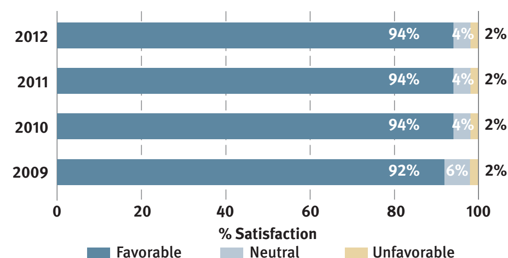
Finally, we continue to make staff and leadership development a priority, as our employee engagement scores confirm. Well above industry averages, the 94% favorable rating we've achieved the past three years reflects our employees' motivation and commitment.

EXPANSION MARKETS

In 2003, we expanded our commercial banking presence in Cincinnati by purchasing a small leasing company there. Four years later, we acquired small banks in Denver and Tulsa. In 2008, we added a commercial banking office in Nashville, and in April 2012, we opened an office in Dallas. All along, our strategy has been to locate offices in growing markets and staff them with experienced bankers who focus

Our strategy has been to locate offices in growing markets and staff them with experienced bankers who focus on growing our commercial lending and payments relationships.

EMPLOYEE ENGAGEMENT COMPARISON



Towers Watson Benchmark
U.S. High Performance Companies: 91% Favorable
U.S. Financial Services Companies: 87% Favorable

on growing our commercial lending and payments relationships. Our results have been very good. Loans from these markets grew 20% in 2012 and now total $636 million, with margins that often exceed those in our legacy markets. Our payments business in particular has benefited from the significant number of corporate headquarters in these markets, resulting in strong commercial card sales and volumes. Profitability also increased by 12% in 2012, due to good loan growth and new fee revenues.

We believe these markets offer significant growth opportunities, and we will continue to invest in developing new profitable commercial banking relationships in them.

OVERVIEW OF BUSINESS LINES

The breadth and depth we have built in our three core franchises – payment systems, lending and risk management, and wealth management – allow us to serve our customers' needs fully, while contributing to our own long-term strength and stability.

Payment Systems

Our payment systems businesses, which serve both consumers and businesses, include deposit processing, commercial cash management, bankcard activities, international services and sales of fixed-income securities through our Capital Markets Group. These businesses not only provide stable, low-cost funding sources, they also generate almost $400 million in annual revenue with solid profit margins. Our payment systems strategy is to offer solutions that help our customers process their payment needs more efficiently and effectively. Demand for our commercial card products has been especially strong and should offer good future growth opportunities.

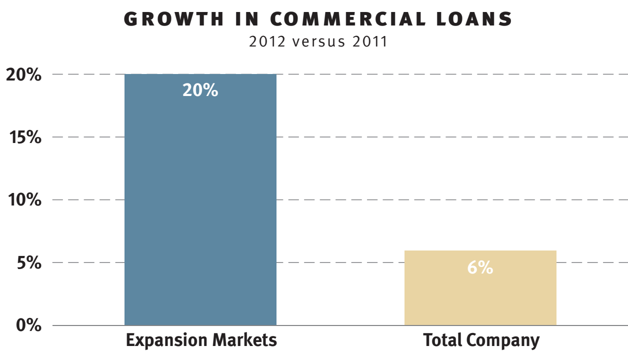
We also continue to innovate for our consumer customers, adding mobile access, new online banking features and new card products.

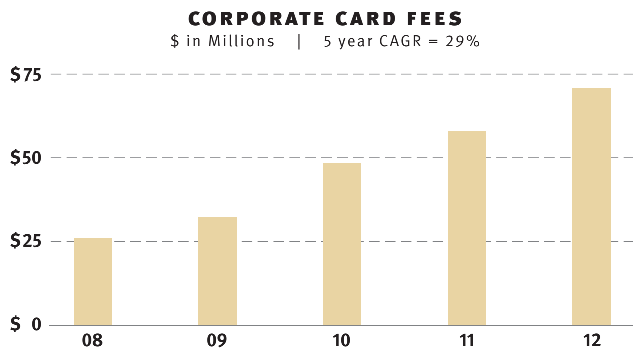
Commercial Services

Our Commercial Banking Group offers business customers sophisticated financing alternatives and payment solutions managed by commercial bankers who take the time to understand their unique needs and processing requirements. Due in part to market uncertainty, our business customers continued to amass large cash positions in our bank during 2012, with business deposits growing 7% to $6.7 billion, after growing 23% in 2011. Our strong balance sheet, coupled with our strong credit ratings, financial performance and reputation, gave comfort to many existing customers and attracted a number of significant new ones who view our bank as a safe place for short-term cash needs. Our corporate cash management business, which generated $45 million in total sales in 2012, focused on "bringing the bank to the customer," and introduced and enhanced a number of new products and services, including remote deposit for mobile, remote cash safe and several custom healthcare solutions.

The 2012 *Nilson Report* ranked Commerce the nation's 17th largest provider of commercial cards for 2011.

Our commercial card products continued to deliver strong revenue growth and exciting potential, with revenues growing 22% in 2012 to $71 million. The 2012 *Nilson Report* ranked Commerce the nation's 17th largest provider of commercial cards for 2011. With the addition of 222 new





card programs in 2012, we now have more than 18,000 customers in 48 states. Transaction volume grew by 21% to just over $5 billion for 2012. We have expanded our payment solutions specific to our healthcare clients, which accounted for approximately 48% of our transaction volume in 2012. We also continue to build out a suite of complementary payment products, including ControlPay® EIPP, which gives our customers greater payments processing choices and opportunities to bank at Commerce. Our Merchant Services business, which provides payment solutions to businesses of all sizes, generated $26 million in revenues during 2012. Merchant transaction volume grew by more than 10% to $6.9 billion, and revenues increased 7%.

Our Capital Markets Group, which sells fixed-income securities and underwriting services to correspondent banks and to corporate and municipal customers, grew revenues 6% to $21 million in 2012. Our client base includes more than 650 commercial customers, 40% of which are banks. Strong sales in the first half of 2012 helped to offset weaker demand later in the year, especially from bank customers, as the Federal Reserve's bond purchase program drove yields on certain fixed-income securities to unattractive levels. Our International Department supports our commercial banking customers' overseas trade with letters of credit, foreign exchange currency services and interest rate swap products. Staffed by seasoned professionals who are experienced in international trade, the Department had another solid year with total revenues growing by 7% to almost $8 million.

Consumer Services

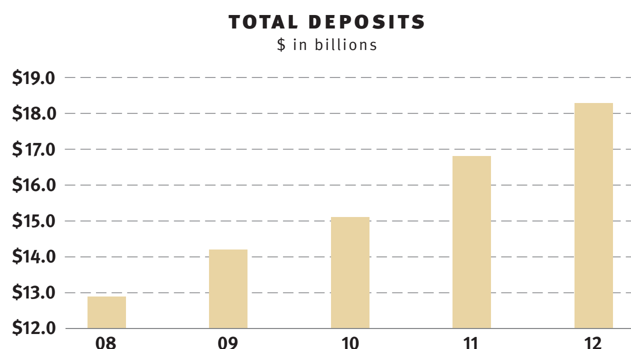
Customers continued to shift money to our bank from other sources in 2012, resulting in robust growth in consumer deposits. Including those in private banking, consumer deposits increased 5%, or $511 million on average, led by increases in demand, interest checking and money market accounts. Consumer deposits now account for more than $10 billion in low-cost funding sources for our bank.

Record low interest rates coupled with significant regulatory changes have sharply reduced retail banking revenues over the past three years. In response, our retail bankers have spent considerable time improving efficiencies and developing new products. In addition to introducing myAdvance and the distinctive reloadable debit card – mySpending Card – we began offering an identification restoration product to assist in the event of identity theft. We also plan to offer Toggle, a unique hybrid debit/credit card, which offers customers choices in purchasing and paying for transactions.

We are committed to making it easy for customers to manage their banking needs, and we continue to innovate and invest in new technologies that better serve them. Our Online Banking program benefited in 2012 from new investment in self-service solutions, including stop payments, extended transaction histories, new loan features, webchat for personal support and expanded services for mobile devices. We are planning additional investments in online and mobile solutions in 2013 as well, given that customer use of online banking continues to grow: 90% of our customers are enrolled and log onto their accounts an average of 13 times per month. While customers increasingly bank online, branches remain a vital channel. Over the past few years, we have made significant technology investments to lower branch operating costs and improve our sales effectiveness. We have opened several new retail branch locations, while merging or closing older, unprofitable branches. In total, we have reduced our branch count by seven over the past three years.

Lending and Risk Management

With loans approaching $10 billion, Commerce has created a large and diverse loan portfolio serving the needs of both businesses and consumers. In 2012, we added $654 million in new loan balances, marking the first time since 2008 that our loans grew year over year.



For business customers, we offer traditional working capital lines of credit, owner-occupied and investment real estate loans, tax-advantaged financing programs and equipment financing and leases. Consumer lending products include residential first mortgages, home equity and auto loans, and credit card loans.

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Commercial Lending

In 2012, we grew our commercial loans by $331 million, or 6%, by focusing our sales efforts on specific industries, regions and products. Given our significant healthcare presence and expanding product offerings, we increased healthcare loans by 8% to $657 million in outstanding balances. By targeting our tax-advantaged lending products to non-profits and other municipal entities, we helped these customers refinance existing debt at lower costs, growing these loans by 9%. We focused on a number of important industries, including energy, food processing and agri-business, where we have developed specialized products and services. Our private-public financing partnerships continue, and we recently entered into a relationship with FarmerMac to provide long-term fixed-rate financing solutions for agricultural enterprises.

While customer loan demand remains soft, we will continue to leverage our experienced commercial banking staff and marketing technology to target industries and customers with identified lending needs.

Consumer Lending

Consumer lending rebounded nicely in 2012, as loans grew by 8% mainly in residential mortgage and auto loans. Automobile lending grew by 59% due to strong demand from consumers who had delayed purchasing vehicles in recent years. We also established a number of new auto dealer relationships, resulting in greater new loan volumes. The rebound in housing demand in our markets resulted in an 11% increase in residential first mortgage loans. While demand for revolving home equity loans continued to be weak, demand for fixed-rate, amortizing home improvement loans was strong, with balances increasing by $68 million, or 48%. Early in the year, customers continued to pay down credit card lines, and competition for new accounts was keen. As the year progressed, usage increased, with balances growing by $93 million since April. Related interchange income also grew 6%. In recent years, we have built a solid credit card rewards program, offering significant incentives for increased card usage, and see good potential to grow this base further. We have also implemented a new merchant-funded rewards program and have seen significant activity since its 2012 launch. We plan additional card product innovations over the next year, including chip cards and co-branded accounts that should help us continue to grow card revenues.

We focused on a number of important industries, including energy, food processing and agribusiness, where we have developed specialized products and services.

Credit and Risk Management

Managing credit risk in our loan portfolio remained a top priority in 2012, and our results were among the best in the banking industry. Net loan losses declined by $25 million, or 39%, compared to 2011, and totaled just .42% of average loans. This achievement follows a 33% decline in net loan losses in 2011. Our loss rate of .42% in 2012 is much less than the average loss rate for the top 50 U.S. banks of .74% this year. Non-performing loans also declined 32% to .52% of loans, also lower than industry averages.

Net loan losses on commercial loans totaled just $2.3 million in 2012, compared to $16 million in 2011. In addition, our loan watch list declined by 26%, and delinquencies remained low. Net losses on credit card loans declined 23% in 2012, averaging just 3% of average credit card loans, the lowest level since 2006. Consumer net loan losses also declined 33% this year and balances greater than 30 days past due also declined on both credit card and consumer loans by 3% and 11%, respectively.

Wealth and Asset Management

Our Commerce Trust Company is a leading regional provider of private client and institutional wealth management services. We offer asset management, including traditional trust services and investment advisory services, to individual and corporate clients as well as private banking and family office services. Commerce Trust Company also manages a family of mutual funds, the Commerce Funds, and oversees our retail brokerage business.

During 2012, total client assets grew to a record $30 billion, with over half of these assets held in managed accounts. Asset management sales increased 9%, to $9 million, and for the tenth consecutive year, both private client and institutional businesses achieved record sales. Overall asset management profitability also grew by 9%, and account retention was strong and ahead of industry averages.

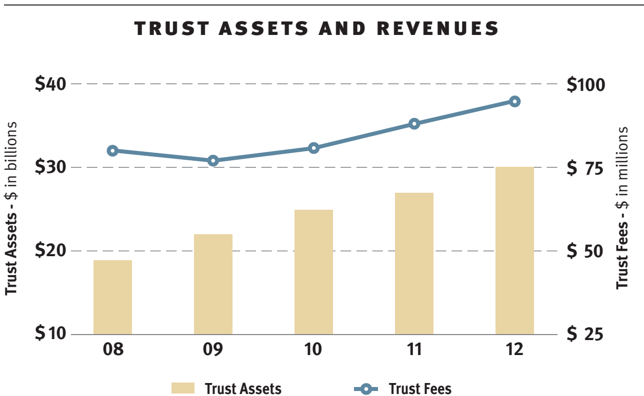
New staff who joined our Commerce family office services group late in 2011 were successfully integrated into our operation, and we added a number of new clients, generating significant new revenues well ahead of schedule. Ranked 24th among the top 50 family office providers in the world by assets in 2012 by Bloomberg Markets, this business offers good opportunities for further expansion.

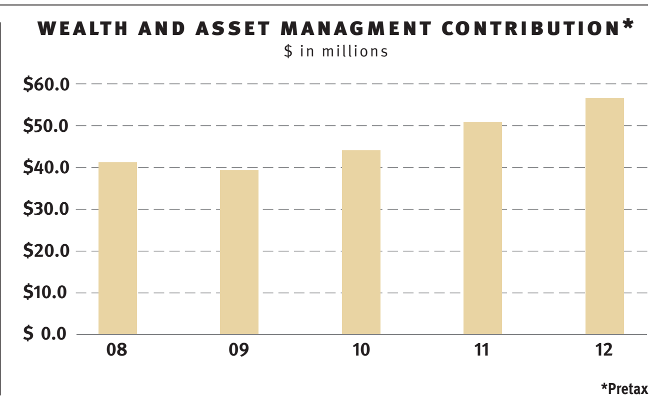
Commerce Trust Company employs an open architecture platform for its asset management clients, allowing them to combine best-in-class external investment managers, index strategies and proprietary active management. This platform continued to deliver competitive results for our clients in 2012. Our flagship "Guidance Portfolio" continued its top 25% performance among peer funds, and four of the eight Commerce Funds mutual funds received national recognition for performance. In addition, *Bloomberg* magazine rated our Intermediate Bond Fund the fifth best performing fund from a field of more than 500 over the past five years.

Building on these strong results, we continued to make new investments in both people and technology in 2012, which should accelerate our revenue growth plans. We added 20 new professionals in 2012, including staff for a new Commerce Trust Company office in our Columbia, Missouri market, and have invested in new sales associates in St. Louis and Kansas City to meet expected demand.

During 2012, client assets grew to a record $30 billion, with over half of these assets held in managed accounts.

By focusing on reducing unit cost and improving profitability, our Commerce Brokerage unit improved profitability by 62% in 2012. Our Commerce Brokerage business grew client assets by 9% to more than $3.0 billion and generated revenues of $10 million, as we continued to refine our business strategy. We see good opportunities to grow the managed side of this business



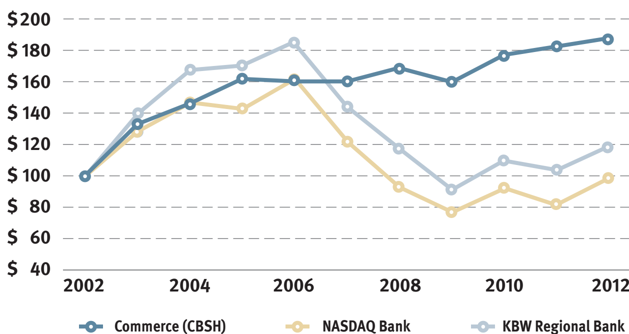


and create synergies between businesses using asset management tools such as our Horizon product, which offers tailored investment alternatives with professional management. The Horizon product also reduces our reliance on often-volatile transactional revenue and contributes to stronger, long-term customer relationships.

2013 OUTLOOK

The American commercial banking system has collectively emerged from the 2008 financial crisis with a strongly recapitalized balance sheet, excess liquidity and significantly more regulatory costs. At the same time, high unemployment, price controls and an extended period of exceptionally low real interest rates have challenged interest spreads and profit margins in commercial banks' traditional markets. Your Commerce management team continues to position your Company to be a winner in an industry where there is overcapacity and a need for strong banks to be very focused on successful strategies. We feel we have those successful strategies. First, our super-community format of excellent personnel, strong internal communication and a compelling value proposition has given us a loyal and satisfied customer base. Second, we are targeting high-growth value-added industry sectors, such as card payment solutions, wealth management and specialty lending, where we are attaining better growth rates and financial returns. Finally, we are focusing on expansion into adjacent geographical markets with strong underlying demographics.

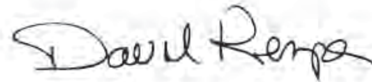
TEN YEAR CUMULATIVE TOTAL RETURN



With solid profitability, industry-leading asset quality, diverse innovative products and a strong balance sheet, we believe we are well positioned for the future. Our commitment to delivering sustained long-term growth and solid shareholder returns is evidenced by the $1.50 special dividend paid in 2012 and the 45th consecutive yearly increase in our regular per share dividend, approved in February 2013.

Our super-community format of excellent personnel, strong internal communications and a compelling value proposition has given us a loyal and satisfied customer base.

We again thank our shareholders for their support and will work hard in 2013 to build the strongest franchise we can of satisfied customers, a professional and loyal team of Commerce bankers and superior long-term financial returns.



David W. Kemper, Chairman

COMMERCE BANCSHARES, INC. FEBRUARY 22, 2013

IMPROVEMENT | INNOVATION | INVESTMENT

In business, there's always room for improvement. Thank goodness. The drive to be better is what keeps the wheels of progress moving forward. Whether you are in the business of constructing water treatment plants, remanufacturing car engines or milling flour for pretzels and cake mixes, there is always another innovation coming to improve your products and services, fuel your growth or make your business run more efficiently. At Commerce, we strive for continuous improvement as well. That's why we make ongoing investment in technologies that produce better information, drive down costs and solve our customers' evolving financial needs. By doing so, we become more than just our customers' bank. We become partners in their success.

2012 COMMERCE CUSTOMER SUCCESS STORIES

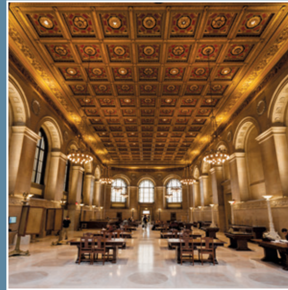
11 | A Health System Takes Flight
By 2012, the four helicopters OSF HealthCare had been using to transport critical patients to its two Illinois trauma centers were reaching the end of their useful life. That's when Commerce made it possible for OSF to lease an entirely new fleet.

12 | Going Electronic Pays Off
The Auditor-Controller Office of Riverside County in California processes more than a half million invoices each year. An E-payment solution from Commerce made paying some of those bills a whole lot safer – and more profitable.

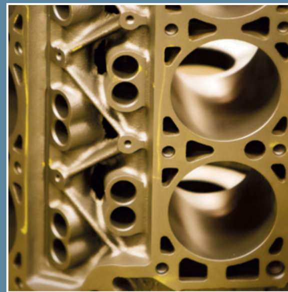
13 | Healthcare Banking Without Walls
In October, Colorado Springs Health Partners, the largest physician-owned outpatient and inpatient medical group in Colorado, moved its banking business to Commerce. It didn't matter that the bank's closest brick-and-mortar branch was 60 miles away.

14 | Signs of Success
Grimco was just an old-fashioned sign manufacturing company when Bob Hummert took over its operation in 1978. With financial support from Commerce, today it is the largest sign supply distributor in the nation.

15 | Building a Strong Relationship
After financial markets froze in 2009, the owners of one of the nation's largest water and wastewater contractors looked for a banking partner that showed integrity and responsibility. They turned to Commerce Bank to help keep their finances flowing.



16 | Banking by the Book
With the capital campaign for its $70 million Central Library renovation not yet complete, the St. Louis Public Library feared it might miss out on one of the most competitive construction markets in years. Then Commerce had an idea.



17 | An Engine for Growth
After the owners of Jasper Engine sold the remanufacturing company to its employees, the business no longer had quick access to the cash needed to fund its growth. A line of credit from Commerce Bank changed all that.

18 | Good Grains
When commodity prices soared a few years back, some large grain mills were unable to obtain financing and withdrew temporarily from the market. Mennell Milling wasn't one of them, thanks to a banking relationship that dates back more than 30 years.

OSF's four new American Eurocopter EC-145 helicopters each have state-of-the-art avionics for safety and are equipped to provide the latest emergency medical services. (From left) **Brent Grady,** executive director, OSF Aviation; and **Jeff White,** chief financial officer and chief operating officer, OSF Saint Francis, Inc.

A Health System Takes Flight

OSF HEALTHCARE SYSTEM BASED IN PEORIA, ILLINOIS

A top-ranked eight-hospital health system in Illinois and Michigan

Time is critical in life-saving medical care. When a serious accident occurs in rural areas, a properly equipped hospital can be an hours-long ambulance ride away.

To speed patients to the emergency care they need, The Sisters of the Third Order of Saint Francis established an air ambulance service in Illinois more than 30 years ago. Today, the service transports critical patients from central and northern Illinois to Regional Referral Centers and to its Level 1 Trauma Centers in Peoria and Rockford, Illinois. With 2,200 transfers a year, it is the state's busiest air-medical transport service.

It is also among the safest and most technologically advanced operations. Replacing its aging fleet with four new Eurocopter EC-145 helicopters, each equipped with state-of-the-art-avionics for safety, demonstrates OSF's commitment to safety. Throw in rigorous staff training and certification standards, above and beyond what is required by the FAA, and you have the ingredients for a perfect safety record.

While the helicopters are known for their speed, the $30 million purchase didn't happen overnight. "We began talking to Commerce five years ago," says Jeff White, chief operating officer for the OSF affiliate responsible for aviation services and other system-owned healthcare businesses.

"It's great to work with people who know us and are active in our community. Commerce has been a great support to us through the years."

Commerce has a long history of financing OSF HealthCare projects, including medical office construction and clinic acquisitions. "But the rules and regulations for aviation financing are more complex," says Jeff.

Commerce's Peoria-based bankers knew just who to call. Working with the bank's aviation financing expert, they structured the transaction so that Commerce purchased the helicopters for lease back to OSF.

"Commerce found a way to use current tax law to lower our cost of ownership, which enabled us to move forward," Jeff says. "We all won."

Going Electronic Pays Off

RIVERSIDE COUNTY
RIVERSIDE, CALIFORNIA

A large, highly populated county in Southern California

Riverside County is not your average county. With 2.3 million residents, its population is larger than that of North and South Dakota combined. They reside across a slice of Southern California the size of New Jersey.

With a $5 billion annual operating budget, the county has more bills to pay than your average county as well. Its Auditor-Controller Office processes more than 500,000 invoices annually for the county's 52 departments.

"Each payment we make carries the risk of fraud or theft," says Paul Angulo, auditor-controller. Reducing that risk was one reason the county wanted to implement a secure electronic payment system.

"It's both safer and more efficient to pay by credit card than by a paper warrant (check)," says Susan Porte, principal accountant. It's more profitable as well, since the county receives a revenue share for each Visa payment made to a participating vendor.

The challenge was finding the right E-payment provider. A lengthy search resulted in the county choosing Commerce from a field of 12 banks in May 2012. By then, both parties were ready. "Commerce was working within an hour of the contract's approval," says Tanya Harris, division chief.

In the program's first six months, the county issued almost 11,000 E-payments. "That's 11,000 fewer opportunities for fraud," says Paul. The revenue share adds an average of $60,000 each month to the county's general fund.

"The program works exceptionally well," says Susan. "Commerce listened to our business needs and made the whole process as seamless as possible."

The revenue share from Riverside County's E-payment system adds about $60,000 each month to the California county's general fund. From left, **Tanya S. Harris**, division chief—General Accounting; **Josetti B. Fields**, information technology officer; **Paul Angulo**, county auditor-controller; **Frankie Ezzat**, assistant auditor-controller; and **Susan Porte,** principal accountant.

The 105 physician-owners of Colorado Springs Health Partners provide medical services to 100,000 Colorado residents each year. From left, **Debbie Chandler,** executive vice president & chief executive officer; **Scott Shollenbarger,** vice president of finance and chief financial officer.

Healthcare Banking Without Walls

COLORADO SPRINGS HEALTH PARTNERS, PC
COLORADO SPRINGS, COLORADO

The oldest and largest physician-owned outpatient and inpatient medical group in Colorado

Service and leadership are important to Colorado Springs Health Partners. In anticipation of healthcare reform, the multi-specialty medical group – the state's largest – is taking a key role in Medicare and Medicaid pilot programs aimed at reinventing the way primary care is delivered.

Deep industry knowledge also matters to the medical group, whose 105 physicians provide a full range of services across a continuum of care to about 100,000 Colorado residents each year.

After hearing Commerce's name in healthcare circles for years and then meeting its bankers in person, the medical group's leadership felt like they had found a banking partner with all these qualities, says CEO Debbie Chandler.

"Healthcare practices do not operate like other businesses," she says. "We want a bank that takes the time to get to know us and appreciates the value of the investments we are making in healthcare delivery reform."

In October 2012, Colorado Springs Health Partners moved all of its banking business to Commerce – despite the fact that the bank's closest brick-and-mortar branch is 60 miles away in Denver.

"Ninety-five percent of our banking is done electronically, so the banking-without-walls approach suits us just fine," says Scott Shollenbarger, chief financial officer. "We chose Commerce because their bankers are in touch with our industry. It is apparent in their solutions, their customer service – even in the way they make decisions. To us, that is more important than a teller window."

"We need a bank that understands the idiosyncrasies of the healthcare industry. Commerce is easy to work with because they tailor their solutions to meet the needs of our physician-owned business model."

Financing from Commerce helped Grimco President **John Burkemper** (left) and CEO **Bob Hummert** (right) complete four acquisitions, boosting company sales 30% each of the past three years.

Signs of Success

GRIMCO, INC.
ST. LOUIS, MISSOURI

The nation's largest sign supply distributor

Bob Hummert was once a successful banker who dreamed of running his own company.

That dream came true in 1978 when he learned a small, nearly 100-year-old sign manufacturing business was for sale. That company, Grimco, consisted of a shop, 17 employees and, in Bob's estimation, considerable untapped potential. With the financial backing of two fellow bankers, he bought it.

Then Bob went to work. Within two years, he expanded his customer base to include distributors and catalog companies. Later, he added sign supplies to his product line and began Grimco's transformation to a wholesale sign supply distributor, opening 38 branches in cities nationwide.

Growth came in spurts, the latest of which coincided with the recent economic downturn.

"Many small shops were struggling," Bob says. "We saw it as an opportunity to make acquisitions that broadened our capabilities and our distribution."

Meanwhile, Grimco was outgrowing its longtime bank. "We were looking at buying larger companies and needed a bank that could handle the financing," he says. Grimco had developed international banking needs as well.

At Commerce, Bob found familiar faces – including former banking colleagues – and the breadth of services his company needed. Between March 2010 and May 2012, he completed four acquisitions. Each was financed through Commerce, which today also supports the diverse banking needs of a company that has grown 30% each of the past three years.

"Commerce is everything I want in a bank. It's small enough that I can have a personal relationship with my bankers, but large enough to have all the services a growing company might need."

"As a former banker, I know the value of having a strong personal relationship with your banker," says Bob. "Commerce gets it. That's why we're such a good fit."

Building a Strong Relationship

GARNEY CONSTRUCTION
KANSAS CITY, MISSOURI

One of the nation's largest water and wastewater contractors

Garney Construction considered Commerce its "backup bank" in 2009 when financial markets froze and the employee-owned contractor found itself holding millions of dollars of unsalable auction rate securities it had purchased from its primary bank.

Meanwhile, Garney learned that Commerce Bank had purchased back all of the securities it sold to its customers.

"We didn't necessarily need the cash at the time," says Jeff Lacy, Garney's chief financial officer. "For us, it was more a question about a way of doing business. By buying the securities, Commerce showed integrity, responsibility, fairness to others and trust – the same traits we look for when assembling a team for a construction project."

Further conversations with Commerce led to a creative banking package that gave Garney the flexibility it desired. And with that, Commerce became the primary bank for the firm, which constructs treatment plants and transmission lines for water and wastewater systems throughout the United States.

"We are contractors, and want that to be our focus," says Jeff. "We like having a partner in Commerce that we can trust to handle the financial end of things." That includes managing the firm's day-to-day banking needs, as well as long-term investing of its excess cash.

"Commerce understands who we are and what we do. When we buy a company, they advise us on how to manage the process. They've done an excellent job with managing our investments and keeping us updated on the financial markets."

As for a backup bank? Says Jeff, "We no longer need one."

Employee-owned Garney Construction builds water and wastewater treatment plants and piping systems throughout the United States, says **Jeffrey R. Lacy**, employee-owner and chief financial officer.

Banking by the Book

THE ST. LOUIS PUBLIC LIBRARY
ST. LOUIS, MISSOURI

Consistently ranked as one of the top three public libraries in the U.S.

Since its beginning in 1865 as a collection of 1,500 books, the St. Louis Public Library has grown into one of America's great public libraries. Its flagship Central Library, an architectural landmark that spans a city block, opened in 1912.

As the historic structure's 100th anniversary approached, library officials conceived a plan to restore and update it for the next century. But tax dollars alone could not fund the project's $70 million price tag. To move forward, the library needed to raise $20 million from private donors.

Time was of the essence. "To benefit from a very attractive construction environment, we needed to bid the work before the capital campaign was complete," explains Waller McGuire, executive director. Without financing in place, however, bidding couldn't proceed.

That's when Commerce stepped in. "For decades, we have looked to Commerce for guidance," says Rick Simoncelli, president of the library's foundation. Commerce, for example, helped introduce credit cards to library operations. When the foundation needed an investment policy for its endowment, The Commerce Trust Co. – which now manages the endowment – created one.

In this case, Commerce arranged bridge financing using a private bond issue that the library could repay as donations came in. "It was a complex financial structure, and Commerce simplified it," says Waller. The result? The newly renovated library reopened in 2012 to rave reviews, both for its beauty and its success in stretching donor dollars.

"It's good to work with a bank that understands the power and possibility of a public library. Commerce obviously does."

Following a $70 million renovation and upgrade, The St. Louis Public Library recently reopened its historic downtown Central Library. From left, **Rick Simoncelli,** president, St. Louis Public Library Foundation; **Waller McGuire,** executive director, St. Louis Public Library; and **William Jackson,** chief financial officer, St. Louis Public Library.

With today's engines and transmissions lasting longer, Jasper Engine is expanding into the alternative fuel and automotive parts markets. (From left) **Ralph Schwenk,** director of Finance & Information Services; and **Zach Bawel,** president and chief operating officer.

An Engine for Growth

JASPER ENGINES & TRANSMISSIONS
JASPER, INDIANA

The nation's largest engine, transmission and differentials remanufacturer

Jasper Engines & Transmissions was "green" long before it became fashionable. Since 1942, the company has taken millions of worn-out engines and transmissions, and remanufactured them to standards that meet or exceed those of the original equipment manufacturer.

There was just one problem, according to Zach Bawel, president: "Engines and transmissions last longer than they used to. To continue growing, we had to diversify."

And that's what Jasper did. In recent years, the company entered the alternative fuel and automotive parts markets. It also expanded distribution, with branches now spread from Boston to Los Angeles. "When opportunities present themselves, we want to be ready," says Zach.

But Jasper's quick access to cash was changed in 2010 when its leaders sold the company to their 1,750 associates (employees). Until then, Jasper had little need for bank financing, according to Ralph Schwenk, the company's director of Finance & Information Services. The transition to an associate-owned company changed that. "Suddenly, we had no good way to fund acquisitions," he says.

"We like having a relationship with bankers who know us, are conservative like us and bring us ideas that meet our needs."

Enter Commerce Bank, which had begun calling on Jasper before its transition to an associate-owned company. Within weeks, a substantial line of credit was in place.

As Jasper awaited the right opportunity, more immediate needs arose. "As Commerce got to know us, they opened the door so we could use our credit for operating needs," says Ray Schwenk, treasurer. Soon, Commerce was processing Jasper's credit cards and extending credit to the company's real estate arm as well.

"One of the best things about Commerce is its flexibility," says Ray. "We feel like we are working with people who can mold solutions to fit our needs."

Good Grains

THE MENNEL MILLING CO.
FOSTORIA, OHIO

One of the country's largest producers of soft wheat flour used in cookies, cakes and other baked goods

Don Mennel remembers 2008 well. That's the year he approached Commerce Bank a record five times seeking increases to his company's line of credit.

He had little choice. Soaring commodity prices were threatening Mennel Milling Company's ability to finance grain purchases, says Don, whose family business processes the soft wheat and specialty flours used in Betty Crocker® and Pillsbury® cake mixes, Rold Gold® pretzels and dozens of other bakery products.

Unable to obtain financing, some large mills were forced to withdraw from the market that year. Mennel Milling remained a key player thanks, in part, to a strong banking relationship that dates back to the Russian Wheat Deal of 1972.

That's when Don's father first met then-Commerce chairman David Rismiller at a national milling conference. "My dad saw then what we see now: Commerce understands our industry and knows what it takes for family businesses like ours to be successful," says Don.

Over the years, the bank helped finance flour mills, grain elevators and trucking operations as the quality- and innovation-driven Mennels expanded their company's reach. In addition to delivering day-to-day banking services, Commerce also serves as lead bank in a syndicate that provides the company's $135 million line of credit.

"We trust Commerce," says Don, who this summer will hand the company's reins to his son, Ford – the fifth generation of Mennel leadership. Both men know that trust is a two-way street, which is why they still send Commerce a letter each month detailing the company's results. "We never want our bankers to be surprised," Don says.

Over the past 40 years, Commerce has helped Mennel Milling finance the additional flour mills, grain elevators and trucking operations it needed to become one of the nation's largest producers of soft wheat flour. From left, **D. Ford Mennel,** assistant to the president; and **Donald L. Mennel,** president.

COMMUNITY ADVISORS

A fundamental element of Commerce Bank's super-community strategy is the role of our Community Advisors. We believe that a deep understanding and a close relationship with the communities we serve can be achieved only when we are interwoven in the fabric of the market. Local civic and business leaders, serving as Community Advisors, provide the insight to local needs that ensures Commerce delivers on its promise. Following are the names of these ambassadors within each of our markets.

Missouri

BARRY COUNTY

Donald Cupps
Ellis, Cupps & Cole

William A. Easley, Jr.
Retired,
Commerce Bank

JoAnne Ellis
Retired Educator

Phil Hutchens
Hutchens Construction

Mike McCracken
Commerce Bank

Eugene Miekley
Miekley and Cupps,
DVM Office

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Keith Shumaker
Shumaker Tire, Inc.

Clive C. Veri
Commerce Bank

Jerry Watley
Able 2 Products Co.

BOLIVAR

Jannis Keeling
Keeling Accounting &
Financial Services

Craig Lehman
Shelter Insurance Agency

Robert Moreland
Commerce Bank

Fred S. Osborn
Commerce Bank

Ed Peterson
Century 21
Peterson Real Estate

Dr. C. Pat Taylor
Southwest Baptist University

R.D. Vestal
Vestal Equipment Co., Inc.

CAPE GIRARDEAU

Leon Eftink
The Remodeling Room

W. Cliff Ford
Mount Auburn Properties, LLC

Alan Gregory
Gregory Construction, Inc.

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

Mike Kasten
University of Missouri

Richard R. Kennard
Coad Chevrolet, Inc.
Coad Toyota

Adam Kidd
Kidd's Gas &
Convenience Store

Frank Kinder
Red Letter Communications, Inc.

John Layton
Layton and Southard, LLC

Todd Petzoldt
East Perry Lumber Company

Roger Tolliver
Commerce Bank

Allen Toole
Cape Electrical Supply, Inc.

CENTRAL MISSOURI

Mike Alden
University of Missouri

Dan Atwill
Atwill & Montgomery,
Attorneys

Brent Beshore
AdVentures, LLC

Brent Bradshaw
Orscheln Management
Company

Morris F. Burger
Burger's Country Cured Hams

Brad Clay
Commerce Bank

Joe Hartman
Retired,
Commerce Bank

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

Ron Hopkins
Commerce Bank

George M. Huffman
Pearl Motor Company

Jack W. Knipp
Knipp Enterprises

Rick Kruse
Retired, Boone National
Savings & Loan Assoc.

Dr. Mike Lutz
Mike Lutz, DDS

David A. Machens
Machens Enterprises

Teresa Maledy
Commerce Bank

Jim McRoberts
McRoberts Farms, Inc.

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Robert K. Pugh
MBS Textbook Exchange

Jim Rolls
Retired,
Associated Electric Cooperative

James Schatz
Commerce Bank

Valerie Shaw
Commerce Bank

Steve Sowers
Commerce Bank

Col. C. R. Stribling, III
Retired,
Missouri Military Academy

Ken Tebow
Commerce Bank

Mel Toellner
Gold Crest Distributing
& Songbird Station

Larry Webber
Webber Pharmacy

Dr. John S. Williams
Retired,
Horton Animal Hospital

EASTERN JACKSON COUNTY

Kevin G. Barth
Commerce Bancshares, Inc.
Commerce Bank

Jason E. Boyer
Commerce Bank

Julia Ellis
Paradise Park, Inc.

Gayle Evans
Chinnery, Evans & Nail

Todd E. Gafney
Commerce Bank

Gary Hawkins
HSMC Certified Public
Accountants, P.C.

Kelly Hooker
Commerce Bank

Robert Hormann
Durvet, Inc.

Rob Lund
Realty Trust Group

Edward J. Reardon, II
Commerce Bank

Robert C. Thompson
Thompson Properties, LLC

HANNIBAL

C. Todd Ahrens
Hannibal Regional Hospital

David M. Bleigh
Bleigh Construction
Company and Bleigh
Ready Mix Company

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

Jim Humphreys
Luck, Humphreys and
Associates, CPA, P.C.

Jerold (Jerry) W. Lee
Commerce Bank

Mike Scholes
Reliable Termite & Pest Control,
Inc.

Missouri Continued

HARRISONVILLE

Aaron Aurand
Crouch, Spangler & Douglas

Connie Aversman
Commerce Bank

Larry Dobson
Real Estate Investments

Mark Hense
Ifil USA, LLC

Scott Milner
Milner O'Quinn Ford, Lincoln, Mercury

Aaron Rains
Commerce Bank

Laurence Smith
Reece & Nichols Smith Realty

Larry Snider
Snider & Associates, Inc.

Timothy Soulis
Gas Light Properties

JOPLIN

Jerrod Hogan
Anderson Engineering

David C. Humphreys
TAMKO Building Products, Inc.

Dr. Richard E. LaNear
Missouri Southern State University

Barbara J. Majzoub
Yorktown Properties

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Eric Schnelle
S&H Farm Supply, Inc.

Todd Stout
Standard Transportation Services, Inc.

Clive C. Veri
Commerce Bank

KANSAS CITY

Kevin G. Barth
Commerce Bancshares, Inc.
Commerce Bank

Clay C. Blair, III
Clay Blair Services Corp.

Ellen Z. Darling
Zimmer Companies

Stephen D. Dunn
J. E. Dunn Construction Co., Inc.

Stephen Gound
Labconco Corp.

C. L. William Haw
Haw Ranch

Jonathan M. Kemper
Commerce Bancshares, Inc.
Commerce Bank

David Kiersznowski
DEMDACO

Stephen G. Mos
Central States Beverage Company

Randall L. O'Donnell, Ph.D.
Children's Mercy Hospital and Clinics

Edward J. Reardon, II
Commerce Bank

Dr. Nelson R. Sabates
Sabates Eye Centers

Edward J. Schifman
Veco Holdings, LLC

Kirk H. Schulz, Ph.D
Kansas State University

Charles S. Sosland
Sosland Publishing Company

Thomas R. Willard
Tower Properties

LEBANON

Jerry N. Benson
Retired, Commerce Bank

Hugh V. Corry
Hardware Electric & Plumbing Supply Company

Brian Esther
Commerce Bank

Lester M. Evans
Cattleman

Fred S. Osborn
Commerce Bank

Harold Storck
Cattleman

Dan M. Waterman
CPA

POPLAR BLUFF

Bill R. Brandt
Commerce Bank

John A. Clark
Attorney at Law

Bob Greer
Retired

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

James P. McLane
McLane Livestock Transport, Inc.

Mark Melloy
Briggs & Stratton Corp.

Roger Tolliver
Commerce Bank

Ben Traxel
Dille and Traxel, LLC

Gregory West
Mills Iron & Supply

ST. JOSEPH

Robert J. Brown, Jr.
Robert J. Brown Lumber Company

Scott Burnham
Civic Leader

James H. Counts
Attorney at Law

Robert S. Dempster
Commerce Bank

Richard N. DeShon
Civic Leader

Pat Dillon
Heartland Health

Andrew Fent
Commerce Bank

Pete Gray
Gray Automotive Products Co.

Corky Marquart
Commerce Bank

Brad McAnally
Hy-Vee Food Store

Dr. Scott Murphy
Murphy-Watson-Burr Eye Center

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Edward J. Reardon, II
Commerce Bank

Judy Sabbert
Heartland Foundation

Emil H. Sechter
Commerce Bank

ST. LOUIS METRO

Blackford F. Brauer
Hunter Engineering Co.

Kyle Chapman
Forsyth Capital Investors

Charles L. Drury, Jr.
Drury Hotels

Joseph Forshaw, IV
Forshaw of St. Louis

James G. Forsyth, III
Moto, Inc.

David S. Grossman
Grossman Iron and Steel

Juanita Hinshaw
H & H Advisors

Donald A. Jubel
Spartan Light Metal Products

David W. Kemper
Commerce Bancshares, Inc.

John W. Kemper
Commerce Bancshares, Inc.

Alois J. Koller, Jr.
Koller Enterprises, Inc.

Kristopher G. Kosup
Buckeye International, Inc.

Seth M. Leadbeater
Commerce Bancshares, Inc.
Commerce Bank

James B. Morgan
Subsurface Constructors, Inc.

Victor L. Richey, Jr.
ESCO Technologies, Inc.

Steven F. Schankman
Contemporary Productions, LLC

James E. Schiele
St. Louis Screw & Bolt Co.

John (Jack) A. Schreiber
Commerce Bank

Thomas H. Stillman
Summit Distributing

Gregory Twardowski
Whelan Security Company

Kelvin R. Westbrook
KRW Advisors, LLC

Patricia D. Whitaker
Arcturis

ST. LOUIS METRO EAST

William Courtney
Helitech Concrete & Structural Repair

Mona Haberer
Hortica Insurance & Employee Benefits

Thomas Lippert
Liese Lumber Company, Inc.

James Rauckman
Rauckman High Voltage Sales, LLC

Garrett Reuter
Greensfelder, Hemker & Gale, P.C.

Dr. James T. Rosborg
McKendree University

Jack Schmitt
Jack Schmitt Family of Dealerships

Missouri Continued

ST. LOUIS CENTRAL

Cyrus Blackmore
Blackmore & Glunt, Inc.

Herbert (Herb) S. Jones
Messenger Printing & Publishing, Inc.

Stephen Mattis
Allied Industrial Equipment Corporation

Lisa D. McLaughlin
Polsinelli Shughart, P.C.

Richard C. Mueller, Jr.
Bopp Funeral Chapel

Greg W. Schmittgens
CliftonLarsonAllen, LLP

ST. LOUIS SOUTH

Michael D. Allen
Hoya Optical

Phillip J. Amato
Retired

Scott Lively
CliftonLarsonAllen, LLP

Thomas E. Muzzey
One Call Concrete Construction, Inc.

Louis J. Naeger
Semi-retired, Crouch, Farley & Heuring, P.C.

Lee Thurman
Thurman, Shinn and Company

ST. LOUIS WEST

Richard K. Brunk
Attorney at Law

James N. Foster
McMahon Berger

Jack Hoffmann
Milestone Solutions

Richard E. Hrabko
Retired

Stuart Krawll
Beam of St. Louis, Inc.

Howard M. Rosen
Conner Ash, P.C.

ST. LOUIS EAST

Tino DiFranco
Tropicana Bowling Lanes

J. L. (Juggie) Hinduja
Sinclair Industries, Inc.

Myron J. Klevens
Organizational Development Strategies

Patrick N. Lawlor
Lawlor Corporation

McGraw Milhaven
Talk Show Host – KTRS

Dennis Scharf
Scharf Tax Services

Richard C. Ward
Zimmer Real Estate Services, L.C./ONCOR International

ST. CHARLES COUNTY/NORTH

Gaspare Calvaruso
SSM St. Joseph Health Center

Ronald D. Chesbrough
St. Charles Community College

James D. Evans
President, Lindenwood University

Peter J. Mihelich, Jr.
Goellner Promotions

Duane A. Mueller
Cissell Mueller Construction Company

Howard A. Nimmons
CPA, CFP Nimmons Wealth Management

Tarlton J. Pitman
Pitman Funeral Home, Inc.

William J. Zollmann, III
Attorney at Law

Don Zykan
Zykan Properties

SPRINGFIELD

Roger Campbell, Jr.
Campbell Ford-Mercury, Inc.

John Cox
Commerce Bank

James P. Ferguson
Heart of America Beverage Co.

Charles R. Greene
Husch Blackwell, LLP

Bunch Greenwade
Rancher

Robert A. Hammerschmidt, Jr.
Commerce Bank

John Himmel
Retired, Commerce Bank

Seth M. Leadbeater
Commerce Bancshares, Inc. Commerce Bank

Mary Kay Meek
Try-Meek, Inc.

Alvin D. Meeker
Retired, Commerce Bank

James F. Moore
Investments

David Murray
R.B. Murray Company

Keith Noble
Commerce Bank

Richard Ollis
Ollis & Company Insurers

Fred S. Osborn
Commerce Bank

Mike Petrie
Commerce Bancshares, Inc. Commerce Bank

B. Glenn Robinson
Grand Country Square

Kansas

BUTLER COUNTY (EL DORADO)

Eugene S. Adams
Retired

Marilyn B. Pauly
Commerce Bank

Mark Utech
Commerce Bank

Dr. Jackie Vietti
Butler Community College

COLUMBUS

Jay Hatfield
Jay Hatfield Chevrolet

Wesley C. Houser
Retired, Commerce Bank

Don Kirk
H & K Campers Inc.

Mike Petrie
Commerce Bancshares, Inc. Commerce Bank

Jane Rhinehart
Commerce Bank

Darrel Shumake
Attorney at Law

Clive C. Veri
Commerce Bank

GARDEN CITY

Richard Harp
Commerce Bank

Dr. Gloria Hopkins
Fry Eye Associates

Dennis Kleysteuber
Kleysteuber & Gillen Inc.

Gerald Miller
Commerce Bank

Mike Petrie
Commerce Bancshares, Inc. Commerce Bank

Lee Reeve
Reeve Cattle Company

Patrick Rooney
Rooney Agri Business

Pat Sullivan
Sullivan Analytical Service, Inc.

Bob Tempel
WindRiver Grain, LLC

HAYS

D.G. Bickle, Jr.
Warehouse, Inc.

Kurt David
Eagle Communications, Inc.

Earnest A. Lehman
Midwest Energy, Inc.

Stuart Lowry
Sunflower Electric Power Corporation

Marty Patterson
Rome Corporation

Mike Petrie
Commerce Bancshares, Inc. Commerce Bank

Kevin Royer
Midland Marketing Co-op

Thomas L. Thomas
Commerce Bank

Kansas Continued

JOHNSON COUNTY

Kevin G. Barth
Commerce Bancshares, Inc.
Commerce Bank

Damond Boatwright
Overland Park Regional Medical Center

Jim Denning
Discover Vision

Isak Federman
F&G Capital Management

Todd E. Gafney
Commerce Bank

Lance W. Hart
DEMDACO

Chris Herre
Rose Construction Co., Inc.

Pat Olney
Commerce Bank

Greg Prieb
Prieb Homes, Inc.

Edward J. Reardon, II
Commerce Bank

Thomas K. Rogge
Cramer Products

Daniel E. Sight
Reece Commercial

Kevin Winters
CBIZ

LAWRENCE

J. Scot Buxton
Willis Group

Martin B. Dickinson, Jr.
Schroeder Professor of Law, University of Kansas

Mark Heider
Commerce Bank

Evan Ice
Stephens & Brand, LLP

Eugene W. Meyer
Lawrence Memorial Hospital

Martin W. Moore
Advanco, Inc.

Kevin J. O'Malley
O'Malley Beverages of Kansas, Inc.

Edward J. Reardon, II
Commerce Bank

Dan C. Simons
The World Company

Michael Treanor
Treanor Architects, P.A.

LEAVENWORTH

J. Sanford Bushman
DeMaranville & Associate, CPAs, LLC

Norman B. Dawson
Retired,
Commerce Bancshares, Inc.

Sherry DeMaranville
DeMaranville and Associates

Mark Denney
J.F. Denney Plumbing & Heating

Thomas A. Dials
Retired,
Chairman, Armed Forces Insurance Exchange

Jeremy Greenamyre
The Greenamyre Companies

Lawrence W. O'Donnell, Jr.
Lawrence W. O'Donnell, Jr., CPA Chartered

Bill Petrie
Commerce Bank

Edward J. Reardon, II
Commerce Bank

Robert D. Schmitt, II
Mama Mia's, Inc.

Kurt Seelbach
President, Armed Forces Insurance Exchange

MANHATTAN

Kelly Briggs
Bayer Construction

Tom Giller
Commerce Bank

Dr. Jackie L. Hartman
Kansas State University

Neal Helmick
Griffith Lumber Co.

Rich Jankovich
Commerce Bank

Dr. Ali Malekzadeh
Kansas State University

Dr. David Pauls
Surgical Associates

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Dr. Roger P. Reitz
Medical Associates of Manhattan

L.W. Stolzer
Griffith Lumber Co.

PITTSBURG

James L. Belew
Investments

Dr. Thomas W. Bryant
Pittsburg State University

Todd Coleman
Miller's Professional Imaging

Harvey R. Dean
Pitsco, Inc.

Joe Dellasega
U.S. Awards

Adam Endicott
Unique Metal Fabrication, Inc.

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Ronald L. Rhodes
Rhodes Grocery, Inc.

Steve W. Sloan
Midwest Minerals, Inc.

Brian Sutton
Commerce Bank

Clive C. Veri
Commerce Bank

Judith A. Westhoff
Pittsburg Chamber of Commerce

Wendell L. Wilkinson
Retired,
Commerce Bank

RENO COUNTY (HUTCHINSON)

John C. Clevenger
Commerce Bank

Steven B. Harper
Network Management Group, Inc.

Brett Mattison
Decker & Mattison Company

John Munds
V&M Transport, Inc.

Dell Marie Shanahan Swearer
Commerce Bank

WICHITA

Dr. John Bardo
Wichita State University

Michael P. Brown
College Hill OB/GYN

Michael E. Bukaty
Latshaw Enterprises, Inc.

John C. Clevenger
Commerce Bank

Ray L. Connell
Connell & Connell

Monte A. Cook
Commerce Bank

Thomas E. Dondlinger
Dondlinger & Sons Construction Co., Inc.

Ronald W. Holt
Sedgwick County

Eric E. Ireland
Commerce Bank

Fran D. Jabara
Jabara Ventures Group

Paul D. Jackson
Vantage Point Properties, Inc.

Seth M. Leadbeater
Commerce Bancshares, Inc.
Commerce Bank

Gaylyn K. McGregor
Commerce Bank

Douglas D. Neff
Commerce Bank

Derek L. Park
Law Office of Derek Park, LLC

Marilyn B. Pauly
Commerce Bank

Mike Petrie
Commerce Bancshares, Inc.
Commerce Bank

Barry L. Schwan
House of Schwan, Inc.

Thomas D. White
White & Ellis Drilling, Inc.

Illinois

BLOOMINGTON-NORMAL

Julie Dobski
Little Jewels Learning Center
McDonald's

Brent A. Eichelberger
Commerce Bank

Robert Fleming
Fleming Law Office
Emeritus

Ron Greene
Afni, Inc.

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

Parker Kemp
Kemp Farms, Inc.

Robert Lakin
Commerce Bank

Seth M. Leadbeater
Commerce Bancshares, Inc.
Commerce Bank

Thomas Mercier
Bloomington Offset Process, Inc.

Dennis Myers
Myers, Inc.

Aaron Quick
Farnsworth Group, Inc.

Jay Reece
Mueller & Reece, LLC

Alan Sender
Chestnut Health Systems

CHAMPAIGN-URBANA

Mark Arends
Arends Brothers, Inc.

Paul Donohue
Provena Covenant Medical Center

Brian Egeberg
Commerce Bank

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

Robert Lakin
Commerce Bank

Kim Martin
Martin, Hood, Friese & Associates, LLC

Roger Rhodes
Horizon Hobby, Inc.

PEORIA

Bruce L. Alkire
Coldwell Banker Commercial Devonshire Realty

Daniel J. Altorfer
United Facilities, Inc.

Peter T. Coyle
Gallagher Coyle

Brent A. Eichelberger
Commerce Bank

Lowell G. "Bud" Grieves
Mark Twain Hotel

Gregg E. Hollabaugh
Commerce Bancshares, Inc.

Seth M. Leadbeater
Commerce Bancshares, Inc.
Commerce Bank

Dr. James W. Maxey
Great Plains Orthopaedics

Edward J. Scott
Caterpillar, Inc.

Timothy F. Shea
Peoria Builders

Janet M. Wright
Central Illinois Business Publishers, Inc.

Oklahoma

TULSA

R. Scott Case
Case & Associates Properties, Inc.

Jeffery W. Davis
U.S. Beef Corporation

R. Carl Hudgins
Commerce Bank

Bruce C. Humphrey
Commerce Bank

Ken Lackey
The Nordam Group, Inc.

Dr. George S. Mauerman
Eastern Oklahoma Orthopedic Center, Inc.

Shannon O'Doherty
Commerce Bank

D. Lindsay Perkins
Lindsay Development, LLC

John Turner
First Stuart Corporation

Daryl Woodard
SageNet

Colorado

DENVER

Robert L. Cohen
The IMA Financial Group, Inc.

Thomas A. Cycyota
AlloSource

Mark Danzo, O.D.
20/20 Institute

James J. Fallon
Commerce Bank

Joseph Freund, Jr.
Running Creek Ranch

R. Allan Fries
i2 Construction, LLP

James C. Lewien
Commerce Bank

Randall H. Lortscher, M.D.
Rocky Mountain Gamma Knife Center, LLC

Sherman R. Miller
University of Colorado-Real Estate Department

Stuart W. Pattison
Commerce Bank

Robin H. Wise
Junior Achievement – Rocky Mountain, Inc.

Jason Zickerman
The Alternative Board

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Chairman of the Board and Chief Executive Officer

Jonathan M. Kemper
Vice Chairman

Seth M. Leadbeater
Vice Chairman

John W. Kemper
President and Chief Operating Officer

Charles G. Kim
Executive Vice President and Chief Financial Officer

Kevin G. Barth
Executive Vice President

Daniel D. Callahan
Executive Vice President and Chief Credit Officer

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Executive Vice President

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Executive Vice President

Jeffery M. Burik
Senior Vice President

Michael J. Petrie
Senior Vice President

Robert J. Rauscher
Senior Vice President

James L. Swarts
Vice President, Secretary and General Counsel

Jeffery D. Aberdeen
Controller

B. Lynn Tankesley
Auditor

Directors†

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Chief Executive Officer and President of Great Plains Energy, KCP&L, and Greater Missouri Operations

John R. Capps*
Vice President, BCJ Motors, Inc.

Earl H. Devanny, III
Chairman, Chief Executive Officer and President, The TriZetto Group

W. Thomas Grant, II
President, SelectQuote Senior Insurance Services

James B. Hebenstreit*
President, Bartlett and Company

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Chairman of the Board and Chief Executive Officer, Commerce Bancshares, Inc.

Jonathan M. Kemper
Vice Chairman, Commerce Bancshares, Inc.

Terry O. Meek
President, Meek Lumber Yard, Inc.

Benjamin F. Rassieur, III*
President, Paulo Products Company

Todd R. Schnuck*
President and Chief Operating Officer, Schnuck Markets, Inc.

Andrew C. Taylor
Chairman and Chief Executive Officer, Enterprise Holdings, Inc.

Kimberly G. Walker*
Chief Investment Officer, Washington University in St. Louis

**Audit Committee Members*
†As of February 8, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2012 — Commission File No. 0-2989

COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri	**43-0889454**
(State of Incorporation)	(IRS Employer Identification No.)
1000 Walnut, Kansas City, MO	**64106**
(Address of principal executive offices)	(Zip Code)
(816) 234-2000	
(Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of class	**Name of exchange on which registered**
$5 Par Value Common Stock	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 Act. (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☐
		(Do not check if a 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 June 30, 2012, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $2,949,000,000.

As of February 8, 2013, there were 90,689,096 shares of Registrant's $5 Par Value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2013 annual meeting of shareholders, which will be filed within 120 days of December 31, 2012, are incorporated by reference into Part III of this Report.

Commerce Bancshares, Inc.

Form 10-K

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PART I

Item 1. BUSINESS

General

Commerce Bancshares, Inc., a bank holding company as defined in the Bank Holding Company Act of 1956, as amended, was incorporated under the laws of Missouri on August 4, 1966. Through a second tier wholly-owned bank holding company, it owns all of the outstanding capital stock of Commerce Bank (the “Bank”), which is headquartered in Missouri. The Bank engages in general banking business, providing a broad range of retail, corporate, investment, trust, and asset management products and services to individuals and businesses. Commerce Bancshares, Inc. also owns, directly or through the Bank, various non-banking subsidiaries. Their activities include underwriting credit life and credit accident and health insurance, selling property and casualty insurance (relating to consumer loans made by the Bank), private equity investment, securities brokerage, mortgage banking, and leasing activities. A list of Commerce Bancshares, Inc.'s subsidiaries is included as Exhibit 21.

Commerce Bancshares, Inc. and its subsidiaries, (collectively, the "Company") is one of the nation’s top 50 bank holding companies, based on asset size. At December 31, 2012, the Company had consolidated assets of $22.2 billion, loans of $9.8 billion, deposits of $18.3 billion, and equity of $2.2 billion. All of the Company’s operations conducted by its subsidiaries are consolidated for purposes of preparing the Company’s consolidated financial statements.

The Company’s goal is to be the preferred provider of targeted financial services in its communities, based on strong customer relationships. It believes in building long-term relationships based on top quality service, a strong risk management culture, and a strong balance sheet with industry-leading capital levels. The Company operates under a super-community banking format which incorporates large bank product offerings coupled with deep local market knowledge, augmented by experienced, centralized support in select critical areas. The Company’s focus on local markets is supported by an experienced team of managers assigned to each market and is also reflected in its financial centers and regional advisory boards, which are comprised of local business persons, professionals and other community representatives, who assist the Company in responding to local banking needs. In addition to this local market, community-based focus, the Company offers sophisticated financial products available at much larger financial institutions.

The Company's banking facilities are located throughout Missouri, Kansas, and central Illinois, as well as Tulsa, Oklahoma and Denver, Colorado. Its two largest markets include St. Louis and Kansas City, which serve as the central hubs for the entire Company.

The markets the Bank serves, being located in the lower Midwest, provide natural sites for production and distribution facilities and also serve as transportation hubs. The economy has been well-diversified in these markets with many major industries represented, including telecommunications, automobile, aircraft and general manufacturing, health care, numerous service industries, food production, and agricultural production and related industries. In addition, several of the Illinois markets are located in areas with some of the most productive farmland in the world. The real estate lending operations of the Bank are centered in its lower Midwestern markets. Historically, these markets have generally tended to be less volatile than in other parts of the country. While the decline in the national real estate market resulted in significantly higher real estate loan losses during recent years for the banking industry, management believes the diversity and nature of the Bank’s markets has resulted in lower real estate loan losses in these markets and is a key factor in the Bank’s relatively lower loan loss levels during this period.

From time to time, the Company evaluates the potential acquisition of various financial institutions. In addition, the Company regularly considers the potential disposition of certain of its assets and branches. The Company seeks merger or acquisition partners that are culturally similar, have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The Company has not transacted any significant acquisitions or sales during the past several years.

The Company employed 4,270 persons on a full-time basis and 608 persons on a part-time basis at December 31, 2012. The Company provides a variety of benefit programs including a 401(k) plan as well as group life, health, accident, and other insurance. The Company also maintains training and educational programs designed to address the significant and changing regulations facing the financial services industry and prepare employees for positions of increasing responsibility.

Competition

The Company faces intense competition from hundreds of financial service providers. It competes with national and state banks for deposits, loans and trust accounts, and with savings and loan associations and credit unions for deposits and consumer lending products. In addition, the Company competes with other financial intermediaries such as securities brokers and dealers, personal loan companies, insurance companies, finance companies, and certain governmental agencies. With the passage of the

Gramm-Leach-Bliley Financial Modernization Act of 1999, competition has increased over time from institutions not subject to the same regulatory restrictions as domestic banks and bank holding companies. The Company generally competes on the basis of customer service and responsiveness to customer needs, reputation, interest rates on loans and deposits, lending limits, and customer convenience, such as location of offices. The Company has approximately 13% of the deposit market share in Kansas City and approximately 9% of the deposit market share in St. Louis.

Operating Segments

The Company is managed in three operating segments. The Consumer segment includes the retail branch network, consumer installment lending, personal mortgage banking, consumer debit and credit bank card activities. It provides services through a network of 204 full-service branches, a widespread ATM network of 403 machines, and the use of alternative delivery channels such as extensive online banking and telephone banking services. In 2012, this retail segment contributed 23% of total segment pre-tax income. The Commercial segment provides a full array of corporate lending, merchant and commercial bank card products, leasing, and international services, as well as business and government deposit and cash management services. Fixed income investments are sold to individuals and institutional investors through the Capital Markets Group, which is also included in this segment. In 2012, the Commercial segment contributed 63% of total segment pre-tax income. The Wealth segment provides traditional trust and estate tax planning services, brokerage services, and advisory and discretionary investment portfolio management services to both personal and institutional corporate customers. This segment also manages the Company's family of proprietary mutual funds, which are available for sale to both trust and general retail customers. At December 31, 2012, the Wealth segment managed investments with a market value of $17.0 billion and administered an additional $13.3 billion in non-managed assets. Additional information relating to operating segments can be found on pages 45 and 88.

Government Policies

The Company's operations are affected by federal and state legislative changes, by the United States government, and by policies of various regulatory authorities, including those of the numerous states in which they operate. These include, for example, the statutory minimum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, international currency regulations and monetary policies, the U.S. Patriot Act, and capital adequacy and liquidity constraints imposed by federal and state bank regulatory agencies.

Supervision and Regulation

The following information summarizes existing laws and regulations that materially affect the Company's operations. It does not discuss all provisions of these laws and regulations and it does not include all laws and regulations that affect the Company presently or may affect the Company in the future.

General

The Company, as a bank holding company, is primarily regulated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 (BHC Act). Under the BHC Act, the Federal Reserve Board's prior approval is required in any case in which the Company proposes to acquire all or substantially all of the assets of any bank, acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank, or merge or consolidate with any other bank holding company. With certain exceptions, the BHC Act also prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any non-banking company. Under the BHC Act, the Company may not engage in any business other than managing and controlling banks or furnishing certain specified services to subsidiaries and may not acquire voting control of non-banking companies unless the Federal Reserve Board determines such businesses and services to be closely related to banking. When reviewing bank acquisition applications for approval, the Federal Reserve Board considers, among other things, the Bank's record in meeting the credit needs of the communities it serves in accordance with the Community Reinvestment Act of 1977, as amended (CRA). Under the terms of the CRA, banks have a continuing obligation, consistent with safe and sound operation, to help meet the credit needs of their communities, including providing credit to individuals residing in low- and moderate-income areas. The Bank has a current CRA rating of "outstanding".

The Company is required to file with the Federal Reserve Board various reports and additional information the Federal Reserve Board may require. The Federal Reserve Board also makes regular examinations of the Company and its subsidiaries. The Company's banking subsidiary is a state chartered Federal Reserve member bank and is subject to regulation, supervision and examination by the Federal Reserve Bank of Kansas City and the State of Missouri Division of Finance. The Bank is also subject to regulation by the Federal Deposit Insurance Corporation (FDIC). In addition, there are numerous other federal and state laws and regulations which control the activities of the Company and the Bank, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with affiliates, loan limits, mergers and acquisitions, issuance of securities, dividend payments, and extensions of credit. If the Company fails to comply with these or other applicable laws and regulations, it may be subject to civil monetary penalties, imposition of cease and desist orders or other

written directives, removal of management and, in certain circumstances, criminal penalties. This regulatory framework is intended primarily for the protection of depositors and the preservation of the federal deposit insurance funds, not for the protection of security holders. Statutory and regulatory controls increase a bank holding company's cost of doing business and limit the options of its management to employ assets and maximize income.

In addition to its regulatory powers, the Federal Reserve Bank affects the conditions under which the Company operates by its influence over the national supply of bank credit. The Federal Reserve Board employs open market operations in U.S. government securities and oversees changes in the discount rate on bank borrowings, changes in the federal funds rate on overnight inter-bank borrowings, and changes in reserve requirements on bank deposits in implementing its monetary policy objectives. These methods are used in varying combinations to influence the overall level of the interest rates charged on loans and paid for deposits, the price of the dollar in foreign exchange markets, and the level of inflation. The monetary policies of the Federal Reserve have a significant effect on the operating results of financial institutions, most notably on the interest rate environment. In view of changing conditions in the national economy and in the money markets, as well as the effect of credit policies of monetary and fiscal authorities, no prediction can be made as to possible future changes in interest rates, deposit levels or loan demand, or their effect on the financial statements of the Company.

The financial industry operates under laws and regulations that are under constant review by various agencies and legislatures and are subject to sweeping change. The Company currently operates as a bank holding company, as defined by the Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act), and the Bank qualifies as a financial subsidiary under the Act, which allows it to engage in investment banking, insurance agency, brokerage, and underwriting activities that were not available to banks prior to the GLB Act. The GLB Act also included privacy provisions that limit banks' abilities to disclose non-public information about customers to non-affiliated entities.

The Company must also comply with the requirements of the Bank Secrecy Act (BSA). The BSA is designed to help fight drug trafficking, money laundering, and other crimes. Compliance is monitored by the Federal Reserve. The BSA was enacted to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, criminal activity. Since its passage, the BSA has been amended several times. These amendments include the Money Laundering Control Act of 1986. which made money laundering a criminal act, as well as the Money Laundering Suppression Act of 1994 which required regulators to develop enhanced examination procedures and increased examiner training to improve the identification of money laundering schemes in financial institutions.

The USA PATRIOT Act, established in 2001. substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and the regulations include significant penalties for non-compliance.

Subsidiary Bank

Under Federal Reserve policy, the bank holding company, Commerce Bancshares, Inc. (the "Parent"), is expected to act as a source of financial strength to its bank subsidiary and to commit resources to support it in circumstances when it might not otherwise do so. In addition, loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Deposit Insurance

Substantially all of the deposits of the Bank are insured up to the applicable limits by the Bank Insurance Fund of the FDIC, generally up to $250,000 per depositor, for each account ownership category. The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC for Bank Insurance Fund member institutions. The FDIC established a risk-based assessment system under which institutions are classified and pay premiums according to their perceived risk to the federal deposit insurance funds. In February 2011, under the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the FDIC issued a final rule changing its assessment base from total domestic deposits to average total assets minus average tangible equity. The rule altered other adjustments in the current assessment system for heavy use of unsecured liabilities, secured liabilities and brokered deposits, and added an adjustment for holdings of unsecured bank debt. For banks with more than $10 billion in assets, the FDIC 's new rule changed the assessment rate, abandoning the previous method for determining premiums, and instead relying on a scorecard designed to measure financial performance and ability to withstand stress, in addition to measuring the FDIC's exposure should the bank fail. The new rule was effective for quarters beginning April 1, 2011. Because the Company has maintained a strong balance sheet with solid amounts of capital and has not offered many of the complex financial

products that were prevalent in the marketplace, the risk-based FDIC insurance assessments under the new methods were less than amounts calculated under the old assessment methods. Accordingly, the Company's FDIC insurance expense in 2012 was $10.4 million, a decrease of $2.7 million as compared to FDIC expense in 2011. In late 2009, member institutions were required to prepay their quarterly FDIC premiums. The Bank made a prepayment of $68.7 million in 2009, and the current unused balance at December 31, 2012 was $25.4 million. A refund of the unused balance is expected to be received in the second quarter of 2013.

Payment of Dividends

The Federal Reserve Board may prohibit the payment of cash dividends to shareholders by bank holding companies if their actions constitute unsafe or unsound practices. The principal source of the Parent's cash revenues is cash dividends paid by the Bank. The amount of dividends paid by the Bank in any calendar year is limited to the net profit of the current year combined with the retained net profits of the preceding two years, and permission must be obtained from the Federal Reserve Board for dividends exceeding these amounts. The payment of dividends by the Bank may also be affected by factors such as the maintenance of adequate capital.

Capital Adequacy

The Company is required to comply with the capital adequacy standards established by the Federal Reserve. These capital adequacy guidelines generally require bank holding companies to maintain minimum total capital equal to 8% of total risk-adjusted assets and off-balance sheet items (the “Total Risk-Based Capital Ratio”), with at least one-half of that amount consisting of Tier I, or core capital, and the remaining amount consisting of Tier II, or supplementary capital. Tier I capital for bank holding companies generally consists of the sum of common shareholders’ equity, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Tier II capital generally consists of hybrid capital instruments, term subordinated debt and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics.

In addition, the Federal Reserve also requires bank holding companies to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization’s Tier I capital to its total consolidated quarterly average assets (as defined for regulatory purposes), net of the allowance for loan losses, goodwill and certain other intangible assets. The minimum leverage ratio for bank holding companies is 4%. At December 31, 2012, the Bank was “well-capitalized” under regulatory capital adequacy standards, as further discussed on page 91.

In June 2012, the Federal Reserve released for comment a proposal to enact in the United States the international agreement referred to as Basel III. Capital and liquidity standards consistent with Basel III will be formally implemented in the United States through a series of rules. The proposed rules include higher capital requirements and would raise minimum capital levels, redefine the significant inputs to the capital ratio calculation, and be phased in over a period of years from 2013 through 2019. The initial comment period for the proposed rules ended in October 2012, and in November 2012, the effective date for initial Basel III implementation was delayed. A new implementation date has yet to be announced. The Company believes its current capital ratios would be higher than those required in the Basel III proposal issued by the Federal Reserve.

Recent Significant Legislation Affecting the Company

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act is sweeping legislation intended to overhaul regulation of the financial services industry and requires rulemaking and reports over the next several years. Among its many provisions, the Dodd-Frank Act established a new council of “systemic risk” regulators, created a new consumer protection division within the Federal Reserve, empowers the Federal Reserve to supervise the largest, most complex financial companies, allows the government to seize and liquidate failing financial companies, and gives regulators new powers to oversee the derivatives market.

In June 2011, the Federal Reserve, under the provisions of the Dodd-Frank Act, approved a final debit card interchange rule that significantly limits the amount of debit card interchange fees charged by banks. The rule caps an issuer’s base fee at 21 cents per transaction and allows additional fees to help cover fraud losses. The new pricing is a reduction of approximately 45% when compared to previous market rates. The rule also limits network exclusivity, requiring issuers to ensure that a debit card transaction can be carried on two unaffiliated networks: one signature-based and one PIN-based. The rules apply to bank issuers with more than $10 billion in assets and took effect in phases, with the base fee cap effective October 1, 2011 and the network exclusivity rule effective on April 1, 2012.

The Dodd-Frank Act also established the Consumer Financial Protection Bureau (CFPB) and authorizes it to supervise certain consumer financial services companies and large depository institutions and their affiliates for consumer protection purposes.

Subject to the provisions of the Act, the CFPB has responsibility to implement, examine for compliance with, and enforce "Federal consumer financial law." As a depository institution, the Company will be subject to examinations by the CFPB, which will focus on the Company's ability to detect, prevent, and correct practices that present a significant risk of violating the law and causing consumer harm.

In October 2012, the Federal Reserve, as required by the Dodd-Frank Act, approved new stress testing regulations applicable to certain financial companies with total consolidated assets of more than $10 billion but less than $50 billion. The rule requires that these financial companies, including Commerce Bancshares, conduct stress tests on an annual basis. The stress tests will have an as-of date of September 30, 2013 using scenarios provided by the Federal Reserve in November of the same year, and the Company is required to submit regulatory reports to the Federal Reserve on its stress tests by March 31, 2014. During June 2015, the Company will be required to make public disclosures of the results of tests performed as of September 30, 2014.

Available Information

The Company's principal offices are located at 1000 Walnut, Kansas City, Missouri (telephone number 816-234-2000). The Company makes available free of charge, through its Web site at www.commercebank.com, reports filed with the Securities and Exchange Commission as soon as reasonably practicable after the electronic filing. These filings include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports.

Statistical Disclosure

The information required by Securities Act Guide 3 — "Statistical Disclosure by Bank Holding Companies" is located on the pages noted below.

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I.	Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential	20, 50-53
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III.	Loan Portfolio	
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Item 1a. RISK FACTORS

Making or continuing an investment in securities issued by Commerce Bancshares, Inc., including its common stock, involves certain risks that you should carefully consider. If any of the following risks actually occur, its business, financial condition or results of operations could be negatively affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of Commerce Bancshares, Inc.

Difficult market conditions have adversely affected the Company's industry and may continue to do so.

Given the concentration of the Company's banking business in the United States, it is particularly exposed to downturns in the U.S. economy. The economic trends which began in 2008, such as declines in the housing market (e.g., falling home prices and increasing foreclosures), unemployment and under-employment, negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions. The weak U.S. economy and tightening of credit during recent years led to a lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. More recently, the economy has begun to stabilize. The housing market has improved over recent years, and asset write-downs have slowed. However, there remain risks that could undermine the more recent improvements in the economy's stabilization.

In particular, the Company may face the following risks in connection with these market conditions:

- Unemployment has improved over recent years but remains at historically high levels. Continued high unemployment levels and weak economic activity may affect consumer confidence levels and may cause declines in consumer credit usage, adverse changes in payment patterns, and higher loan delinquencies and default rates. These could impact the Company's future loan losses and provision for loan losses, as a significant part of the Company's business includes consumer and credit card lending.
- Reduced levels of economic activity may also cause declines in financial service transactions, including bank card, corporate cash management and other fee businesses, as well as the fees earned by the Company on such transactions.
- The Company's ability to assess the creditworthiness of its customers may be impaired if the models and approaches it uses to select, manage, and underwrite its customers become less predictive of future behaviors, causing higher future credit losses.
- The process used to estimate losses inherent in the Company's loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of its borrowers to repay their loans. If an instance occurs that renders these predictions no longer capable of accurate estimation, this may in turn impact the reliability of the process.
- Competition in the industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, thereby reducing market prices for various products and services which could in turn reduce Company revenues.
- Though bank failures slowed during 2011 and 2012 as compared to 2009 and 2010, failures during this period remained higher than historical levels. Due to higher bank failures in recent years and continued uncertainty about the future, the Company may be required to pay high levels of FDIC premiums for extended periods of time.
- The U.S. economy is also affected by foreign economic events, such as the European debt crisis that developed during the past year. Although the Company does not hold foreign debt, global conditions affecting interest rates, business export activity, capital expenditures by businesses, and investor confidence may negatively affect the Company by means of reduced loan demand or reduced transaction volume with the Company.
- The United States is faced with large debts outstanding and a significant debate by Congress on how to address this situation. Automatic spending cuts scheduled by law to go into effect in March 2013, or revisions to this law by Congress, could result in lower government spending and thus slow economic growth in the short-term. Should this occur, unemployment could increase, demand for business and consumer loans and other financial products could decline, and credit losses could increase, thus reducing the Company's profitability.

Significant changes in banking laws and regulations could materially affect the Company's business.

As a result of the recent banking crisis, a significant increase in bank regulation has occurred. A number of new laws and regulations have already been implemented, including those which reduce overdraft fees, credit card revenues, and revenues from student lending activities. These recently adopted regulations have resulted in lower revenues and higher operating costs. As discussed in Item 1, the Dodd-Frank Act passed in July 2010 contains significant complex regulations for all financial institutions. Among its many provisions are rules which established a new council of "systemic risk" regulators, created a new consumer protection division within the Federal Reserve, empower the Federal Reserve to supervise the largest, most complex financial companies, allow the government to seize and liquidate failing financial companies, and give regulators new powers to oversee the derivatives market.

Because the Company has maintained a strong balance sheet and has not offered many of the complex financial products that were prevalent in the marketplace, there are a number of provisions within the Dodd-Frank Act, including higher capital standards, improved lending transparency and risk-based FDIC insurance assessments, that management does not expect to negatively affect the Company's future financial results. However, the Company has already been significantly affected by enacted regulation on debit cards, and a number of provisions within the law include the potential for higher costs due to increased regulatory and compliance burdens, which will result in lower revenues or increasing costs for the Company. In addition to these and other new regulations which are already in place and are discussed above, the Company will likely face increased regulation of the industry. Increased regulation, along with possible changes in tax laws and accounting rules, may have a significant impact on the way the Company conducts business, implements strategic initiatives, engages in tax planning and makes financial disclosures. Compliance with such regulation may divert resources from other areas of the business and limit the ability to pursue other opportunities.

The performance of the Company is dependent on the economic conditions of the markets in which the Company operates.

The Company's success is heavily influenced by the general economic conditions of the specific markets in which it operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides financial services primarily throughout the states of Missouri, Kansas, and central Illinois, and has recently expanded into Oklahoma, Colorado and other surrounding states. As the Company does not have a significant presence in other parts of the country, a prolonged economic downtown in these markets could have a material adverse effect on the Company's financial condition and results of operations.

Significant changes in federal monetary policy could materially affect the Company's business.

The Federal Reserve System regulates the supply of money and credit in the United States. Its polices determine in large part the cost of funds for lending and investing by influencing the interest rate earned on loans and paid on borrowings and interest bearing deposits. Credit conditions are influenced by its open market operations in U.S. government securities, changes in the member bank discount rate, and bank reserve requirements. Changes in Federal Reserve Board policies are beyond the Company's control and difficult to predict, and such changes may result in lower interest margins and a continued lack of demand for credit products.

The soundness of other financial institutions could adversely affect the Company.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institution counterparties. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Transactions with these institutions include overnight and term borrowings, interest rate swap agreements, securities purchased and sold, short-term investments, and other such transactions. As a result of this exposure, defaults by, or rumors or questions about, one or more financial services institutions or the financial services industry generally, could lead to market-wide liquidity problems and defaults by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client, while other transactions expose the Company to liquidity risks should funding sources quickly disappear. In addition, the Company's credit risk may be exacerbated when the collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the exposure due to the Company. Any such losses could materially and adversely affect results of operations.

The Company's asset valuation may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to asset valuations that may materially adversely affect its results of operations or financial condition.

The Company uses estimates, assumptions, and judgments when certain financial assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party sources, when available. When such third-party information is not available, fair value is estimated primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact the Company's future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, certain asset valuations may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of assets as reported within the Company's consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on results of operations or financial condition.

The Company's investment portfolio values may be adversely impacted by deterioration in the credit quality of underlying collateral within the various categories of investment securities it owns.

The Company generally invests in securities issued by municipal entities, government-backed agencies or privately issued securities that are highly rated and evaluated at the time of purchase, however, these securities are subject to changes in market value due to changing interest rates and implied credit spreads. Over the past several years, budget deficits and other financial problems in a number of states and political subdivisions have been reported in the media. While the Company maintains rigorous risk management practices over bonds issued by municipalities, further credit deterioration in these bonds could occur and result in losses. Certain mortgage and asset-backed securities represent beneficial interests which are collateralized by residential

mortgages, credit cards, automobiles, mobile homes or other assets. While these investment securities are highly rated at the time of initial investment, the value of these securities may decline significantly due to actual or expected deterioration in the underlying collateral, especially residential mortgage collateral. Market conditions have resulted in a deterioration in fair values for non-guaranteed mortgage-backed and other asset-backed securities. Under accounting rules, when the impairment is due to declining expected cash flows, some portion of the impairment, depending on the Company's intent to sell and the likelihood of being required to sell before recovery, must be recognized in current earnings. This could result in significant non-cash losses.

Future loan losses could increase.

The Company maintains an allowance for loan losses that represents management's best estimate of probable losses that have been incurred at the balance sheet date within the existing portfolio of loans. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Although the loan losses have declined significantly in 2012, they had been at elevated levels during the period 2007 through 2011 when compared to historical experience, particularly in residential construction, consumer, and credit card loans, due to the past deterioration in the housing industry and general economic conditions in recent years. While the housing sector and overall economy have begun to slowly recover, business activities across a range of industries continue to face difficulties due to the lack of consumer spending and the lack of liquidity in the global credit markets. A continuation or worsening of current financial market conditions could result in further loan losses, which may negatively affect the Company's results of operations and could further increase levels of its allowance. In addition, the Company's allowance level is subject to review by regulatory agencies, and that review could result in adjustments to the allowance. See the section captioned "Allowance for Loan Losses" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report for further discussion related to the Company's process for determining the appropriate level of the allowance for possible loan loss.

The Company is subject to both interest rate and liquidity risk.

With oversight from its Asset-Liability Management Committee, the Company devotes substantial resources to monitoring its liquidity and interest rate risk on a monthly basis. The Company's net interest income is the largest source of overall revenue to the Company, representing 62% of total revenue. The interest rate environment in which the Company operates fluctuates in response to general economic conditions and policies of various governmental and regulatory agencies, particularly the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence loan originations, deposit generation, demand for investments and revenues and costs for earning assets and liabilities.

Additionally the Company manages its balance sheet in order to maximize its net interest income from its net earning assets while insuring that there is ample liquidity to meet fluctuating cash flows coming from either funding sources or its earning assets.

Since the end of 2008, a weakened U.S. economy has resulted in significant growth in deposits from both consumers and businesses. From 2008 through 2012, total deposits grew by $5.5 billion. During the same period, the Federal Reserve reduced interest rates to unprecedented low levels. Loan demand remained weak through this period, and the Company invested these new deposits in its investment securities portfolio, which grew by $5.9 billion from 2008 through 2012. At December 31, 2012 the Company's loan to deposit rate was 56%, a sign of strong liquidity. Investment securities generally carry lower rates than loans, and as these securities have grown, interest margins have been pressured. Furthermore the Company attempts to diversify its investment portfolio while keeping duration short, in order to ensure it is always able to meet liquidity needs for future changes in loans or deposit balances.

While loans grew in 2012 by 7% as the economy strengthened somewhat, the low interest rate environment in which all banks operate will continue to pressure the Company's interest margins. Should the demand for loans increase in the future while deposit balances decline significantly, the Company's liquidity risk could change, as it is dependent on the Company's ability to manage maturities within its investment portfolio to fund these changing cash flows.

The Company operates in a highly competitive industry and market area.

The Company operates in the financial services industry, which is facing a rapidly changing environment having numerous competitors including other banks and insurance companies, securities dealers, brokers, trust and investment companies and mortgage bankers. Consolidation among financial service providers is likely to occur, and there are many new changes in technology, product offerings and regulation. As consolidation occurs, larger regional banks may acquire smaller banks in our market and add to existing competition. These new banks may lower fees in an effort to grow market share, which could result in a loss of customers and lower fee revenue for the Company. The Company must continue to make investments in its products and delivery systems to stay competitive with the industry as a whole, or its financial performance may suffer.

The Company's reputation and future growth prospects could be impaired if events occur which breach its customers' privacy.

The Company relies heavily on communications and information systems to conduct its business, and as part of its business, the Company maintains significant amounts of data about its customers and the products they use. Additionally, customers rely on online bank products. While the Company has policies and procedures and safeguards designed to prevent or limit the effect of failure, interruption or security breach of its information systems, there can be no assurances that any such failures, interruptions or security breaches will not occur; or if they do occur, that they will be adequately addressed. In addition to unauthorized access, denial-of-service attacks could overwhelm Company Web sites and prevent the Company from adequately serving customers. Should any of the Company's systems become compromised, the reputation of the Company could be damaged, relationships with existing customers may be impaired, the compromise could result in lost business, and as a result, the Company could incur significant expenses trying to remedy the incident.

The Company may not attract and retain skilled employees.

The Company's success depends, in large part, on its ability to attract and retain key people. Competition for the best people can be intense, and the Company spends considerable time and resources attracting and hiring qualified people for its various business lines and support units. The unexpected loss of the services of one or more of the Company's key personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, and years of industry experience, as well as the difficulty of promptly finding qualified replacement personnel.

Item 1b. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

The main offices of the Bank are located in the larger metropolitan areas of its markets in various multi-story office buildings. The Bank owns its main offices and leases unoccupied premises to the public. The larger offices include:

Building	Net rentable square footage	% occupied in total	% occupied by bank
922 Walnut Kansas City, MO	256,000	95%	93%
1000 Walnut Kansas City, MO	403,000	85	38
811 Main Kansas City, MO	237,000	100	100
8000 Forsyth Clayton, MO	178,000	97	97
1551 N. Waterfront Pkwy Wichita, KS	120,000	97	32

Various installment loan, credit card, trust and safe deposit functions operate out of leased offices in downtown Kansas City, Missouri. The Company has an additional 199 branch locations in Missouri, Illinois, Kansas, Oklahoma and Colorado which are owned or leased, and 158 off-site ATM locations.

Item 3. LEGAL PROCEEDINGS

The information required by this item is set forth in Item 8 under Note 18, Commitments, Contingencies and Guarantees on page 104.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Executive Officers of the Registrant

The following are the executive officers of the Company as of February 22, 2013, each of whom is designated annually. There are no arrangements or understandings between any of the persons so named and any other person pursuant to which such person was designated an executive officer.

Name and Age	Positions with Registrant
Jeffery D. Aberdeen, 59	Controller of the Company since December 1995. He is also Controller of the Company's subsidiary bank, Commerce Bank.
Kevin G. Barth, 52	Executive Vice President of the Company since April 2005 and Executive Vice President of Commerce Bank since October 1998. Senior Vice President of the Company and Officer of Commerce Bank prior thereto.
Jeffrey M. Burik, 54	Senior Vice President of the Company since February 2013. Executive Vice President of Commerce Bank since November 2007.
Daniel D. Callahan, 56	Executive Vice President and Chief Credit Officer of the Company since December 2010 and Senior Vice President of the Company prior thereto. Executive Vice President of Commerce Bank since May 2003.
Sara E. Foster, 52	Executive Vice President of the Company since February 2012 and Senior Vice President of the Company since February 1998.
David W. Kemper, 62	Chairman of the Board of Directors of the Company since November 1991, Chief Executive Officer of the Company since June 1986. He was President of the Company from April 1982 until February 2013. He is Chairman of the Board, President and Chief Executive Officer of Commerce Bank. He is the son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company), the brother of Jonathan M. Kemper, Vice Chairman of the Company, and father of John W. Kemper, President and Chief Operating Officer of the Company.
John W. Kemper, 35	President and Chief Operating Officer of the Company since February 2013, and Executive Vice President and Chief Administrative Officer of the Company prior thereto. Senior Vice President of Commerce Bank since January 2009. Prior to his employment with Commerce Bank in August 2007, he was employed as an engagement manager with a global management consulting firm, managing strategy and operations projects primarily focused in the financial service industry. He is the son of David W. Kemper, Chairman and Chief Executive Officer of the Company and nephew of Jonathan M. Kemper, Vice Chairman of the Company.
Jonathan M. Kemper, 59	Vice Chairman of the Company since November 1991 and Vice Chairman of Commerce Bank since December 1997. Prior thereto, he was Chairman of the Board, Chief Executive Officer, and President of Commerce Bank. He is the son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company), the brother of David W. Kemper, Chairman and Chief Executive Officer of the Company, and uncle of John W. Kemper, President and Chief Operating Officer of the Company.
Charles G. Kim, 52	Chief Financial Officer of the Company since July 2009. Executive Vice President of the Company since April 1995 and Executive Vice President of Commerce Bank since January 2004. Prior thereto, he was Senior Vice President of Commerce Bank.
Seth M. Leadbeater, 62	Vice Chairman of the Company since January 2004. Prior thereto he was Executive Vice President of the Company. Vice Chairman of Commerce Bank since September 2004. Prior thereto he was Executive Vice President of Commerce Bank.
Michael J. Petrie, 56	Senior Vice President of the Company since April 1995. Prior thereto, he was Vice President of the Company.
Robert J. Rauscher, 55	Senior Vice President of the Company since October 1997. Senior Vice President of Commerce Bank prior thereto.
V. Raymond Stranghoener, 61	Executive Vice President of the Company since July 2005 and Senior Vice President of the Company prior thereto.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Commerce Bancshares, Inc.
Common Stock Data

The following table sets forth the high and low prices of actual transactions in the Company's common stock and cash dividends paid for the periods indicated (restated for the 5% stock dividend distributed in December 2012).

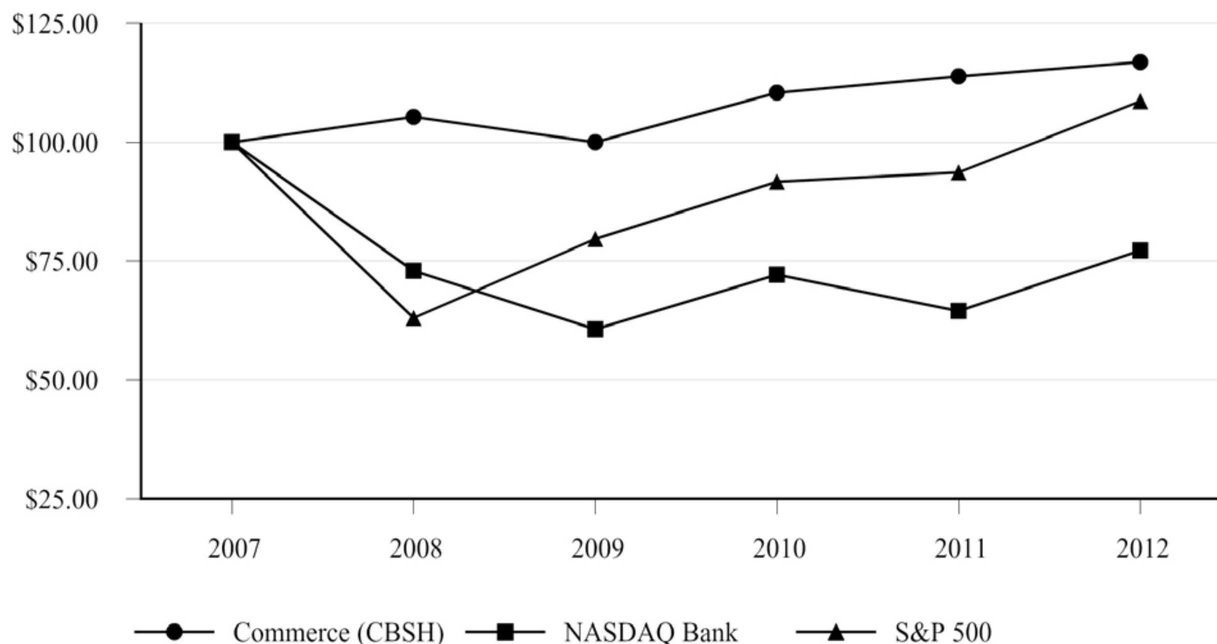
	Quarter	High	Low	Cash Dividends
2012	**First**	**$ 39.31**	**$ 35.78**	**$ .219**
	Second	**39.05**	**34.45**	**.219**
	Third	**40.70**	**35.91**	**.219**
	Fourth	**38.70**	**34.69**	**1.648***
2011	First	$ 38.70	$ 34.96	$ .209
	Second	39.82	36.33	.209
	Third	39.91	30.14	.209
	Fourth	36.83	29.99	.209
2010	First	$ 36.16	$ 32.44	$ .203
	Second	37.34	30.68	.203
	Third	34.85	30.32	.203
	Fourth	36.82	31.16	.203

** Includes a special dividend of $1.429 per share*

Commerce Bancshares, Inc. common shares are listed on the Nasdaq Global Select Market (NASDAQ) under the symbol CBSH. The Company had 4,135 shareholders of record as of December 31, 2012.

Performance Graph

The following graph presents a comparison of Company (CBSH) performance to the indices named below. It assumes $100 invested on December 31, 2007 with dividends invested on a cumulative total shareholder return basis.



	2007	2008	2009	2010	2011	2012
Commerce (CBSH)	100.00	105.31	100.00	110.34	113.81	116.78
NASDAQ Bank	100.00	72.91	60.66	72.13	64.51	77.18
S&P 500	100.00	63.00	79.67	91.67	93.61	108.59

The following table sets forth information about the Company's purchases of its $5 par value common stock, its only class of stock registered pursuant to Section 12 of the Exchange Act, during the fourth quarter of 2012.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number that May Yet Be Purchased Under the Program
October 1—31, 2012	329,095	$37.83	329,095	2,572,965
November 1—30, 2012	444,277	$38.01	444,277	2,128,688
December 1—31, 2012	1,070	$35.06	1,070	2,127,618
Total	**774,442**	**$37.93**	**774,442**	**2,127,618**

The Company's stock purchases shown above were made under authorizations by the Board of Directors. Under the most recent authorization in July 2012 of 3,000,000 shares, 2,127,618 shares remained available for purchase at December 31, 2012.

Item 6. SELECTED FINANCIAL DATA

The required information is set forth below in Item 7.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report may contain "forward-looking statements" that are subject to risks and uncertainties and include information about possible or assumed future results of operations. Many possible events or factors could affect the future financial results and performance of the Company. This could cause results or performance to differ materially from those expressed in the forward-looking statements. Words such as "expects", "anticipates", "believes", "estimates", variations of such words and other similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in, or implied by, such forward-looking statements. Readers should not rely solely on the forward-looking statements and should consider all uncertainties and risks discussed throughout this report. Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events. Such possible events or factors include the risk factors identified in Item 1a Risk Factors and the following: changes in economic conditions in the Company's market area; changes in policies by regulatory agencies, governmental legislation and regulation; fluctuations in interest rates; changes in liquidity requirements; demand for loans in the Company's market area; changes in accounting and tax principles; estimates made on income taxes; and competition with other entities that offer financial services.

Overview

Commerce Bancshares, Inc. and its subsidiaries (the "Company") operates as a super-community bank offering an array of sophisticated financial products delivered with high-quality, personal customer service. It is the largest bank holding company headquartered in Missouri, with its principal offices in Kansas City and St. Louis, Missouri. Customers are served from approximately 360 locations in Missouri, Kansas, Illinois, Oklahoma and Colorado using delivery platforms which include an extensive network of branches and ATM machines, full-featured online banking, and a central contact center.

The core of the Company's competitive advantage is its focus on the local markets it services and its concentration on relationship banking and high touch service. In order to enhance shareholder value, the Company grows its core revenue by expanding new and existing customer relationships, utilizing improved technology, and enhancing customer satisfaction.

Various indicators are used by management in evaluating the Company's financial condition and operating performance. Among these indicators are the following:

- Net income and growth in earnings per share — Net income attributable to Commerce Bancshares, Inc. was $269.3 million, an increase of 5.1% compared to the previous year. The return on average assets was 1.30%. Diluted earnings per share increased 7.8% in 2012 compared to 2011.
- Growth in total revenue — Total revenue is comprised of net interest income and non-interest income. Total revenue in 2012 increased slightly over 2011, as non-interest income grew $6.7 million and net interest income fell $6.2 million. Non-interest income saw increases in trust and capital market fees, partly offset by declines in bank card transaction fees, deposit fees, and loan fees and sales. However, past regulatory actions which have reduced fees from overdraft, debit card, and student lending activities have been somewhat mitigated by growth in corporate card revenue, which increased $13.0 million in 2012, and growth in other types of deposit fees. The net interest margin declined to 3.41% in 2012, a 24 basis point decline from 2011, as average rates continued to fall and the lending environment remained challenging.
- Expense control — Total non-interest expense increased less than 1% this year compared to 2011. Salaries and employee benefits, the largest component, increased by $15.6 million, or 4.5% due to higher salaries, incentives, medical and retirement costs. In addition, other operating expenses included a $5.7 million increase in data processing costs and the accrual of $5.2 million in potential losses arising from the preliminary settlement of Visa, Inc. (Visa) credit card interchange litigation.
- Asset quality — Net loan charge-offs in 2012 decreased $25.2 million from those recorded in 2011 and averaged .42% of loans compared to .70% in the previous year. Total non-performing assets, which include non-accrual loans and foreclosed real estate, amounted to $64.9 million at December 31, 2012, a decrease of $28.9 million from balances at the previous year end, and represented .66% of loans outstanding.
- Shareholder return — Total shareholder return, including the change in stock price and dividend reinvestment, was 2.6% over the past year and 6.5% over the past 10 years. Record earnings over the last two years have strengthened capital

and liquidity and allowed the Company to pay a special fourth quarter cash dividend of $1.43* per share in advance of higher tax rates now in effect.

** Restated for the 5% stock dividend distributed in December 2012.*

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. The historical trends reflected in the financial information presented below are not necessarily reflective of anticipated future results.

Key Ratios

(Based on average balances)	**2012**	2011	2010	2009	2008
Return on total assets	**1.30%**	1.32%	1.22%	.96%	1.15%
Return on total equity	**12.00**	12.15	11.15	9.76	11.81
Equity to total assets	**10.84**	10.87	10.91	9.83	9.71
Loans to deposits (1)	**55.80**	59.15	70.02	79.79	92.11
Non-interest bearing deposits to total deposits	**32.82**	30.26	28.65	26.48	24.05
Net yield on interest earning assets (tax equivalent basis)	**3.41**	3.65	3.89	3.93	3.96
(Based on end of period data)					
Non-interest income to revenue (2)	**38.44**	37.82	38.54	38.41	38.80
Efficiency ratio (3)	**59.26**	59.10	59.71	59.88	63.08
Tier I risk-based capital ratio	**13.60**	14.71	14.38	13.04	10.92
Total risk-based capital ratio	**14.93**	16.04	15.75	14.39	12.31
Tier I leverage ratio	**9.14**	9.55	10.17	9.58	9.06
Tangible common equity to assets ratio (4)	**9.25**	9.91	10.27	9.71	8.25
Cash dividend payout ratio	**79.48**	31.06	35.52	44.15	38.54

(1) Includes loans held for sale.

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

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

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

Selected Financial Data

(In thousands, except per share data)	**2012**	2011	2010	2009	2008
Net interest income	**$ 639,906**	$ 646,070	$ 645,932	$ 635,502	$ 592,739
Provision for loan losses	**27,287**	51,515	100,000	160,697	108,900
Non-interest income	**399,630**	392,917	405,111	396,259	375,712
Investment securities gains (losses), net	**4,828**	10,812	(1,785)	(7,195)	30,294
Non-interest expense	**618,469**	617,249	631,134	621,737	615,380
Net income attributable to Commerce Bancshares, Inc.	**269,329**	256,343	221,710	169,075	188,655
Net income per common share-basic*	**2.91**	2.70	2.30	1.79	2.05
Net income per common share-diluted*	**2.90**	2.69	2.29	1.78	2.04
Cash dividends	**211,608**	79,140	78,231	74,720	72,055
Cash dividends per share*	**2.305**	.834	.812	.790	.784
Market price per share*	**35.06**	36.30	36.04	33.45	36.16
Book value per share*	**23.76**	23.24	21.19	19.63	17.14
Common shares outstanding*	**91,414**	93,400	95,503	96,093	92,124
Total assets	**22,159,589**	20,649,367	18,502,339	18,120,189	17,532,447
Loans, including held for sale	**9,840,211**	9,208,554	9,474,733	10,490,327	11,644,544
Investment securities	**9,669,735**	9,358,387	7,409,534	6,473,388	3,780,116
Deposits	**18,348,653**	16,799,883	15,085,021	14,210,451	12,894,733
Long-term debt	**503,710**	511,817	512,273	1,236,062	1,447,781
Equity	**2,171,574**	2,170,361	2,023,464	1,885,905	1,579,467
Non-performing assets	**64,863**	93,803	97,320	116,670	79,077

** Restated for the 5% stock dividend distributed in December 2012.*

Results of Operations

(Dollars in thousands)	**2012**	2011	2010	**$ Change '12-'11**	$ Change '11-'10	**% Change '12-'11**	% Change '11-'10
Net interest income	**$ 639,906**	$ 646,070	$ 645,932	**$ (6,164)**	$ 138	**(1.0)%**	—%
Provision for loan losses	**(27,287)**	(51,515)	(100,000)	**(24,228)**	(48,485)	**(47.0)**	(48.5)
Non-interest income	**399,630**	392,917	405,111	**6,713**	(12,194)	**1.7**	(3.0)
Investment securities gains (losses), net	**4,828**	10,812	(1,785)	**(5,984)**	12,597	**(55.3)**	NM
Non-interest expense	**(618,469)**	(617,249)	(631,134)	**1,220**	(13,885)	**.2**	(2.2)
Income taxes	**(127,169)**	(121,412)	(96,249)	**5,757**	25,163	**4.7**	26.1
Non-controlling interest expense	**(2,110)**	(3,280)	(165)	**(1,170)**	3,115	**(35.7)**	NM
Net income attributable to Commerce Bancshares, Inc.	**$ 269,329**	$ 256,343	$ 221,710	**$ 12,986**	$ 34,633	**5.1 %**	15.6%

Net income attributable to Commerce Bancshares, Inc. for 2012 was $269.3 million, an increase of $13.0 million, or 5.1%, compared to $256.3 million in 2011. Diluted income per share was $2.90 in 2012 compared to $2.69 in 2011. The increase in net income largely resulted from a $24.2 million decrease in the provision for loan losses coupled with an increase of $6.7 million in non-interest income. These increases to net income were partly offset by a decline of $6.2 million in net interest income, $6.0 million in lower net securities gains, and a $5.8 million increase in income tax expense. The return on average assets was 1.30% in 2012 compared to 1.32% in 2011, and the return on average equity was 12.00% compared to 12.15% in 2011. At December 31, 2012, the ratio of tangible common equity to assets was 9.25% compared to 9.91% at year end 2011.

During 2012, net interest income decreased $6.2 million to $639.9 million, as compared to $646.1 million in 2011. This decline was due to lower rates earned on investment securities and loans, partly offset by higher balances in these assets and lower rates paid on deposits. The provision for loan losses totaled $27.3 million in 2012, a decrease of $24.2 million from the prior year. Net loan charge-offs declined by $25.2 million in 2012 compared to 2011, mainly in business, construction, consumer, and consumer credit card loans.

Non-interest income for 2012 was $399.6 million, an increase of $6.7 million, or 1.7%, compared to $392.9 million in 2011. This increase resulted mainly from higher trust fees and capital market fees, and a $13.0 million increase in corporate card revenue. Corporate card revenue has shown strong growth over the past several years, resulting from both new customer transactions and increased volumes from existing customers as the Company continues to expand this product on a national basis. Debit card interchange income, which was limited by rules adopted in Dodd-Frank legislation effective in the fourth quarter of 2011, declined $19.3 million. Deposit fees decreased $3.2 million, as declines in overdraft and return items fees were partly offset by increases in other types of deposit fees. Loan fees and sales declined $1.5 million, as sales of home mortgages in the secondary market were discontinued in late 2011.

Investment securities gains amounted to $4.8 million, a decrease of $6.0 million from $10.8 million in investment securities gains during 2011. The 2012 gains resulted mainly from fair value adjustments and sales of private equity investments.

Non-interest expense for 2012 was $618.5 million, an increase of $1.2 million over $617.2 million in 2011. This slight overall increase included a $15.6 million increase in salaries and benefits expense, as well as a $5.7 million increase in data processing and software expense. During 2012, non-interest expense included a $5.2 million loss contingency related to Visa interchange litigation, which is discussed further in Note 18 to the consolidated financial statements. Offsetting these increases in non-interest expense during 2012 was $18.3 million expensed during 2011 related to debit card overdraft litigation, also discussed further in Note 18. Income tax expense was $127.2 million in 2012 compared to $121.4 million in 2011, resulting in an effective tax rate of 32.1% in both years.

Net income attributable to Commerce Bancshares, Inc. for 2011 was $256.3 million, an increase of $34.6 million, or 15.6%, compared to $221.7 million in 2010. Diluted income per share was $2.69 in 2011 compared to $2.29 in 2010. The increase in net income resulted from a $48.5 million decrease in the provision for loan losses coupled with a decline of $13.9 million in non-interest expense and $12.6 million in higher net securities gains. These effects were partly offset by a $12.2 million decline in non-interest income and a $25.2 million increase in income tax expense. Non-interest expense included the accrual of $18.3 million for a lawsuit settlement regarding debit card overdrafts, as mentioned above. In addition, an indemnification obligation liability related to Visa, also discussed in Note 18, was reduced by $4.4 million, decreasing expense. The return on average assets was 1.32% in 2011 compared to 1.22% in 2010, and the return on average equity was 12.15% compared to 11.15% in 2010. At December 31, 2011, the ratio of tangible common equity to assets was 9.91% compared to 10.27% at year end 2010.

During 2011, net interest income increased $138 thousand to $646.1 million, as compared to $645.9 million in 2010. This slight growth was due to lower rates incurred on deposits, higher average balances in investment securities, and lower average borrowing levels. These effects were partly offset by lower rates earned on both investment securities and loans, in addition to lower loan balances. The provision for loan losses totaled $51.5 million in 2011, a decrease of $48.5 million from the prior year. Net loan charge-offs declined by $32.4 million in 2011 compared to 2010, mainly in construction, consumer, and consumer credit card loans.

Non-interest income for 2011 was $392.9 million, a decrease of $12.2 million, or 3.0%, compared to $405.1 million in 2010. This decrease was the result of a decline in overdraft fees of $10.2 million in 2011, due to the Company's implementation on July 1, 2010 of new overdraft regulations on debit card transactions, as well as a decline of $3.1 million in debit card interchange income resulting from the Dodd-Frank legislation mentioned above. Also contributing to the decline in non-interest income in 2011 was a $14.6 million decrease in gains on sales of student loans. This occurred as new federal regulations over guaranteed student loans caused the Company to exit the guaranteed student loan business and the Company sold most of its student loans in 2010. Partially offsetting these decreases in non-interest income was a $9.5 million increase in corporate card revenue. In addition, trust fees rose $7.4 million on strong new account sales.

Investment securities gains amounted to $10.8 million, an increase of $12.6 million over $1.8 million in investment securities losses during 2010. As in 2012, the 2011 gains also resulted mainly from fair value adjustments and sales of private equity investments.

Non-interest expense for 2011 was $617.2 million, a decrease of $13.9 million, or 2.2%, compared to $631.1 million in 2010. This decline was partly due to slight decreases in salaries and benefits expense, as well as marketing and equipment expenses, but was mainly driven by reductions of $4.7 million in supplies and communication expense and $6.1 million in FDIC insurance expense. During 2010, non-interest expense included an $11.8 million debt pre-payment penalty on Federal Home Loan Bank (FHLB) advances. These effects on non-interest expense were partly offset by an $18.3 million loss recorded in 2011 related to debit card overdraft litigation, as mentioned above. Income tax expense was $121.4 million in 2011 compared to $96.2 million in 2010, resulting in effective tax rates of 32.1% and 30.3%, respectively.

The Company paid a special cash dividend of $1.43 per share, in addition to its regular quarterly cash dividend of $.22 per share, on December 17, 2012. In addition, it distributed a 5% stock dividend for the nineteenth consecutive year. All per share and average share data in this report has been restated to reflect the 2012 stock dividend.

Critical Accounting Policies

The Company's consolidated financial statements are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 to the consolidated financial statements. Certain of these policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or be subject to variations which may significantly affect the Company's reported results and financial position for the current period or future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Current economic conditions may require the use of additional estimates, and some estimates may be subject to a greater degree of uncertainty due to the current instability of the economy. The Company has identified several policies as being critical because they require management to make particularly difficult, subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies relate to the allowance for loan losses, the valuation of certain investment securities, and accounting for income taxes.

Allowance for Loan Losses

The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects the Company's estimate of the losses inherent in the loan portfolio at any point in time. While these estimates are based on substantive methods for determining allowance requirements, actual outcomes may differ significantly from estimated results, especially when determining allowances for business, construction and business real estate loans. These loans are normally larger and more complex, and their collection rates are harder to predict. Personal banking loans, including personal real estate, credit card and consumer loans, are individually smaller and perform in a more homogenous manner, making loss estimates more predictable. Further discussion of the methodology used in establishing the allowance is provided in the Allowance for Loan Losses section of Item 7 and in Note 1 to the consolidated financial statements.

Valuation of Investment Securities

The Company carries its investment securities at fair value and employs valuation techniques which utilize observable inputs when those inputs are available. These observable inputs reflect assumptions market participants would use in pricing the security and are developed based on market data obtained from sources independent of the Company. When such information is not available, the Company employs valuation techniques which utilize unobservable inputs, or those which reflect the Company's own assumptions about market participants, based on the best information available in the circumstances. These valuation methods typically involve cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, estimates, or other inputs to the valuation techniques could have a material impact on the Company's future financial condition and results of operations. Assets and liabilities carried at fair value inherently result in more financial statement volatility. Under the fair value measurement hierarchy, fair value measurements are classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable, internally-derived inputs), as discussed in more detail in Note 15 on Fair Value Measurements. Most of the available for sale investment portfolio is priced utilizing industry-standard models that consider various assumptions observable in the marketplace or which can be derived from observable data. Such securities totaled approximately $8.9 billion, or 93.9% of the available for sale portfolio at December 31, 2012, and were classified as Level 2 measurements. The Company also holds $126.4 million in auction rate securities. These were classified as Level 3 measurements, as no liquid market currently exists for these securities, and fair values were derived from internally generated cash flow valuation models which used unobservable inputs significant to the overall measurement.

Changes in the fair value of available for sale securities, excluding credit losses relating to other-than-temporary impairment, are reported in other comprehensive income. The Company periodically evaluates the available for sale portfolio for other-than-temporary impairment. Evaluation for other-than-temporary impairment is based on the Company's intent to sell the security and whether it is likely that it will be required to sell the security before the anticipated recovery of its amortized cost basis. If either of these conditions is met, the entire loss (the amount by which the amortized cost exceeds the fair value) must be recognized in current earnings. If neither condition is met, but the Company does not expect to recover the amortized cost basis, the Company must determine whether a credit loss has occurred. This credit loss is the amount by which the amortized cost basis exceeds the present value of cash flows expected to be collected from the security. The credit loss, if any, must be recognized in current earnings, while the remainder of the loss, related to all other factors, is recognized in other comprehensive income.

The estimation of whether a credit loss exists and the period over which the security is expected to recover requires significant judgment. The Company must consider available information about the collectability of the security, including information about past events, current conditions, and reasonable forecasts, which includes payment structure, prepayment speeds, expected defaults, and collateral values. Changes in these factors could result in additional impairment, recorded in current earnings, in future periods.

At December 31, 2012, certain non-agency guaranteed mortgage-backed securities with a fair value of $101.7 million were identified as other-than-temporarily impaired. The cumulative credit-related impairment loss initially recorded on these securities amounted to $11.6 million, which was recorded in the consolidated statements of income.

The Company, through its direct holdings and its private equity subsidiaries, has numerous private equity investments, categorized as non-marketable securities in the accompanying consolidated balance sheets. These investments are reported at fair value and totaled $73.2 million at December 31, 2012. Changes in fair value are reflected in current earnings and reported in investment securities gains (losses), net, in the consolidated statements of income. Because there is no observable market data for these securities, fair values are internally developed using available information and management's judgment, and the securities are classified as Level 3 measurements. Although management believes its estimates of fair value reasonably reflect the fair value of these securities, key assumptions regarding the projected financial performance of these companies, the evaluation of the investee company's management team, and other economic and market factors may affect the amounts that will ultimately be realized from these investments.

Accounting for Income Taxes

Accrued income taxes represent the net amount of current income taxes which are expected to be paid attributable to operations as of the balance sheet date. Deferred income taxes represent the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. Current and deferred income taxes are reported as either a component of other assets or other liabilities in the consolidated balance sheets, depending on whether the balances are assets or liabilities. Judgment is required in applying generally accepted accounting principles in accounting for income taxes. The Company regularly monitors taxing authorities for changes in laws and regulations and their interpretations by the judicial systems. The aforementioned changes, as well as any changes that may result from the resolution of income tax examinations by federal and state taxing authorities, may impact the estimate of accrued income taxes and could materially impact the Company's financial position and results of operations.

Net Interest Income

Net interest income, the largest source of revenue, results from the Company's lending, investing, borrowing, and deposit gathering activities. It is affected by both changes in the level of interest rates and changes in the amounts and mix of interest earning assets and interest bearing liabilities. The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates. Changes not solely due to volume or rate changes are allocated to rate.

	2012			2011		
	Change due to			Change due to		
(In thousands)	**Average Volume**	**Average Rate**	**Total**	Average Volume	Average Rate	Total
Interest income, fully taxable equivalent basis						
Loans	**$ 7,898**	**$ (24,813)**	**$ (16,915)**	$ (18,171)	$ (25,066)	$ (43,237)
Loans held for sale	**(882)**	**128**	**(754)**	(5,292)	316	(4,976)
Investment securities:						
U.S. government and federal agency obligations	**(1,231)**	**(3,777)**	**(5,008)**	(1,787)	9,382	7,595
Government-sponsored enterprise obligations	**1,223**	**(1,351)**	**(128)**	1,112	78	1,190
State and municipal obligations	**8,945**	**(6,877)**	**2,068**	9,786	(3,267)	6,519
Mortgage-backed securities	**9,548**	**(16,426)**	**(6,878)**	29,458	(28,275)	1,183
Asset-backed securities	**6,017**	**(4,600)**	**1,417**	9,168	(17,204)	(8,036)
Other securities	**(555)**	**3,016**	**2,461**	(1,007)	1,521	514
Short-term federal funds sold and securities purchased under agreements to resell	**30**	**(3)**	**27**	31	(24)	7
Long-term securities purchased under agreements to resell	**2,165**	**3,554**	**5,719**	10,495	411	10,906
Interest earning deposits with banks	**(147)**	**(1)**	**(148)**	56	4	60
Total interest income	**33,011**	**(51,150)**	**(18,139)**	33,849	(62,124)	(28,275)
Interest expense						
Interest bearing deposits:						
Savings	**78**	**(128)**	**(50)**	61	169	230
Interest checking and money market	**2,273**	**(9,397)**	**(7,124)**	4,059	(7,731)	(3,672)
Time open and C.D.'s of less than $100,000	**(1,445)**	**(1,989)**	**(3,434)**	(4,722)	(6,797)	(11,519)
Time open and C.D.'s of $100,000 and over	**(766)**	**(1,332)**	**(2,098)**	763	(5,338)	(4,575)
Federal funds purchased and securities sold under agreements to repurchase	**219**	**(1,152)**	**(933)**	(90)	(753)	(843)
Other borrowings	**7**	**(206)**	**(199)**	(11,258)	(10)	(11,268)
Total interest expense	**366**	**(14,204)**	**(13,838)**	(11,187)	(20,460)	(31,647)
Net interest income, fully taxable equivalent basis	**$ 32,645**	**$ (36,946)**	**$ (4,301)**	$ 45,036	$ (41,664)	$ 3,372

Net interest income totaled $639.9 million in 2012 compared to $646.1 million in 2011. On a tax equivalent basis, net interest income totaled $665.2 million and decreased $4.3 million from the previous year. This slight decrease was mainly the result of higher average investment securities balances and loan balances earning at a lower average rate than the previous year, partially offset by lower rates paid on deposits and borrowings. The net yield on earning assets (tax equivalent) was 3.41% in 2012 compared with 3.65% in the previous year.

During 2012, interest income on loans (tax equivalent, including loans held for sale) declined $17.7 million from 2011 due to a 25 basis point decrease in average rates earned, slightly offset by a $119.2 million increase in average loan balances. The average tax equivalent rate earned on the loan portfolio, including held for sale loans, was 4.82% compared to 5.07% in the previous year, reflecting the overall lower rate environment affecting the industry. Interest earned on business loans decreased $2.6 million as a result of a decline in rates of 15 basis points and was partially offset by a 1.8% increase in average balances. Interest on construction loans decreased $3.7 million due to a $63.5 million decline in average balances coupled with a 23 basis point decrease in average rates. Business real estate average loan balances increased $76.2 million, or 3.6%, while average rates earned decreased by 32 basis points, which together resulted in a net $3.3 million decrease in interest income. Interest income on personal real estate loans and consumer loans declined $3.4 million and $3.7 million, respectively, due to lower rates partially offset by higher average loan balances. Average consumer loan balances increased $61.8 million, which was mainly the result of increases of $123.8 million in auto loans and $33.7 million in fixed rate home equity loans. These increases were partially offset by a $103.9

million decrease in marine and recreational vehicle (RV) loans as that portfolio continues to pay down, as a result of the Company's exit from the marine/RV origination business in 2008. Interest earned on consumer credit card loans increased by $1.2 million due to a 41 basis point increase in the average rate earned, partly offset by the impact of a $16.0 million decrease in average balances.

Tax equivalent interest income on investment securities decreased by $6.1 million in 2012 due to a 38 basis point decrease in average rates earned on these investments, partially offset by a $992.7 million, or 12.3%, increase in average balances outstanding. The average rate earned on the total investment securities portfolio declined from 2.93% in 2011 to 2.55% in 2012. Interest income on mortgage-backed securities decreased $6.9 million in 2012 due to a 43 basis point decrease in rates earned on these securities, offset by an increase of 8.3%, or $296.5 million, in average balances. Interest on asset-backed securities increased slightly due to an increase in average balances of $481.3 million partially offset by a decline in rates of 16 basis points. Interest (tax exempt) on municipal securities increased $2.1 million due to higher average balances, which increased $202.1 million in 2012, partially offset by the impact of a 50 basis point decrease in average rates earned. Interest on U.S. government and federal agency securities decreased by $5.0 million in 2012, which was mostly due to a decrease in inflation income on inflation-protected securities. Interest on long-term resell agreements increased $5.7 million in 2012 compared to the prior year due to a $123.7 million increase in the average balances of these instruments, coupled with an increase in the average rate earned from 1.75% in the previous year to 2.15% in 2012.

During 2012, interest expense on deposits decreased $12.7 million compared to 2011. This was the result of lower rates on all deposit products coupled with a $402.2 million decline in average certificate of deposit balances, but partly offset by the effects of higher average balances of money market and interest checking accounts, which grew by $727.7 million. Average rates paid on deposit balances declined 13 basis points in 2012 to .30%. Interest expense on borrowings declined $1.1 million, mainly the result of average rates declining by 14 basis points to .33%, but partly offset by an increase of $151.0 million, or 14.6% in the average balances of federal funds purchased and securities sold under agreements to repurchase. The average rate paid on total interest bearing liabilities decreased to .30% compared to .43% in 2011.

During 2011, interest income on loans (tax equivalent, including loans held for sale) declined $48.2 million from 2010 due to a $787.4 million decrease in average loan balances, coupled with an 8 basis point decrease in average rates earned. The decrease in average loans compared to the previous year included a decrease of $554.0 million in average student loans, as a result of regulations, effective in mid 2010, which prohibit banks from originating federally guaranteed student loans. The average tax equivalent rate earned on the loan portfolio, including held for sale loans, was 5.07% compared to 5.15% in the previous year. Interest earned on business loans decreased $6.2 million as a result of a decline in rates of 25 basis points, which was offset by a slight increase in average balances. Interest on construction loans decreased $3.6 million due to a decline in average balances, but was offset by higher rates, while interest on personal real estate loans declined $7.5 million due to lower rates and balances. Interest on consumer loans decreased $14.1 million from the previous year due to a decline of $131.4 million in average consumer loans coupled with a 47 basis point decrease in rates earned. Interest earned on consumer credit card loans decreased by $4.7 million due to a combination of lower balances and rates earned on these loans.

Tax equivalent interest income on investment securities increased by $9.0 million in 2011 compared to 2010 due to a $1.4 billion increase in average balances outstanding, but was offset by lower rates earned on these investments. The average rate earned on the investment securities portfolio declined from 3.40% in 2010 to 2.93% in 2011. Interest income on mortgage-backed securities increased $1.2 million in 2011 due to growth in average balances of $734.6 million but was offset by a decline in rates earned on these securities. Interest on asset-backed securities declined $8.0 million due to a decline in rates of 70 basis points but was offset by higher average balances of $470.2 million. Interest (tax exempt) on municipal securities increased $6.5 million mainly due to higher average balances, which increased $208.1 million in 2011. Interest on U.S. government, agency and government-sponsored enterprise securities grew by $8.8 million in 2011, which was mostly due to an increase of $7.0 million in inflation income on inflation-protected securities. Interest on long-term resell agreements also increased $10.9 million in 2011 compared to the prior year, due to a $618.7 million increase in the average balances of these instruments in 2011.

Interest expense on deposits decreased $19.5 million in 2011 compared to 2010. This was mainly the result of lower rates on most deposit products coupled with a $283.5 million decline in average certificate of deposit balances, and partly offset by the effects of higher average balances of money market and interest checking accounts, which grew by $917.6 million. Average rates paid on deposit balances declined 21 basis points to .43% in 2011 from .64% in 2010. Interest expense on borrowings declined $12.1 million, mainly the result of lower average FHLB advances, which decreased $339.8 million, or 76.5%, due to scheduled maturities of advances and the early pay off of $125.0 million in the fourth quarter of 2010. The average rate paid on total interest bearing liabilities decreased to .43% compared to .71% in 2010.

Provision for Loan Losses

The provision for loan losses totaled $27.3 million in 2012, which represented a decrease of $24.2 million from the 2011 provision of $51.5 million. Net loan charge-offs for the year totaled $39.3 million compared with $64.5 million in 2011, or a decrease of $25.2 million. The decrease in net loan charge-offs from the previous year was mainly the result of lower business, construction, consumer credit card and consumer losses, which declined $7.5 million, $7.2 million, $7.1 million and $4.0 million, respectively. The allowance for loan losses totaled $172.5 million at December 31, 2012, a decrease of $12.0 million compared to the prior year, and represented 1.75% of outstanding loans. The provision for loan losses is recorded to bring the allowance for loan losses to a level deemed adequate by management based on the factors mentioned in the following "Allowance for Loan Losses" section of this discussion.

Non-Interest Income

(Dollars in thousands)	**2012**	2011	2010	**% Change '12-'11**	% Change '11-'10
Bank card transaction fees	**$ 154,197**	$ 157,077	$ 148,888	**(1.8)%**	5.5 %
Trust fees	**94,679**	88,313	80,963	**7.2**	9.1
Deposit account charges and other fees	**79,485**	82,651	92,637	**(3.8)**	(10.8)
Capital market fees	**21,066**	19,846	21,098	**6.1**	(5.9)
Consumer brokerage services	**10,162**	10,018	9,190	**1.4**	9.0
Loan fees and sales	**6,037**	7,580	23,116	**(20.4)**	(67.2)
Other	**34,004**	27,432	29,219	**24.0**	(6.1)
Total non-interest income	**$ 399,630**	$ 392,917	$ 405,111	**1.7 %**	(3.0)%
Non-interest income as a % of total revenue*	**38.4%**	37.8%	38.5%		
Total revenue per full-time equivalent employee	**$ 220.8**	$ 219.0	$ 211.1		

* *Total revenue is calculated as net interest income plus non-interest income.*

Non-interest income totaled $399.6 million, an increase of $6.7 million, or 1.7%, compared to $392.9 million in 2011. Bank card fees declined $2.9 million, or 1.8%, from last year, as a result of a decline in debit card interchange fees of $19.3 million, or 35.7% (mainly the effect of new pricing regulations effective in the fourth quarter of 2011), which was partly offset by continued growth in corporate card fees of $13.0 million, or 22.4%. Corporate card and debit card fees for 2012 totaled $70.8 million and $34.6 million, respectively. Merchant fees grew by 8.9% due to higher transaction volumes and totaled $26.2 million for the year, while credit card fees grew 5.9% and totaled $22.6 million. Trust fee income increased $6.4 million, or 7.2%, resulting mainly from growth in personal and institutional trust fees. The market value of total customer trust assets (on which fees are charged) totaled $30.2 billion at year end 2012 and grew 10.7% over year end 2011. Deposit account fees decreased $3.2 million, or 3.8%, primarily due to a decline in overdraft and return item fees of $6.5 million, while various other deposit fees increased $3.4 million. Overdraft fees comprised 43.3% of total deposit account fees in 2012, down from 49.5% in 2011. Corporate cash management fees comprised 40.3% of total deposit account fees in 2012 and were flat compared to 2011. Capital market fees increased $1.2 million, or 6.1%, resulting from growth in sales of mainly fixed income securities to correspondent banks and other commercial customers. Consumer brokerage services revenue increased $144 thousand, or 1.4%, due to growth in advisory fees, mostly offset by lower life insurance revenue. Loan fees and sales revenue was down $1.5 million, or 20.4%, due to a decline in mortgage banking revenue (mainly because the Company retained all first mortgage loan originations in 2012). Other non-interest income increased by $6.6 million, or 24.0%, mainly due to higher tax credit sales income, leasing revenue and net gains related to banking properties in 2012.

During 2011, non-interest income decreased $12.2 million, or 3.0%, from 2010 to $392.9 million. Bank card fees increased $8.2 million, or 5.5%, over 2010, primarily due to growth in transaction fees earned on corporate card and merchant activity, which grew by 19.7% and 5.4%, respectively. Debit card fees declined $3.1 million, or 5.4%, as a result of new regulations for pricing debit card transactions, which were effective October 1, 2011. Debit card fees totaled $53.9 million in 2011 and comprised 34.3% of total bank card fees, while corporate card fees totaled $57.8 million and comprised 36.8% of total fees. Trust fee income increased $7.4 million, or 9.1%, as a result of growth in personal and institutional trust fees. The market value of total customer trust assets totaled $27.3 billion at year end 2011 and grew 8.9% over year end 2010. Deposit account fees decreased $10.0 million, or 10.8%, due mainly to lower overdraft fees resulting in part from new regulations in 2010. Overdraft fees comprised 49.5% of total deposit account fee income in 2011, down from 55.2% in 2010. Capital market fees decreased $1.3 million, or 5.9%, due to lower securities sales to correspondent banks and other commercial customers, while consumer brokerage services revenue increased by $828 thousand, or 9.0%, due to growth in advisory fees. Compared with 2010, loan fees and sales declined $15.5 million in 2011 due to a decline in gains on student loan sales, as the Company exited from the student loan origination business in 2010. Other income decreased $1.8 million largely due to higher write-downs in 2011 on various banking properties held for sale.

Investment Securities Gains (Losses), Net

Net gains and losses on investment securities during 2012, 2011 and 2010 are shown in the table below. Included in these amounts are gains and losses arising from sales of bonds from the Company's available for sale portfolio, including credit-related losses on debt securities identified as other-than-temporarily impaired. Also shown below are gains and losses relating to non-marketable private equity investments, which are primarily held by the Parent's majority-owned private equity subsidiaries. These include fair value adjustments, in addition to gains and losses realized upon disposition. Portions of the fair value adjustments attributable to minority interests are reported as non-controlling interest in the consolidated statements of income and resulted in expense of $1.3 million and $2.6 million in 2012 and 2011, respectively, and income of $108 thousand in 2010.

Net securities gains of $4.8 million were recorded in 2012, which include $6.0 million in gains resulting from sales and fair value adjustments related to private equity investments. Partly offsetting these gains were credit-related impairment losses of $1.5 million on certain non-agency guaranteed mortgage-backed securities which have been identified as other-than-temporarily impaired. These identified securities had a total fair value of $101.7 million at December 31, 2012. The cumulative credit-related impairment losses initially recorded on these securities totaled $11.6 million.

Net securities gains of $10.8 million were recorded in 2011, compared to net losses of $1.8 million in 2010. Gains of $13.2 million in 2011 resulted from sales and fair value adjustments related to private equity investments. Partly offsetting these gains were credit-related other-than-temporary impairment (OTTI) losses of $2.5 million. Losses in 2010 were comprised of $5.1 million in OTTI losses, partly offset by $3.5 million of net gains resulting from sales from the available for sale portfolio, mainly in municipal and mortgage-backed bonds.

(In thousands)	**2012**	2011	2010
Available for sale:			
Municipal bonds	**$ 16**	$ 177	$ 1,172
Corporate bonds	—	—	498
Agency mortgage-backed bonds	**342**	—	1,434
Non-agency mortgage-backed bonds	—	—	384
OTTI losses on non-agency mortgage-backed bonds	**(1,490)**	(2,537)	(5,069)
Non-marketable:			
Private equity investments	**5,960**	13,172	(204)
Total investment securities gains (losses), net	**$ 4,828**	$ 10,812	$ (1,785)

Non-Interest Expense

				% Change	
(Dollars in thousands)	**2012**	2011	2010	**'12-'11**	'11-'10
Salaries	**$ 302,675**	$ 293,318	$ 292,675	**3.2%**	.2 %
Employee benefits	**58,224**	52,007	53,875	**12.0**	(3.5)
Net occupancy	**45,534**	46,434	46,987	**(1.9)**	(1.2)
Equipment	**20,147**	22,252	23,324	**(9.5)**	(4.6)
Supplies and communication	**22,321**	22,448	27,113	**(.6)**	(17.2)
Data processing and software	**73,798**	68,103	67,935	**8.4**	.2
Marketing	**15,106**	16,767	18,161	**(9.9)**	(7.7)
Deposit insurance	**10,438**	13,123	19,246	**(20.5)**	(31.8)
Debit overdraft litigation	—	18,300	—	**(100.0)**	100.0
Debt extinguishment	—	—	11,784	—	(100.0)
Other	**70,226**	64,497	70,034	**8.9**	(7.9)
Total non-interest expense	**$ 618,469**	$ 617,249	$ 631,134	**.2%**	(2.2)%
Efficiency ratio	**59.3%**	59.1%	59.7%		
Salaries and benefits as a % of total non-interest expense	**58.4%**	55.9%	54.9%		
Number of full-time equivalent employees	**4,708**	4,745	4,979		

Non-interest expense was $618.5 million in 2012, an increase of $1.2 million, or .2%, over the previous year. Salaries and benefits expense increased by $15.6 million, or 4.5%, largely due to higher salaries, incentive compensation, medical and retirement expense. Full-time equivalent employees totaled 4,708 at December 31, 2012, a decline of .8% from the prior year. Occupancy expense declined $900 thousand, or 1.9%, primarily resulting from lower depreciation and outside services expense, partly offset by a decline in rent income. Equipment expense decreased $2.1 million, or 9.5%, also due to lower depreciation expense. Supplies and communication expense decreased slightly, while marketing expense was lower by $1.7 million, or 9.9%. Data processing and software expense increased $5.7 million, or 8.4%, mainly due to higher bank card processing expense. Deposit insurance expense declined $2.7 million, or 20.5%, as a result of new FDIC assessment rules which became effective in the second quarter of 2011. Other non-interest expense increased $5.7 million, or 8.9%, mainly due to the accrual in 2012 of $5.2 million for anticipated costs resulting from the proposed settlement of certain Visa-related interchange litigation. Also, during 2011 the Company's indemnification obligation related to Visa litigation was reduced by $4.4 million, and a similar decrease to expense did not occur in 2012. Partly offsetting these increases to other non-interest expense in 2012 were reductions of $853 thousand in regulatory examination fees and $788 thousand in intangible asset amortization, in addition to an increase of $1.7 million in deferred loan origination costs.

In 2011, non-interest expense was $617.2 million, a decrease of $13.9 million, or 2.2%, from the previous year. In December 2011, the Company reached a class-wide settlement on a debit card overdraft lawsuit. The settlement provided for a payment of $18.3 million, which was recorded as expense in 2011. Salaries and benefits expense decreased by $1.2 million, or .4%, due to lower salary expense, medical insurance costs and pension plan expense, partly offset by higher incentive compensation. Total salaries expense was up $643 thousand, or .2%, over 2010, while the number of full-time equivalent employees declined 4.7% to 4,745 at December 31, 2011. Occupancy costs decreased $553 thousand, or 1.2%, primarily resulting from lower depreciation expense and outside services expense. Equipment expense decreased $1.1 million, or 4.6%, due to lower equipment rental and service contract expense. Supplies and communication expense declined $4.7 million, or 17.2%, due to lower costs for customer checks, postage, paper supplies and telephone and network costs. Data processing and software costs increased slightly due to higher bank card processing costs, which were partly offset by lower student loan servicing costs. Marketing expense declined $1.4 million, or 7.7%, while deposit insurance was lower by $6.1 million, or 31.8%, mainly because of the FDIC rule change mentioned above. Other non-interest expense decreased $5.5 million, or 7.9%, largely due to a decline in foreclosed property costs of $6.7 million, which was due to lower write-downs to fair value, sale losses and other holding costs in 2011. Additionally, the Company's indemnification obligation related to Visa litigation was reduced by $4.4 million in both 2011 and 2010 due to funding actions by Visa.

Income Taxes

Income tax expense was $127.2 million in 2012, compared to $121.4 million in 2011 and $96.2 million in 2010. The increase in income tax expense over 2011 was proportional to the increase in pre-tax income. The effective tax rate, including the effect of non-controlling interest, in 2012 and 2011 was 32.1% compared to 30.3% in 2010. The Company's effective tax rate in 2012 and 2011 was higher than 2010 primarily due to increased state and local taxes. The Company’s effective tax rates in the years noted above were lower than the federal statutory rate of 35% mainly due to tax-exempt interest on state and local municipal obligations.

Financial Condition

Loan Portfolio Analysis

Classifications of consolidated loans by major category at December 31 for each of the past five years are shown in the table below. This portfolio consists of loans which were acquired or originated with the intent of holding to their maturity. Loans held for sale are separately discussed in a following section. A schedule of average balances invested in each loan category below appears on page 50.

	Balance at December 31				
(In thousands)	**2012**	2011	2010	2009	2008
Commercial:					
Business	**$ 3,134,801**	$ 2,808,265	$ 2,957,043	$ 2,877,936	$ 3,404,371
Real estate — construction and land	**355,996**	386,598	460,853	665,110	837,369
Real estate — business	**2,214,975**	2,180,100	2,065,837	2,104,030	2,137,822
Personal banking:					
Real estate — personal	**1,584,859**	1,428,777	1,440,386	1,537,687	1,638,553
Consumer	**1,289,650**	1,114,889	1,164,327	1,333,763	1,615,455
Revolving home equity	**437,567**	463,587	477,518	489,517	504,069
Student	**—**	—	—	331,698	358,049
Consumer credit card	**804,245**	788,701	831,035	799,503	779,709
Overdrafts	**9,291**	6,561	13,983	6,080	7,849
Total loans	**$ 9,831,384**	$ 9,177,478	$ 9,410,982	$ 10,145,324	$ 11,283,246

The contractual maturities of loan categories at December 31, 2012, and a breakdown of those loans between fixed rate and floating rate loans are as follows:

	Principal Payments Due			
(In thousands)	In One Year or Less	After One Year Through Five Years	After Five Years	Total
Business	$ 1,730,827	$ 1,127,318	$ 276,656	$ 3,134,801
Real estate — construction and land	221,623	129,882	4,491	355,996
Real estate — business	575,510	1,414,276	225,189	2,214,975
Real estate — personal	150,142	432,700	1,002,017	1,584,859
Total business and real estate loans	$ 2,678,102	$ 3,104,176	$ 1,508,353	7,290,631
Consumer (1)				1,289,650
Revolving home equity (2)				437,567
Consumer credit card (3)				804,245
Overdrafts				9,291
Total loans				$ 9,831,384
Loans with fixed rates	$ 625,216	$ 1,810,282	$ 684,576	$ 3,120,074
Loans with floating rates	2,052,886	1,293,894	823,777	4,170,557
Total business and real estate loans	$ 2,678,102	$ 3,104,176	$ 1,508,353	$ 7,290,631

(1) Consumer loans with floating rates totaled $129.8 million.

(2) Revolving home equity loans with floating rates totaled $431.4 million.

(3) Consumer credit card loans with floating rates totaled $621.7 million.

Total loans at December 31, 2012 were $9.8 billion, an increase of $653.9 million, or 7.1%, over balances at December 31, 2011. The growth in loans during 2012 occurred in business, consumer, business and personal real estate and credit card loans, partly offset by declines in construction and revolving home equity loans. Business loans increased $326.5 million, or 11.6%, reflecting growth in lease, tax-free and wholesale auto floor plan loans. Business real estate loans increased 1.6% as demand for new loans remained soft. Construction loans decreased $30.6 million, or 7.9%, and continued to be affected by low demand during most of the year; however, modest growth occurred in the fourth quarter of the year as the housing industry saw some improvement. Personal real estate loans increased $156.1 million, or 10.9%, as the Company retained all first mortgage loan originations in 2012. Consumer loans were higher by $174.8 million, or 15.7%, primarily due to strong demand for consumer automobile lending, while marine and recreational vehicle lending, which the Company ceased in 2008, continued to run off. Revolving home equity

loans decreased $26.0 million, or 5.6%, due to fewer new account activations. Consumer credit card loans increased by $15.5 million, or 2.0%, mainly due to greater usage by existing customers.

The Company currently generates approximately 33% of its loan portfolio in the St. Louis market, 28% in the Kansas City market, and 39% in other regional markets. The portfolio is diversified from a business and retail standpoint, with 58% in loans to businesses and 42% in loans to consumers. A balanced approach to loan portfolio management and an historical aversion toward credit concentrations, from an industry, geographic and product perspective, have contributed to low levels of problem loans and loan losses.

The Company participates in credits of large, publicly traded companies which are defined by regulation as shared national credits, or SNCs. Regulations define SNCs as loans exceeding $20 million that are shared by three or more financial institutions. The Company typically participates in these loans when business operations are maintained in the local communities or regional markets and opportunities to provide other banking services are present. The balance of SNC loans totaled approximately $483.1 million and $538.0 million at December 31, 2012 and 2011, respectively, with an additional $1.1 billion in unfunded commitments at each period end.

Commercial Loans

Business

Total business loans amounted to $3.1 billion at December 31, 2012 and include loans used mainly to fund customer accounts receivable, inventories, and capital expenditures. The business loan portfolio includes tax advantaged financings which carry tax free interest rates. These loans totaled $435.2 million at December 31, 2012 and increased 8.5% over December 31, 2011. The portfolio also includes direct financing and sales type leases totaling $311.6 million, which are used by commercial customers to finance capital purchases ranging from computer equipment to office and transportation equipment. These leases increased $69.8 million, or 28.9%, over 2011 and comprise 3.2% of the Company's total loan portfolio. Also included in this portfolio are corporate card loans, which totaled $209.3 million at December 31, 2012. These loans, which increased by 25.4% in 2012, are made in conjunction with the Company's corporate card business, which assists the increasing number of businesses that are shifting from paper checks to a credit card payment system in order to automate payment processes. These loans are generally short-term, with outstanding balances averaging between 7 to 13 days in duration, which helps to limit risk in these loans.

Business loans, excluding corporate card loans, are made primarily to customers in the regional trade area of the Company, generally the central Midwest, encompassing the states of Missouri, Kansas, Illinois, and nearby Midwestern markets, including Iowa, Oklahoma, Colorado and Ohio. This portfolio is diversified from an industry standpoint and includes businesses engaged in manufacturing, wholesaling, retailing, agribusiness, insurance, financial services, public utilities, healthcare, and other service businesses. Emphasis is upon middle-market and community businesses with known local management and financial stability. Consistent with management's strategy and emphasis upon relationship banking, most borrowing customers also maintain deposit accounts and utilize other banking services. Net loan recoveries in this category totaled $2.5 million in 2012, while net loan charge-offs of $5.0 million were recorded in 2011. Net loan recoveries mainly resulted from the receipt of $3.6 million on two non-accrual business loans during the second quarter of 2012. Non-accrual business loans were $13.1 million (.4% of business loans) at December 31, 2012 compared to $25.7 million at December 31, 2011. The decrease was largely due to the payoff of one non-accrual loan of $8.0 million.

Real Estate-Construction and Land

The portfolio of loans in this category amounted to $356.0 million at December 31, 2012 and comprised 3.6% of the Company's total loan portfolio. These loans are predominantly made to businesses in the local markets of the Company's banking subsidiary. Commercial construction and land development loans totaled $225.6 million, or 63.4% of total construction loans at December 31, 2012. Commercial construction loans are made during the construction phase for small and medium-sized office and medical buildings, manufacturing and warehouse facilities, apartment complexes, shopping centers, hotels and motels, and other commercial properties. Exposure to larger, speculative commercial properties remains low. Commercial land development loans relate to land owned or developed for use in conjunction with business properties. Residential construction and land development loans at December 31, 2012 totaled $130.4 million, or 36.6% of total construction loans. The largest percentage of residential construction and land development loans are for projects located in the Kansas City and St. Louis metropolitan areas. Credit risk in this sector has been high over the last few years, especially in residential land development lending, as a result of the weak housing industry. However, in 2012, net loan recoveries of $283 thousand were recorded, compared to net charge-offs of $7.0 million in 2011, reflecting an improved housing environment. Construction and land development loans on non-accrual status declined to $13.7 million at year end 2012 compared to $22.8 million at year end 2011 with approximately 50% of the non-accrual balance at year end 2012 comprised of loans to three individual borrowers. The Company's watch list, which includes special

mention and substandard categories, included $13.8 million of residential land and construction loans which are being closely monitored.

Real Estate-Business

Total business real estate loans were $2.2 billion at December 31, 2012 and comprised 22.5% of the Company's total loan portfolio. This category includes mortgage loans for small and medium-sized office and medical buildings, manufacturing and warehouse facilities, shopping centers, hotels and motels, churches, and other commercial properties. Emphasis is placed on owner-occupied (46.7% of this portfolio) and income producing commercial real estate properties, which present lower risk levels. The borrowers and/or the properties are generally located in local and regional markets. Additional information about loans by category is presented on page 32. At December 31, 2012, non-accrual balances amounted to $17.3 million, or .8%, of the loans in this category, down from $19.4 million at year end 2011. The Company experienced net charge-offs of $5.1 million in 2012 (.2% of average business real estate loans), compared to net charge-offs of $3.6 million in 2011. The increase in charge-offs over the prior year was mainly due to a $1.5 million charge-off on a loan to one specific borrower.

Personal Banking Loans

Real Estate-Personal

At December 31, 2012, there were $1.6 billion in outstanding personal real estate loans, which comprised 16.1% of the Company's total loan portfolio. The mortgage loans in this category are mainly for owner-occupied residential properties. The Company originates both adjustable rate and fixed rate mortgage loans. The Company retains adjustable rate mortgage loans, and in 2012 retained all fixed rate loans as directed by its Asset/Liability Management Committee, given historically low concentrations of these loans. The Company originates its loans and does not purchase any from outside parties or brokers. Further, it has never maintained or promoted subprime or reduced document products. At December 31, 2012, 40% of the portfolio was comprised of adjustable rate loans while 60% was comprised of fixed rate loans. Levels of mortgage loan origination activity increased in 2012 compared to 2011, with originations of $414 million in 2012 compared with $223 million in 2011. Growth in mortgage loan originations was the result of improved demand for housing, in addition to low interest rates, which also generated greater loan demand. The Company has experienced lower loan losses in this category than many others in the industry and believes this is partly because of its conservative underwriting culture, stable markets, and the fact that it does not offer subprime lending products or purchase loans from brokers. Net loan charge-offs for 2012 amounted to $1.4 million, compared to $2.8 million in the previous year. The non-accrual balances of loans in this category decreased to $6.9 million at December 31, 2012, compared to $7.6 million at year end 2011.

Consumer

Consumer loans consist of auto, marine, tractor/trailer, recreational vehicle (RV), fixed rate home equity, and other consumer installment loans. These loans totaled $1.3 billion at year end 2012. Approximately 62% of consumer loans outstanding were originated indirectly from auto and other dealers, while the remaining 38% were direct loans made to consumers. Approximately 44% of the consumer portfolio consists of automobile loans, 25% in marine and RV loans and 16% in fixed rate home equity lending. As mentioned above, total consumer loans increased by $174.8 million in 2012 as a result of growth in auto lending of $212.0 million, or 59%, partly offset by the run-off of $92.3 million in marine and RV loans. Net charge-offs on consumer loans were $8.1 million in 2012 compared to $12.2 million in 2011. Net charge-offs decreased to .7% of average consumer loans in 2012 compared to 1.1% in 2011. Consumer loan net charge-offs included marine and RV loan net charge-offs of $6.6 million, which were 1.8% of average marine and RV loans in 2012, compared to 2.1% in 2011.

Revolving Home Equity

Revolving home equity loans, of which 99% are adjustable rate loans, totaled $437.6 million at year end 2012. An additional $651.3 million was available in unused lines of credit, which can be drawn at the discretion of the borrower. Home equity loans are secured mainly by second mortgages (and less frequently, first mortgages) on residential property of the borrower. The underwriting terms for the home equity line product permit borrowing availability, in the aggregate, generally up to 80% or 90% of the appraised value of the collateral property at the time of origination. Net charge-offs totaled $1.8 million, or .4% of average revolving home equity loans, compared to $1.7 million in 2011.

Consumer Credit Card

Total consumer credit card loans amounted to $804.2 million at December 31, 2012 and comprised 8.2% of the Company's total loan portfolio. The credit card portfolio is concentrated within regional markets served by the Company. The Company offers a variety of credit card products, including affinity cards, rewards cards, and standard and premium credit cards, and emphasizes its credit card relationship product, Special Connections. Approximately 61% of the households in Missouri that own a Commerce credit card product also maintain a deposit relationship with the subsidiary bank. At December 31, 2012, approximately 77% of

the outstanding credit card loan balances had a floating interest rate, compared to 69% in the prior year. Net charge-offs amounted to $24.5 million in 2012, a decline of $7.1 million from $31.6 million in 2011. The ratio of credit card loan net charge-offs to total average credit card loans totaled 3.4% in 2012 compared to 4.2% in 2011. These ratios remain below national loss averages in those years.

Loans Held for Sale

Total loans held for sale at December 31, 2012 were $8.8 million, a decrease of $22.2 million from $31.1 million at year end 2011. These have historically consisted of federally guaranteed student loans, which the Company no longer originates, and fixed-rate personal real estate loans, which the Company no longer actively sells to third parties. The balance at December 31, 2012 was comprised solely of student loans.

Allowance for Loan Losses

The Company has an established process to determine the amount of the allowance for loan losses which assesses the risks and losses inherent in its portfolio. This process provides an allowance consisting of a specific allowance component based on certain individually evaluated loans and a general component based on estimates of reserves needed for pools of loans.

Loans subject to individual evaluation generally consist of business, construction, business real estate and personal real estate loans on non-accrual status, and include troubled debt restructurings that are on non-accrual status. These non-accrual loans are evaluated individually for impairment based on factors such as payment history, borrower financial condition, collateral, current economic conditions and loss experience. For collateral dependent loans, appraisals on collateral (including exit costs) are normally obtained annually but discounted based on date last received and market conditions. From these evaluations of expected cash flows and collateral values, specific allowances are determined.

Loans which are not individually evaluated are segregated by loan type and sub-type and are collectively evaluated. These loans include commercial loans (business, construction and business real estate) which have been graded pass, special mention or substandard and all personal banking loans, except personal real estate loans on non-accrual status. Collectively-evaluated loans include certain troubled debt restructurings with similar risk characteristics. Allowances determined for personal banking loans, which are generally smaller balance homogeneous type loans, use consistent methodologies which consider historical and current loss trends, delinquencies and current economic conditions. Allowances for commercial type loans, which are generally larger and more complex in structure with more unpredictable loss characteristics, use methods which consider historical and current loss trends, current loan grades, delinquencies, industry concentrations, economic conditions throughout the Company's markets as monitored by Company credit officers, and general economic conditions.

The Company’s estimate of the allowance for loan losses and the corresponding provision for loan losses rests upon various judgments and assumptions made by management. Factors that influence these judgments include past loan loss experience, current loan portfolio composition and characteristics, trends in portfolio risk ratings, levels of non-performing assets, and prevailing regional and national economic conditions. The Company has internal credit administration and loan review staffs that continuously review loan quality and report the results of their reviews and examinations to the Company’s senior management and Board of Directors. Such reviews also assist management in establishing the level of the allowance. In using this process and the information available, management must consider various assumptions and exercise considerable judgment to determine the overall level of the allowance for loan losses. Because of these subjective factors, actual outcomes of inherent losses can differ from original estimates. The Company’s subsidiary bank continues to be subject to examination by several regulatory agencies, and examinations are conducted throughout the year, targeting various segments of the loan portfolio for review. Refer to Note 1 to the consolidated financial statements for additional discussion on the allowance and charge-off policies.

At December 31, 2012, the allowance for loan losses was $172.5 million compared to a balance at year end 2011 of $184.5 million. Total loans delinquent 90 days or more and still accruing were $15.3 million at December 31, 2012, a small increase of $389 thousand compared to year end 2011. Non-accrual loans at December 31, 2012 were $51.4 million, a decrease of $24.1 million from the prior year and were mainly comprised of $17.3 million of business real estate loans, $13.7 million of construction loans and $13.1 million of business loans. As the result of improving credit trends noted in the Company's analysis of the allowance, the provision for loan losses was $12.0 million less than net charge-offs for the year, thereby reducing the allowance for loan losses to $172.5 million. The percentage of allowance to loans, excluding loans held for sale, decreased to 1.75% at December 31, 2012 compared to 2.01% at year end 2011 as a result of the decrease in the allowance balance. The percentage of allowance to non-accrual loans was 336% at December 31, 2012.

Net loan charge-offs totaled $39.3 million in 2012, representing a $25.2 million decrease compared to net charge-offs of $64.5 million in 2011. Net recoveries on business loans were $2.5 million in 2012, compared to net charge-offs of $5.0 million in 2011. Net recoveries on construction and land loans were $283 thousand compared to net charge-offs of $7.0 million in 2011. Net

charge-offs related to consumer loans decreased $4.0 million to $8.1 million in 2012, which included net charge-offs of $6.6 million related to marine and RV loans. Additionally, net charge-offs related to consumer credit cards were $24.5 million in 2012 compared to $31.6 million in 2011. Approximately 62.3% of total net loan charge-offs during 2012 were related to consumer credit card loans compared to 49.0% during 2011. Net consumer credit card charge-offs decreased to 3.4% of average consumer credit card loans in 2012 compared to 4.2% in 2011, as a result of an improving economy and lower delinquencies.

The ratio of net charge-offs to total average loans outstanding in 2012 was .42% compared to .70% in 2011 and 1.00% in 2010. The provision for loan losses in 2012 was $27.3 million, compared to provisions of $51.5 million in 2011 and $100.0 million in 2010.

The Company considers the allowance for loan losses of $172.5 million adequate to cover losses inherent in the loan portfolio at December 31, 2012.

The schedules which follow summarize the relationship between loan balances and activity in the allowance for loan losses:

	Years Ended December 31				
(Dollars in thousands)	**2012**	2011	2010	2009	2008
Loans outstanding at end of year[A]	**$ 9,831,384**	$ 9,177,478	$ 9,410,982	$ 10,145,324	$ 11,283,246
Average loans outstanding[A]	**$ 9,379,316**	$ 9,222,568	$ 9,698,670	$ 10,629,867	$ 10,935,858
Allowance for loan losses:					
Balance at beginning of year	**$ 184,532**	$ 197,538	$ 194,480	$ 172,619	$ 133,586
Additions to allowance through charges to expense	**27,287**	51,515	100,000	160,697	108,900
Loans charged off:					
Business	**2,809**	6,749	8,550	15,762	7,820
Real estate — construction and land	**1,244**	7,893	15,199	34,812	6,215
Real estate — business	**7,041**	4,176	4,780	5,957	2,293
Real estate — personal	**2,416**	3,217	2,484	3,150	1,765
Consumer	**12,288**	16,052	24,587	35,979	26,229
Revolving home equity	**2,044**	1,802	2,014	1,197	447
Consumer credit card	**33,098**	39,242	54,287	54,060	35,825
Overdrafts	**2,221**	2,254	2,672	3,493	4,499
Total loans charged off	**63,161**	81,385	114,573	154,410	85,093
Recoveries of loans previously charged off:					
Business	**5,306**	1,761	3,964	2,925	3,406
Real estate — construction and land	**1,527**	943	193	720	—
Real estate — business	**1,933**	613	722	709	117
Real estate — personal	**990**	445	428	363	51
Consumer	**4,161**	3,896	4,108	3,772	4,782
Revolving home equity	**240**	135	39	7	18
Consumer credit card	**8,623**	7,625	6,556	4,785	4,309
Overdrafts	**1,094**	1,446	1,621	2,293	2,543
Total recoveries	**23,874**	16,864	17,631	15,574	15,226
Net loans charged off	**39,287**	64,521	96,942	138,836	69,867
Balance at end of year	**$ 172,532**	$ 184,532	$ 197,538	$ 194,480	$ 172,619
Ratio of allowance to loans at end of year	**1.75%**	2.01%	2.10%	1.92%	1.53%
Ratio of provision to average loans outstanding	**.29%**	.56%	1.03%	1.51%	1.00%

(A) Net of unearned income, before deducting allowance for loan losses, excluding loans held for sale.

	Years Ended December 31				
	2012	2011	2010	2009	2008
Ratio of net charge-offs (recoveries) to average loans outstanding, by loan category:					
Business	**(.08)%**	.17%	.16%	.41%	.13%
Real estate — construction and land	**(.08)**	1.66	2.69	4.61	.89
Real estate — business	**.23**	.17	.20	.24	.10
Real estate — personal	**.09**	.19	.14	.18	.11
Consumer	**.69**	1.09	1.64	2.20	1.28
Revolving home equity	**.40**	.36	.41	.24	.09
Consumer credit card	**3.35**	4.23	6.28	6.77	4.06
Overdrafts	**18.40**	11.62	14.42	12.27	16.40
Ratio of total net charge-offs to total average loans outstanding	**.42 %**	.70%	1.00%	1.31%	.64%

The following schedule provides a breakdown of the allowance for loan losses by loan category and the percentage of each loan category to total loans outstanding at year end:

(Dollars in thousands)	**2012**		2011		2010		2009		2008	
	Loan Loss Allowance Allocation	**% of Loans to Total Loans**	Loan Loss Allowance Allocation	% of Loans to Total Loans	Loan Loss Allowance Allocation	% of Loans to Total Loans	Loan Loss Allowance Allocation	% of Loans to Total Loans	Loan Loss Allowance Allocation	% of Loans to Total Loans
Business	**$ 47,729**	**31.9%**	$ 49,217	30.5%	$ 47,534	31.4%	$ 40,455	28.4%	$ 35,185	30.2%
RE — construction and land	**20,555**	**3.6**	28,280	4.2	21,316	4.9	33,659	6.6	24,714	7.4
RE — business	**37,441**	**22.5**	45,000	23.8	51,096	22.0	31,515	20.7	26,081	19.0
RE — personal	**3,937**	**16.1**	3,701	15.6	4,016	15.3	5,435	15.2	4,985	14.5
Consumer	**15,165**	**13.1**	15,369	12.1	19,449	12.4	30,257	13.1	30,503	14.3
Revolving home equity	**4,861**	**4.5**	2,220	5.1	2,502	5.1	1,737	4.8	1,445	4.4
Student	**—**	**—**	—	—	—	—	229	3.3	—	3.2
Consumer credit card	**41,926**	**8.2**	39,703	8.6	50,532	8.8	49,923	7.9	47,993	6.9
Overdrafts	**918**	**.1**	1,042	.1	1,093	.1	1,270	—	1,713	.1
Total	**$ 172,532**	**100.0%**	$ 184,532	100.0%	$ 197,538	100.0%	$ 194,480	100.0%	$ 172,619	100.0%

Risk Elements of Loan Portfolio

Management reviews the loan portfolio continuously for evidence of problem loans. During the ordinary course of business, management becomes aware of borrowers that may not be able to meet the contractual requirements of loan agreements. Such loans are placed under close supervision with consideration given to placing the loan on non-accrual status, the need for an additional allowance for loan loss, and (if appropriate) partial or full loan charge-off. Loans are placed on non-accrual status when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment. After a loan is placed on non-accrual status, any interest previously accrued but not yet collected is reversed against current income. Interest is included in income only as received and only after all previous loan charge-offs have been recovered, so long as management is satisfied there is no impairment of collateral values. The loan is returned to accrual status only when the borrower has brought all past due principal and interest payments current, and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled. Loans that are 90 days past due as to principal and/or interest payments are generally placed on non-accrual, unless they are both well-secured and in the process of collection, or they are comprised of those personal banking loans that are exempt under regulatory rules from being classified as non-accrual. Consumer installment loans and related accrued interest are normally charged down to the fair value of related collateral (or are charged off in full if no collateral) once the loans are more than 120 days delinquent. Credit card loans and the related accrued interest are charged off when the receivable is more than 180 days past due.

The following schedule shows non-performing assets and loans past due 90 days and still accruing interest.

(Dollars in thousands)	December 31 2012	2011	2010	2009	2008
Total non-accrual loans	**$ 51,410**	$ 75,482	$ 85,275	$ 106,613	$ 72,896
Real estate acquired in foreclosure	**13,453**	18,321	12,045	10,057	6,181
Total non-performing assets	**$ 64,863**	$ 93,803	$ 97,320	$ 116,670	$ 79,077
Non-performing assets as a percentage of total loans	**.66%**	1.02%	1.03%	1.15%	.70%
Non-performing assets as a percentage of total assets	**.29%**	.45%	.53%	.64%	.45%
Total past due 90 days and still accruing interest	**$ 15,347**	$ 14,958	$ 20,466	$ 42,632	$ 39,964

The table below shows the effect on interest income in 2012 of loans on non-accrual status at year end.

(In thousands)	
Gross amount of interest that would have been recorded at original rate	$ 4,606
Interest that was reflected in income	561
Interest income not recognized	$ 4,045

Non-accrual loans, which are also classified as impaired, totaled $51.4 million at year end 2012, a decrease of $24.1 million from the balance at year end 2011. The decrease in non-accrual loans occurred mainly in the business and real estate construction and land loan categories, which decreased $12.7 million and $9.1 million, respectively. The decline in non-accrual loans was largely attributable to improved credit quality in the loan portfolio. At December 31, 2012, non-accrual loans were comprised primarily of business real estate loans (33.7%), construction and land real estate loans (26.6%), and business loans (25.4%). Foreclosed real estate decreased $4.9 million to a total of $13.5 million at year end 2012. The decline was mainly due to a partial sale of a construction project. Total non-performing assets remain low compared to the overall banking industry in 2012, with the non-performing loans to total loans ratio at .52% at December 31, 2012. Loans past due 90 days and still accruing interest increased $389 thousand at year end 2012 compared to 2011. Balances by class for non-accrual loans and loans past due 90 days and still accruing interest are shown in the "Delinquent and non-accrual loans" section of Note 2 to the consolidated financial statements.

In addition to the non-performing and past due loans mentioned above, the Company also has identified loans for which management has concerns about the ability of the borrowers to meet existing repayment terms. They are classified as substandard under the Company's internal rating system. The loans are generally secured by either real estate or other borrower assets, reducing the potential for loss should they become non-performing. Although these loans are generally identified as potential problem loans, they may never become non-performing. Such loans totaled $141.9 million at December 31, 2012 compared with $250.7 million at December 31, 2011, resulting in a decrease of $108.8 million, or 43.4%. The change in potential problem loans was largely due to decreases of $58.3 million in business real estate loans, $30.3 million in business loans, and $20.9 million in construction and land real estate loans.

(In thousands)	December 31 2012	2011
Potential problem loans:		
Business	**$ 44,881**	$ 75,213
Real estate – construction and land	**33,762**	54,696
Real estate – business	**55,362**	113,652
Real estate – personal	**7,891**	6,900
Consumer	**—**	208
Total potential problem loans	**$ 141,896**	$ 250,669

At December 31, 2012, the Company had approximately $94.0 million of loans whose terms have been modified or restructured under a troubled debt restructuring. These loans have been extended to borrowers who are experiencing financial difficulty and who have been granted a concession, as defined by accounting guidance. Of this balance, $28.5 million have been placed on non-accrual status. Of the remaining $65.5 million, approximately $40.3 million were commercial loans (business, construction and business real estate) classified as substandard, which were renewed at interest rates that were not judged to be market rates for new debt with similar risk. These loans are performing under their modified terms, and the Company believes it probable that all amounts due under the modified terms of the agreements will be collected. However, because of their substandard classification, they are included as potential problem loans in the table above. An additional $14.7 million in troubled debt restructurings were

composed of certain credit card loans under various debt management and assistance programs. Other restructured loans include $10.4 million of personal banking loans which were not reaffirmed in bankruptcy, on which the borrowers are continuing to make payments.

Loans with Special Risk Characteristics

Management relies primarily on an internal risk rating system, in addition to delinquency status, to assess risk in the loan portfolio, and these statistics are presented in Note 2 to the consolidated financial statements. However, certain types of loans are considered at high risk of loss due to their terms, location, or special conditions. Construction and land loans and business real estate loans are subject to higher risk as a result of the current weak economic climate and issues in the housing industry. Certain personal real estate products (residential first mortgages and home equity loans) have contractual features that could increase credit exposure in a market of declining real estate prices, when interest rates are steadily increasing, or when a geographic area experiences an economic downturn. For these personal real estate loans, higher risks could exist when 1) loan terms require a minimum monthly payment that covers only interest, or 2) loan-to-collateral value (LTV) ratios at origination are above 80%, with no private mortgage insurance. Information presented below for personal real estate and home equity loans is based on LTV ratios which were calculated with valuations at loan origination date. The Company does not attempt to obtain updated appraisals or valuations unless the loans become significantly delinquent or are in the process of being foreclosed upon. For credit monitoring purposes, the Company relies on delinquency monitoring along with obtaining refreshed FICO scores, and in the case of home equity loans, reviewing line utilization and credit bureau information annually. This has remained an effective means of evaluating credit trends and identifying problem loans, partly because the Company offers standard, conservative lending products.

Real Estate - Construction and Land Loans

The Company's portfolio of construction loans, as shown in the table below, amounted to 3.6% of total loans outstanding at December 31, 2012.

(Dollars in thousands)		**December 31, 2012**	**% of Total**	**% of Total Loans**		December 31, 2011	% of Total	% of Total Loans
Residential land and land development	**$**	**61,794**	**17.4%**	**.6%**	$	70,708	18.3%	.8%
Residential construction		**68,590**	**19.2**	**.7**		70,009	18.1	.7
Commercial land and land development		**83,491**	**23.5**	**.9**		97,379	25.2	1.1
Commercial construction		**142,121**	**39.9**	**1.4**		148,502	38.4	1.6
Total real estate – construction and land loans	**$**	**355,996**	**100.0%**	**3.6%**	$	386,598	100.0%	4.2%

Real Estate – Business Loans

Total business real estate loans were $2.2 billion at December 31, 2012 and comprised 22.5% of the Company's total loan portfolio. These loans include properties such as manufacturing and warehouse buildings, small office and medical buildings, churches, hotels and motels, shopping centers, and other commercial properties. Approximately 47% of these loans were for owner-occupied real estate properties, which present lower risk profiles.

(Dollars in thousands)		**December 31, 2012**	**% of Total**	**% of Total Loans**		December 31, 2011	% of Total	% of Total Loans
Owner-occupied	**$**	**1,035,407**	**46.7%**	**10.5%**	$	1,057,652	48.5%	11.5%
Office		**269,756**	**12.2**	**2.7**		270,200	12.3	3.0
Retail		**245,021**	**11.1**	**2.5**		226,447	10.4	2.5
Multi-family		**184,208**	**8.3**	**1.9**		174,285	8.0	1.9
Hotels		**155,392**	**7.0**	**1.6**		119,039	5.5	1.3
Farm		**123,613**	**5.6**	**1.3**		121,966	5.6	1.3
Industrial		**110,645**	**5.0**	**1.1**		98,092	4.5	1.1
Other		**90,933**	**4.1**	**.9**		112,419	5.2	1.2
Total real estate - business loans	**$**	**2,214,975**	**100.0%**	**22.5%**	$	2,180,100	100.0%	23.8%

Real Estate - Personal Loans

The Company's $1.6 billion personal real estate loan portfolio is composed of first mortgages on residential real estate. The majority of this portfolio is comprised of approximately $1.4 billion of loans made to the retail customer base and includes both adjustable rate and fixed rate mortgage loans. As shown in Note 2 to the consolidated financial statements, 5.5% of the retail-based portfolio has FICO scores of less than 660, and delinquency levels have been low. Loans of approximately $12.7 million in this portfolio were structured with interest only payments. Interest only loans are typically made to high net-worth borrowers and generally have low LTV ratios or have additional collateral pledged to secure the loan, and, therefore, they are not perceived to represent above normal credit risk. Loans originated with interest only payments were not made to "qualify" the borrower for a lower payment amount. A small portion of the total portfolio is composed of personal real estate loans made to commercial customers, which totaled $224.5 million at December 31, 2012.

The following table presents information about the retail-based personal real estate loan portfolio for 2012 and 2011.

	2012		2011	
(Dollars in thousands)	**Principal Outstanding at December 31**	**% of Loan Portfolio**	Principal Outstanding at December 31	% of Loan Portfolio
Loans with interest only payments	**$ 12,730**	**.9%**	$ 15,186	1.3%
Loans with no insurance and LTV:				
Between 80% and 90%	**76,023**	**5.6**	78,446	6.5
Between 90% and 95%	**26,871**	**2.0**	25,131	2.1
Over 95%	**33,290**	**2.4**	38,995	3.2
Over 80% LTV with no insurance	**136,184**	**10.0**	142,572	11.8
Total loan portfolio from which above loans were identified	**1,360,194**		1,205,462	

Revolving Home Equity Loans

The Company also has revolving home equity loans that are generally collateralized by residential real estate. Most of these loans (93.6%) are written with terms requiring interest only monthly payments. These loans are offered in three main product lines: LTV up to 80%, 80% to 90%, and 90% to 100%. As shown in the tables below, the percentage of loans with LTV ratios greater than 80% has remained a small segment of this portfolio, and delinquencies have been low and stable. Over the next three years, as much as 40% of the Company's revolving home equity loans are expected to mature, which were originated in 2003 through 2007. At maturity, the accounts are re-underwritten and if they qualify under the Company's credit, collateral and capacity policies, the borrower is given the option to renew the line of credit, or to convert the outstanding balance to an amortizing loan. If criteria are not met, amortization is required, or the borrower may pay off the loan.

(Dollars in thousands)	Principal Outstanding at December 31, 2012	*	New Lines Originated During 2012	*	Unused Portion of Available Lines at December 31, 2012	*	Balances Over 30 Days Past Due	*
Loans with interest only payments	$ 409,593	93.6%	$60,673	13.9%	$637,677	145.7%	$4,011	.9%
Loans with LTV:								
Between 80% and 90%	45,698	10.4	9,747	2.2	36,568	8.4	462	.1
Over 90%	15,310	3.5	1,528	.4	11,320	2.5	358	.1
Over 80% LTV	61,008	13.9	11,275	2.6	47,888	10.9	820	.2
Total loan portfolio from which above loans were identified	437,567		135,657		649,963			

** Percentage of total principal outstanding of $437.6 million at December 31, 2012.*

(Dollars in thousands)	Principal Outstanding at December 31, 2011	*	New Lines Originated During 2011	*	Unused Portion of Available Lines at December 31, 2011	*	Balances Over 30 Days Past Due	*
Loans with interest only payments	$ 438,123	94.5%	$19,607	4.2%	$631,719	136.3%	$1,301	.3%
Loans with LTV:								
Between 80% and 90%	51,520	11.1	7,802	1.7	39,212	8.4	350	.1
Over 90%	18,653	4.0	150	—	10,961	2.4	255	—
Over 80% LTV	70,173	15.1	7,952	1.7	50,173	10.8	605	.1
Total loan portfolio from which above loans were identified	463,587		121,149		651,108			

** Percentage of total principal outstanding of $463.6 million at December 31, 2011.*

Fixed Rate Home Equity Loans

In addition to the residential real estate mortgage loans and the revolving floating rate line product discussed above, the Company offers a third choice to those consumers desiring a fixed rate loan and a fixed maturity date. This fixed rate home equity loan, typically for home repair or remodeling, is an alternative for individuals who want to finance a specific project or purchase and decide to lock in a specific monthly payment over a defined period. Outstanding balances for these loans were $210.1 million and $142.0 million at December 31, 2012 and 2011, respectively. At times, these loans are written with interest only monthly payments and a balloon payoff at maturity; however, less than 5% of the outstanding balance had interest only payments at December 31, 2012 and 2011. The delinquency history on this product has been low, as balances over 30 days past due totaled only $2.0 million, or .9% of the portfolio, and $1.6 million, or 1.2% of the portfolio, at year end 2012 and 2011, respectively.

	2012				2011			
(Dollars in thousands)	**Principal Outstanding at December 31**	*****	**New Loans Originated**	*****	Principal Outstanding at December 31	*	New Loans Originated	*
Loans with interest only payments	**$ 4,128**	**2.0%**	**$5,464**	**2.6%**	$ 5,965	4.2%	$8,669	6.1%
Loans with LTV:								
Between 80% and 90%	**36,427**	**17.3**	**26,438**	**12.6**	19,346	13.6	8,520	6.0
Over 90%	**17,561**	**8.4**	**6,628**	**3.1**	18,599	13.1	4,098	2.9
Over 80% LTV	**53,988**	**25.7**	**33,066**	**15.7**	37,945	26.7	12,618	8.9
Total loan portfolio from which above loans were identified	**210,064**				141,977			

** Percentage of total principal outstanding of $210.1 million and $142.0 million at December 31, 2012 and 2011, respectively.*

Management does not believe these loans collateralized by real estate (revolving home equity, personal real estate, and fixed rate home equity) represent any unusual concentrations of risk, as evidenced by net charge-offs in 2012 of $1.8 million, $1.4 million and $466 thousand, respectively. The amount of any increased potential loss on high LTV agreements relates mainly to amounts advanced that are in excess of the 80% collateral calculation, not the entire approved line. The Company currently offers no subprime first mortgage or home equity loans. These are characterized as new loans to customers with FICO scores below 650 for home equity loans, 660 for government-insured first mortgages, and 680 for all other conventional first mortgages. The Company does not purchase brokered loans.

Other Consumer Loans

Within the consumer loan portfolio are several direct and indirect product lines comprised mainly of loans secured by automobiles and other passenger vehicles, marine, and RVs. During 2012, $440.2 million of new automobile loans were originated, compared to $222.3 million during 2011. However, marine and RV loan production has been curtailed since 2008. The loss ratios experienced for marine and RV loans have been higher than for other consumer loan products in recent years, at 1.8% and 2.1% in 2012 and 2011, respectively, but year end balances over 30 days past due have decreased $3.0 million from 2011. The table below provides the total outstanding principal and other data for this group of direct and indirect lending products at December 31, 2012 and 2011.

	2012			2011		
(In thousands)	**Principal Outstanding at December 31**	**New Loans Originated**	**Balances Over 30 Days Past Due**	Principal Outstanding at December 31	New Loans Originated	Balances Over 30 Days Past Due
Passenger vehicles	**$ 569,616**	**$ 440,206**	**$ 4,454**	$ 357,575	$ 222,268	$ 2,606
Marine	**88,858**	**1,450**	**2,948**	113,770	1,488	3,703
RV	**238,991**	**—**	**4,443**	306,383	—	6,702
Total	**$ 897,465**	**$ 441,656**	**$ 11,845**	$ 777,728	$ 223,756	$ 13,011

Additionally, the Company offers low introductory rates on selected consumer credit card products. Out of a portfolio at December 31, 2012 of $804.2 million in consumer credit card loans outstanding, approximately $129.5 million, or 16.1%, carried a low introductory rate. Within the next six months, $29.0 million of these loans are scheduled to convert to the ongoing higher contractual rate. To mitigate some of the risk involved with this credit card product, the Company performs credit checks and detailed analysis of the customer borrowing profile before approving the loan application. Management believes that the risks in the consumer loan portfolio are reasonable and the anticipated loss ratios are within acceptable parameters.

Investment Securities Analysis

Investment securities are comprised of securities which are classified as available for sale, non-marketable, or trading. During 2012, total investment securities increased $260.2 million, or 2.8%, to $9.4 billion (excluding unrealized gains/losses) compared to $9.1 billion at the previous year end. During 2012, securities of $3.4 billion were purchased, which included $1.8 billion in asset-backed securities. Total sales, maturities and pay downs were $3.1 billion during 2012. During 2013, maturities and pay downs of approximately $2.2 billion are expected to occur. The average tax equivalent yield earned on total investment securities was 2.55% in 2012 and 2.93% in 2011.

At December 31, 2012, the fair value of available for sale securities was $9.5 billion, including a net unrealized gain in fair value of $263.7 million, compared to a net unrealized gain of $212.6 million at December 31, 2011. The overall unrealized gain in fair value at December 31, 2012 included gains of $132.9 million in agency mortgage-backed securities, $38.8 million in U.S. government and federal agency obligations, $29.8 million in state and municipal obligations, and $27.4 million in equity securities held by the Parent.

Available for sale investment securities at year end for the past two years are shown below:

(In thousands)	December 31 2012	2011
Amortized Cost		
U.S. government and federal agency obligations	**$ 399,971**	$ 328,530
Government-sponsored enterprise obligations	**467,063**	311,529
State and municipal obligations	**1,585,926**	1,220,840
Agency mortgage-backed securities	**3,248,007**	3,989,464
Non-agency mortgage-backed securities	**224,223**	315,752
Asset-backed securities	**3,152,913**	2,692,436
Other debt securities	**174,727**	135,190
Equity securities	**5,695**	18,354
Total available for sale investment securities	**$ 9,258,525**	$ 9,012,095
Fair Value		
U.S. government and federal agency obligations	**$ 438,759**	$ 364,665
Government-sponsored enterprise obligations	**471,574**	315,698
State and municipal obligations	**1,615,707**	1,245,284
Agency mortgage-backed securities	**3,380,955**	4,106,059
Non-agency mortgage-backed securities	**237,011**	316,902
Asset-backed securities	**3,167,394**	2,693,143
Other debt securities	**177,752**	141,260
Equity securities	**33,096**	41,691
Total available for sale investment securities	**$ 9,522,248**	$ 9,224,702

The largest component of the available for sale portfolio consists of agency mortgage-backed securities, which are collateralized bonds issued by agencies, including FNMA, GNMA, FHLMC, FHLB, Federal Farm Credit Banks and FDIC. Non-agency mortgage-backed securities totaled $237.0 million, at fair value, at December 31, 2012, and included Alt-A type mortgage-backed securities of $108.8 million and prime/jumbo loan type securities of $128.2 million. Certain of the non-agency mortgage-backed securities are other-than-temporarily impaired, and the processes for determining impairment and the related losses are discussed in Note 3 to the consolidated financial statements. The portfolio does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

At December 31, 2012, U.S. government obligations included $438.6 million in U.S. Treasury inflation-protected securities, and state and municipal obligations included $126.4 million in auction rate securities, at fair value. Other debt securities include corporate bonds, notes and commercial paper. Available for sale equity securities are mainly comprised of common stock held by the Parent which totaled $30.7 million at December 31, 2012.

The types of debt securities in the available for sale security portfolio are presented in the table below. Additional detail by maturity category is provided in Note 3 to the consolidated financial statements.

	December 31, 2012		
	Percent of Total Debt Securities	Weighted Average Yield	Estimated Average Maturity*
Available for sale debt securities:			
U.S. government and federal agency obligations	4.6%	1.23%	5.9 years
Government-sponsored enterprise obligations	5.0	1.75	9.0
State and municipal obligations	17.0	2.47	7.0
Agency mortgage-backed securities	35.6	2.82	3.1
Non-agency mortgage-backed securities	2.5	6.08	4.1
Asset-backed securities	33.4	.94	2.1
Other debt securities	1.9	3.47	5.2

**Based on call provisions and estimated prepayment speeds.*

Non-marketable securities, which totaled $118.7 million at December 31, 2012, included $30.7 million in Federal Reserve Bank stock and $14.6 million in Federal Home Loan Bank (Des Moines) stock held by the bank subsidiary in accordance with debt and regulatory requirements. These are restricted securities which, lacking a market, are carried at cost. Other non-marketable securities also include private equity securities which are carried at estimated fair value.

The Company engages in private equity activities primarily through several private equity subsidiaries. These subsidiaries hold investments in various business entities, which are carried at fair value and totaled $68.2 million at December 31, 2012. In addition to investments held by its private equity subsidiaries, the Parent directly holds investments in several private equity concerns, which totaled $4.3 million at year end 2012. Most of the private equity investments are not readily marketable. While the nature of these investments carries a higher degree of risk than the normal lending portfolio, this risk is mitigated by the overall size of the investments and oversight provided by management, and management believes the potential for long-term gains in these investments outweighs the potential risks.

Non-marketable securities at year end for the past two years are shown below:

	December 31	
(In thousands)	**2012**	2011
Debt securities	**$ 32,068**	$ 31,683
Equity securities	**86,582**	84,149
Total non-marketable investment securities	**$ 118,650**	$ 115,832

In addition to its holdings in the investment securities portfolio, the Company holds long-term securities purchased under agreements to resell, which totaled $1.2 billion and $850.0 million at December 31, 2012 and 2011, respectively. These investments mature in 2013 through 2016, and most have rates that fluctuate with published indices within a fixed range. The counterparties to these agreements are other financial institutions from whom the Company has accepted collateral of $1.3 billion in marketable investment securities at December 31, 2012. The average rate earned on these agreements during 2012 was 2.15%.

The Company also holds $300.0 million in offsetting repurchase and resell agreements at December 31, 2012, which are further discussed in Note 3 to the consolidated financial statements. These agreements involve the exchange of collateral under simultaneous repurchase and resell agreements with the same financial institution counterparty. These repurchase and resell agreements have been offset against each other in the balance sheet, as permitted under current accounting guidance.

Deposits and Borrowings

Deposits are the primary funding source for the Bank and are acquired from a broad base of local markets, including both individual and corporate customers. Total deposits were $18.3 billion at December 31, 2012, compared to $16.8 billion last year, reflecting an increase of $1.5 billion, or 9.2%. This increase follows 11.4% growth in 2011 over 2010, and reflects a continuing sense of uncertainty about future economic stability by borrowers and investors.

Average deposits grew by $1.2 billion, or 7.4%, in 2012 compared to 2011 with most of this growth occurring in business demand deposits, which grew $714.7 million, or 21.3%, and in interest checking and money market deposits, which increased $727.7 million, or 9.4%. Certificates of deposit with balances under $100,000 fell on average by $173.9 million, or 13.5%, and certificates of deposit over $100,000 decreased by $228.3 million, or 16.2%.

The following table shows year end deposits by type as a percentage of total deposits.

	December 31	
	2012	2011
Non-interest bearing	**34.3%**	32.0%
Savings, interest checking and money market	**53.5**	53.2
Time open and C.D.'s of less than $100,000	**5.9**	6.9
Time open and C.D.'s of $100,000 and over	**6.3**	7.9
Total deposits	**100.0%**	100.0%

Core deposits, which include non-interest bearing, interest checking, savings, and money market deposits, supported 74% of average earning assets in 2012 and 71% in 2011. Average balances by major deposit category for the last six years appear on page 50. A maturity schedule of time deposits outstanding at December 31, 2012 is included in Note 6 on Deposits in the consolidated financial statements.

The Company's primary sources of overnight borrowings are federal funds purchased and securities sold under agreements to repurchase (repurchase agreements). Balances in these accounts can fluctuate significantly on a day-to-day basis and generally have one day maturities. These short-term balances totaled $683.6 million at December 31, 2012. The Company also holds $400.0 million in long-term structured repurchase agreements that will mature throughout 2013 and 2014. Total balances of federal funds purchased and repurchase agreements outstanding at year end 2012 were $1.1 billion, a $172.5 million decrease from the $1.3 billion balance outstanding at year end 2011. On an average basis, these borrowings increased $151.0 million, or 14.6%, during 2012, with increases of $77.1 million in federal funds purchased and $73.9 million in repurchase agreements. The average rate paid on total federal funds purchased and repurchase agreements was .07% during 2012 and .17% during 2011.

Most of the Company's long-term debt is comprised of fixed rate advances from the FHLB. These borrowings declined from $104.3 million at December 31, 2011, to $103.7 million outstanding at December 31, 2012. The average rate paid on FHLB advances was 3.60% during both 2012 and 2011. Most of the remaining balance outstanding at December 31, 2012 is due in 2017.

Liquidity and Capital Resources

Liquidity Management

Liquidity is managed within the Company in order to satisfy cash flow requirements of deposit and borrowing customers while at the same time meeting its own cash flow needs. The Company maintains its liquidity position through a variety of sources including:

- A portfolio of liquid assets including marketable investment securities and overnight investments,
- A large customer deposit base and limited exposure to large, volatile certificates of deposit,
- Lower long-term borrowings that might place demands on Company cash flow,
- Relatively low loan to deposit ratio promoting strong liquidity,
- Excellent debt ratings from both Standard & Poor's and Moody's national rating services, and
- Available borrowing capacity from outside sources.

Since 2008, when some of the major banking institutions experienced severe capital erosion, liquidity risk has been a concern affecting the general banking industry. The Company has taken numerous steps to address liquidity risk and over the past few years has developed a variety of liquidity sources which it believes will provide the necessary funds for future growth. Over the past several years, overall liquidity improved significantly throughout the banking industry and within the Company as a result of growth in deposits, a decline in loans outstanding and growth in marketable securities. As a result, the Company's average loans to deposits ratio, one measure of liquidity, decreased from 59.2% in 2011 to 55.8% in 2012.

The Company's most liquid assets include available for sale marketable investment securities, federal funds sold, balances at the Federal Reserve Bank, and securities purchased under agreements to resell (resell agreements). At December 31, 2012 and 2011, such assets were as follows:

(In thousands)	**2012**	2011
Available for sale investment securities	**$ 9,522,248**	$ 9,224,702
Federal funds sold	**27,595**	11,870
Long-term securities purchased under agreements to resell	**1,200,000**	850,000
Balances at the Federal Reserve Bank	**179,164**	39,853
Total	**$ 10,929,007**	$ 10,126,425

Federal funds sold, which are sold to the Company's correspondent bank customers and have overnight maturities, totaled $27.6 million at December 31, 2012. At December 31, 2012, the Company held $1.2 billion in long-term resell agreements, maturing in 2013 through 2016, from other large financial institutions. Under these agreements, the Company holds marketable securities as collateral, which totaled $1.3 billion in fair value at December 31, 2012. Interest earning balances at the Federal Reserve Bank, which have overnight maturities and are used for general liquidity purposes, totaled $179.2 million at December 31, 2012. The Company's available for sale investment portfolio includes scheduled maturities and expected pay downs of approximately $2.2 billion during 2013, and offers substantial resources to meet either new loan demand or reductions in the Company's deposit funding base. The Company pledges portions of its investment securities portfolio to secure public fund deposits, repurchase agreements, trust funds, letters of credit issued by the FHLB, and borrowing capacity at the Federal Reserve Bank. At December 31, 2012 and 2011, total investment securities pledged for these purposes were as follows:

(In thousands)	**2012**	2011
Investment securities pledged for the purpose of securing:		
Federal Reserve Bank borrowings	**$ 604,121**	$ 642,306
FHLB borrowings and letters of credit	**46,732**	111,860
Repurchase agreements	**2,105,867**	2,048,074
Other deposits	**1,550,114**	1,564,105
Total pledged securities	**4,306,834**	4,366,345
Unpledged and available for pledging	**3,428,781**	3,260,695
Ineligible for pledging	**1,786,633**	1,597,662
Total available for sale securities, at fair value	**$ 9,522,248**	$ 9,224,702

Liquidity is also available from the Company's large base of core customer deposits, defined as non-interest bearing, interest checking, savings, and money market deposit accounts. At December 31, 2012, such deposits totaled $16.1 billion and represented 87.8% of the Company's total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company promoting long lasting relationships and stable funding sources. During 2012, total core deposits increased $1.8 billion, with consumer core deposits growing $1.1 billion and corporate core deposits up $657.5 million. Much of this growth occurred in the fourth quarter of 2012, and reflected not only seasonal patterns but also an increased need for liquidity. Also, extremely low interest rates provide customers with fewer investment alternatives. Additionally in 2011, total core deposits increased $2.0 billion, reflecting similar trends as in the current year. While the Company considers core consumer deposits less volatile, corporate deposits could decline if interest rates increase significantly or if corporate customers increase investing activities and reduce deposit balances. In order to address funding needs if these corporate deposits decline, the Company maintains adequate levels of earning assets totaling $2.2 billion which mature in 2013 as noted above. In addition, as shown on page 40, the Company has borrowing capacity of $3.2 billion through advances from the FHLB and the Federal Reserve.

(In thousands)	**2012**	2011
Core deposit base:		
Non-interest bearing	**$ 6,299,903**	$ 5,377,549
Interest checking	**976,144**	968,430
Savings and money market	**8,841,799**	7,965,511
Total	**$ 16,117,846**	$ 14,311,490

Time open and certificates of deposit of $100,000 or greater totaled $1.2 billion at December 31, 2012. These deposits are normally considered more volatile and higher costing and comprised 6.3% of total deposits at December 31, 2012.

Other important components of liquidity are the level of borrowings from third party sources and the availability of future credit. The Company's outside borrowings are mainly comprised of federal funds purchased, repurchase agreements, and advances from the FHLB, as follows:

(In thousands)	**2012**	2011
Borrowings:		
Federal funds purchased	**$ 24,510**	$ 153,330
Repurchase agreements	**1,059,040**	1,102,751
FHLB advances	**103,710**	104,302
Other long-term debt	**—**	7,515
Total	**$ 1,187,260**	$ 1,367,898

Federal funds purchased, which totaled $24.5 million at December 31, 2012, are unsecured overnight borrowings obtained mainly from upstream correspondent banks with which the Company maintains approved lines of credit. Repurchase agreements are secured by a portion of the Company's investment portfolio and are comprised of both non-insured customer funds, totaling $659.0 million at December 31, 2012, and structured repurchase agreements of $400.0 million. Customer repurchase agreements are offered to customers wishing to earn interest in highly liquid balances and are used by the Company as a funding source considered to be stable, but short-term in nature. The structured repurchase agreements were borrowed from an upstream financial institution and are due in 2013 and 2014. The Company also borrows on a secured basis through advances from the FHLB, which totaled $103.7 million at December 31, 2012. All of these advances have fixed interest rates, with the majority maturing in 2017. The overall long-term debt position of the Company is small relative to the Company's overall liability position.

The Company pledges certain assets, including loans and investment securities, to both the Federal Reserve Bank and the FHLB as security to establish lines of credit and borrow from these entities. Based on the amount and type of collateral pledged, the FHLB establishes a collateral value from which the Company may draw advances against the collateral. Also, this collateral is used to enable the FHLB to issue letters of credit in favor of public fund depositors of the Company. The Federal Reserve Bank also establishes a collateral value of assets pledged and permits borrowings from the discount window. The following table reflects the collateral value of assets pledged, borrowings, and letters of credit outstanding, in addition to the estimated future funding capacity available to the Company at December 31, 2012.

	December 31, 2012		
(In thousands)	FHLB	Federal Reserve	Total
Total collateral value pledged	$ 2,039,676	$ 1,474,583	$ 3,514,259
Advances outstanding	(103,710)	—	(103,710)
Letters of credit issued	(260,050)	—	(260,050)
Available for future advances	**$ 1,675,916**	**$ 1,474,583**	**$ 3,150,499**

The Company's average loans to deposits ratio was 55.8% at December 31, 2012, which is considered in the banking industry to be a measure of strong liquidity. Also, the Company receives outside ratings from both Standard & Poor's and Moody's on both the consolidated company and its subsidiary bank, Commerce Bank. These ratings are as follows:

	Standard & Poor's	Moody's
Commerce Bancshares, Inc.		
Issuer rating	A-	
Commercial paper rating		P-1
Rating outlook	Stable	Stable
Commerce Bank		
Issuer rating	A	Aa3
Bank financial strength rating		B
Rating outlook	Stable	Stable

The Company considers these ratings to be indications of a sound capital base and strong liquidity and believes that these ratings would help ensure the ready marketability of its commercial paper, should the need arise. No commercial paper has been outstanding during the past ten years. The Company has no subordinated or hybrid debt instruments which would affect future

borrowing capacity. Because of its lack of significant long-term debt, the Company believes that, through its Capital Markets Group or in other public debt markets, it could generate additional liquidity from sources such as jumbo certificates of deposit, privately-placed corporate notes or other forms of debt. Future financing could also include the issuance of common or preferred stock.

The cash flows from the operating, investing and financing activities of the Company resulted in a net increase in cash and cash equivalents of $262.3 million in 2012, as reported in the consolidated statements of cash flows on page 59 of this report. Operating activities, consisting mainly of net income adjusted for certain non-cash items, provided cash flow of $383.1 million and has historically been a stable source of funds. Investing activities used total cash of $1.2 billion in 2012 and consisted mainly of purchases and maturities of available for sale investment securities, changes in long-term securities purchased under agreements to resell, and changes in the level of the Company's loan portfolio. Growth in the loan portfolio used cash of $693.2 million. Net purchases of long-term resell agreements used cash of $350.0 million, and growth in the investment securities portfolio used cash of $85.3 million. Investing activities are somewhat unique to financial institutions in that, while large sums of cash flow are normally used to fund growth in investment securities, loans, or other bank assets, they are normally dependent on the financing activities described below.

Financing activities provided total cash of $1.0 billion, primarily resulting from a $1.5 billion increase in deposits. This increase to cash was partly offset by net decrease of $172.5 million in borrowings of federal funds purchased and repurchase agreements, purchases of treasury stock of $104.9 million, and cash dividend payments of $211.6 million. Future short-term liquidity needs for daily operations are not expected to vary significantly, and the Company maintains adequate liquidity to meet these cash flows. The Company's sound equity base, along with its low debt level, common and preferred stock availability, and excellent debt ratings, provide several alternatives for future financing. Future acquisitions may utilize partial funding through one or more of these options.

Cash flows resulting from the Company's transactions in its common stock were as follows:

(In millions)	**2012**	2011	2010
Exercise of stock-based awards and sales to affiliate non-employee directors	**$ 15.6**	$ 15.3	$ 11.3
Purchases of treasury stock	**(104.9)**	(101.2)	(41.0)
Cash dividends paid	**(211.6)**	(79.1)	(78.2)
Cash used	**$ (300.9)**	$ (165.0)	$ (107.9)

The Parent faces unique liquidity constraints due to legal limitations on its ability to borrow funds from its bank subsidiary. The Parent obtains funding to meet its obligations from two main sources: dividends received from bank and non-bank subsidiaries (within regulatory limitations) and management fees charged to subsidiaries as reimbursement for services provided by the Parent, as presented below:

(In millions)	**2012**	2011	2010
Dividends received from subsidiaries	**$ 235.0**	$ 180.1	$ 105.1
Management fees	**23.7**	19.3	22.6
Total	**$ 258.7**	$ 199.4	$ 127.7

These sources of funds are used mainly to pay cash dividends on outstanding common stock, pay general operating expenses, and purchase treasury stock. At December 31, 2012, the Parent's available for sale investment securities totaled $65.2 million at fair value, consisting of common stock and non-agency backed collateralized mortgage obligations. To support its various funding commitments, the Parent maintains a $20.0 million line of credit with its subsidiary bank. There were no borrowings outstanding under the line during 2012 or 2011.

Company senior management is responsible for measuring and monitoring the liquidity profile of the organization with oversight by the Company's Asset/Liability Committee. This is done through a series of controls, including a written Contingency Funding Policy and risk monitoring procedures, which include daily, weekly and monthly reporting. In addition, the Company prepares forecasts to project changes in the balance sheet affecting liquidity and to allow the Company to better plan for forecasted changes.

Capital Management

The Company maintains strong regulatory capital ratios, including those of its banking subsidiary, in excess of the "well-capitalized" guidelines under federal banking regulations. The Company's capital ratios at the end of the last three years are as follows:

	2012	2011	2010	Well-Capitalized Regulatory Guidelines
Regulatory risk-based capital ratios:				
Tier I capital	**13.60%**	14.71%	14.38%	6.00%
Total capital	**14.93**	16.04	15.75	10.00
Leverage ratio	**9.14**	9.55	10.17	5.00
Tangible common equity to assets	**9.25**	9.91	10.27	
Dividend payout ratio	**79.48**	31.06	35.52	

The Company's regulatory risked-based capital amounts and risk-weighted assets at the end of the last three years are as follows:

(In thousands)	**2012**	2011	2010
Regulatory risk-based capital:			
Tier I capital	**$ 1,906,203**	$ 1,928,690	$ 1,828,965
Tier II capital	**185,938**	174,711	173,681
Total capital	**2,092,141**	2,103,401	2,002,646
Total risk-weighted assets	**14,015,648**	13,115,261	12,717,868

The Company maintains a stock buyback program and purchases stock in the market under authorizations by its Board of Directors. During 2012 the Company purchased 2,716,368 shares of stock at an average cost of $38.62 per share. At December 31, 2012, 2,127,618 shares remained available for purchase under the current Board authorization.

The Company's common stock dividend policy reflects its earnings outlook, desired payout ratios, the need to maintain adequate capital levels and alternative investment options. The regular per share cash dividends paid by the Company increased 5.0% in 2012 compared with 2011. In addition, the Company paid a special cash dividend of $1.429 per share in the fourth quarter of 2012. The Company also paid its nineteenth consecutive annual stock dividend in December 2012.

Commitments, Contractual Obligations, and Off-Balance Sheet Arrangements

In the normal course of business, various commitments and contingent liabilities arise which are not required to be recorded on the balance sheet. The most significant of these are loan commitments totaling $8.4 billion (including approximately $3.9 billion in unused approved credit card lines) and the contractual amount of standby letters of credit totaling $359.8 million at December 31, 2012. As many commitments expire unused or only partially used, these totals do not necessarily reflect future cash requirements. Management does not anticipate any material losses arising from commitments or contingent liabilities and believes there are no material commitments to extend credit that represent risks of an unusual nature.

A table summarizing contractual cash obligations of the Company at December 31, 2012 and the expected timing of these payments follows:

	Payments Due by Period				
(In thousands)	In One Year or Less	After One Year Through Three Years	After Three Years Through Five Years	After Five Years	Total
Long-term debt obligations, including structured repurchase agreements*	$ 51,510	$ 351,249	$ 100,951	$ —	$ 503,710
Operating lease obligations	5,354	8,178	4,810	16,532	34,874
Purchase obligations	69,583	104,131	48,352	4,030	226,096
Time open and C.D.'s *	1,768,087	330,666	132,025	29	2,230,807
Total	**$ 1,894,534**	**$ 794,224**	**$ 286,138**	**$ 20,591**	**$ 2,995,487**

** Includes principal payments only.*

As of December 31, 2012, the Company has unrecognized tax benefits that, if recognized, would impact the effective tax rate in future periods. Due to the uncertainty of the amounts to be ultimately paid, as well as the timing of such payments, all uncertain tax liabilities that have not been paid have been excluded from the table above. Further detail on the impact of income taxes is located in Note 8 to the consolidated financial statements.

The Company funds a defined benefit pension plan for a portion of its employees. Under the funding policy for the plan, contributions are made as necessary to provide for current service and for any unfunded accrued actuarial liabilities over a reasonable period. During 2012, the Company made a discretionary contribution of $1.5 million to its defined benefit pension plan in order to reduce pension guarantee premiums. However, the Company is not required nor does it expect to make a contribution in 2013.

The Company has investments in several low-income housing partnerships within the areas it serves. These partnerships supply funds for the construction and operation of apartment complexes that provide affordable housing to that segment of the population with lower family income. If these developments successfully attract a specified percentage of residents falling in that lower income range, state and/or federal income tax credits are made available to the partners. The tax credits are normally recognized over ten years, and they play an important part in the anticipated yield from these investments. In order to continue receiving the tax credits each year over the life of the partnership, the low-income residency targets must be maintained. Under the terms of the partnership agreements, the Company has a commitment to fund a specified amount that will be due in installments over the life of the agreements, which ranges from 10 to 15 years. At December 31, 2012, the funded investments totaled $7.8 million and are recorded as other assets in the Company's consolidated balance sheet. Additional unfunded commitments, which are recorded as liabilities, amounted to $6.9 million at December 31, 2012.

The Company regularly purchases various state tax credits arising from third-party property redevelopment. These credits are either resold to third parties or retained for use by the Company. During 2012, purchases and sales of tax credits amounted to $56.9 million and $31.0 million, respectively. At December 31, 2012, the Company had outstanding purchase commitments totaling $149.8 million.

Interest Rate Sensitivity

The Company's Asset/Liability Management Committee (ALCO) measures and manages the Company's interest rate risk on a monthly basis to identify trends and establish strategies to maintain stability in net interest income throughout various rate environments. Analytical modeling techniques provide management insight into the Company's exposure to changing rates. These techniques include net interest income simulations and market value analysis. Management has set guidelines specifying acceptable limits within which net interest income and market value may change under various rate change scenarios. These measurement tools indicate that the Company is currently within acceptable risk guidelines as set by management.

The Company's main interest rate measurement tool, income simulations, projects net interest income under various rate change scenarios in order to quantify the magnitude and timing of potential rate-related changes. Income simulations are able to capture option risks within the balance sheet where expected cash flows may be altered under various rate environments. Modeled rate movements include "shocks, ramps and twists". Shocks are intended to capture interest rate risk under extreme conditions by immediately shifting rates up and down, while ramps measure the impact of gradual changes and twists measure yield curve risk. The size of the balance sheet is assumed to remain constant so that results are not influenced by growth predictions. The table below shows the expected effect that gradual basis point shifts in the swap curve over a twelve month period would have on the Company's net interest income, given a static balance sheet.

	December 31, 2012		September 30, 2012		December 31, 2011	
(Dollars in millions)	**$ Change in Net Interest Income**	**% Change in Net Interest Income**	$ Change in Net Interest Income	% Change in Net Interest Income	$ Change in Net Interest Income	% Change in Net Interest Income
300 basis points rising	**($2.1)**	**(.36)%**	$8.8	1.50%	($2.0)	(.32)%
200 basis points rising	**3.1**	**.51**	10.3	1.77	2.2	.34
100 basis points rising	**4.9**	**.82**	8.3	1.41	3.5	.56

The Company also employs a sophisticated simulation technique known as a stochastic income simulation. This technique allows management to see a range of results from hundreds of income simulations. The stochastic simulation creates a vector of potential rate paths around the market's best guess (forward rates) concerning the future path of interest rates and allows rates to randomly follow paths throughout the vector. This allows for the modeling of non-biased rate forecasts around the market consensus. Results give management insight into a likely range of rate-related risk as well as worst and best-case rate scenarios.

The Company also uses market value analysis to help identify longer-term risks that may reside on the balance sheet. This is considered a secondary risk measurement tool by management. The Company measures the market value of equity as the net present value of all asset and liability cash flows discounted along the current swap curve plus appropriate market risk spreads. It is the change in the market value of equity under different rate environments, or effective duration that gives insight into the magnitude of risk to future earnings due to rate changes. Market value analysis also help management understand the price sensitivity of non-marketable bank products under different rate environments.

Under the above scenarios at December 31, 2012, a gradual increase in interest rates of 100 basis points is expected to increase net interest income from the base calculation by $4.9 million, or .82%, and a rise of 200 basis points is expected to increase net interest income by $3.1 million, or .51%. Under a 300 basis points rising rate scenario, net interest income would decrease by $2.1 million, or .36%. Due to the already low interest rate environment, the Company did not model falling rate scenarios. The change in net interest income from the base calculation at December 31, 2012 for the three scenarios shown was lower than projections made at September 30, 2012 and largely due to an increase in longer duration assets in the Company's portfolios of investment securities and resell agreements, which was funded primarily by shorter duration liabilities. These longer duration assets were purchased to protect against the possible continuation of extremely low rates. As a result, while net interest income benefits less when rates rise, a rising rate environment suggests growth in economic activity and greater demand for higher rate lending products. Additionally, but to a lesser extent, higher long-term rates at December 31, 2012 slowed prepayment projections on mortgage-backed securities, such that further rate increases result in less benefit.

Through review and oversight by the ALCO, the Company attempts to engage in strategies that neutralize interest rate risk as much as possible. The Company's balance sheet remains well-diversified with moderate interest rate risk and is well-positioned for future growth. The use of derivative products is limited and the deposit base is strong and stable. The loan to deposit ratio is still at relatively low levels, which should present the Company with opportunities to fund future loan growth at reasonable costs. The Company believes that its approach to interest rate risk has appropriately considered its susceptibility to both rising and falling rates and has adopted strategies which minimize impacts of interest rate risk.

Derivative Financial Instruments

The Company maintains an overall interest rate risk management strategy that permits the use of derivative instruments to modify exposure to interest rate risk. The Company's interest rate risk management strategy includes the ability to modify the re-pricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Interest rate swaps are used on a limited basis as part of this strategy. As of December 31, 2012, the Company had entered into three interest rate swaps with a notional amount of $13.2 million which are designated as fair value hedges of certain fixed rate loans. The Company also sells swap contracts to customers who wish to modify their interest rate sensitivity. The Company offsets the interest rate risk of these swaps by purchasing matching contracts with offsetting pay/receive rates from other financial institutions. The notional amount of these types of swaps at December 31, 2012 was $422.4 million.

Credit risk participation agreements arise when the Company contracts, as a guarantor or beneficiary, with other financial institutions to share credit risk associated with certain interest rate swaps. These agreements provide for reimbursement of losses resulting from a third party default on the underlying swap.

The Company enters into foreign exchange derivative instruments as an accommodation to customers and offsets the related foreign exchange risk by entering into offsetting third-party forward contracts with approved, reputable counterparties. In addition, the Company takes proprietary positions in such contracts based on market expectations. This trading activity is managed within a policy of specific controls and limits. Most of the foreign exchange contracts outstanding at December 31, 2012 mature within six months.

Additionally, interest rate lock commitments issued on residential mortgage loans held for resale are considered derivative instruments. The interest rate exposure on these commitments is economically hedged primarily with forward sale contracts in the secondary market. In late 2011, the Company curtailed the sales of these types of loans. At December 31, 2012, none were held for sale, and thus, no commitments or forward sale contracts were outstanding.

In all of these contracts, the Company is exposed to credit risk in the event of nonperformance by counterparties, who may be bank customers or other financial institutions. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures. Because the Company generally enters into transactions only with high quality counterparties, there have been no losses associated with counterparty nonperformance on derivative financial instruments.

The following table summarizes the notional amounts and estimated fair values of the Company's derivative instruments at December 31, 2012 and 2011. Notional amount, along with the other terms of the derivative, is used to determine the amounts to be exchanged between the counterparties. Because the notional amount does not represent amounts exchanged by the parties, it is not a measure of loss exposure related to the use of derivatives nor of exposure to liquidity risk.

	2012			2011		
(In thousands)	**Notional Amount**	**Positive Fair Value**	**Negative Fair Value**	Notional Amount	Positive Fair Value	Negative Fair Value
Interest rate swaps	**$ 435,542**	**$ 16,334**	**$ (17,060)**	$ 486,207	$ 19,051	$ (20,210)
Interest rate caps	**27,736**	**1**	**(1)**	29,736	11	(11)
Credit risk participation agreements	**43,243**	**9**	**(196)**	41,414	9	(141)
Foreign exchange contracts	**47,897**	**396**	**(461)**	80,535	2,440	(2,343)
Mortgage loan commitments	**—**	**—**	**—**	1,280	20	—
Mortgage loan forward sale contracts	**—**	**—**	**—**	3,650	6	(17)
Total at December 31	**$ 554,418**	**$ 16,740**	**$ (17,718)**	$ 642,822	$ 21,537	$ (22,722)

Operating Segments

The Company segregates financial information for use in assessing its performance and allocating resources among three operating segments. The results are determined based on the Company's management accounting process, which assigns balance sheet and income statement items to each responsible segment. These segments are defined by customer base and product type. The management process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. Each segment is managed by executives who, in conjunction with the Chief Executive Officer, make strategic business decisions regarding that segment. The three reportable operating segments are Consumer, Commercial and Wealth. Additional information is presented in Note 12 on Segments in the consolidated financial statements.

The Company uses a funds transfer pricing method to value funds used (e.g., loans, fixed assets, cash, etc.) and funds provided (deposits, borrowings, and equity) by the business segments and their components. This process assigns a specific value to each new source or use of funds with a maturity, based on current swap rates, thus determining an interest spread at the time of the transaction. Non-maturity assets and liabilities are valued using weighted average pools. The funds transfer pricing process attempts to remove interest rate risk from valuation, allowing management to compare profitability under various rate environments. The Company also assigns loan charge-offs and recoveries (labeled in the table below as "provision for loan losses") directly to each operating segment instead of allocating an estimated loan loss provision. The operating segments also include a number of allocations of income and expense from various support and overhead centers within the Company.

The table below is a summary of segment pre-tax income results for the past three years.

(Dollars in thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/ Elimination	Consolidated Totals
Year ended December 31, 2012:						
Net interest income	**$ 274,844**	**$ 291,393**	**$ 39,502**	**$ 605,739**	**$ 34,167**	**$ 639,906**
Provision for loan losses	**(35,496)**	**(2,824)**	**(695)**	**(39,015)**	**11,728**	**(27,287)**
Non-interest income	**114,307**	**179,824**	**108,471**	**402,602**	**(2,972)**	**399,630**
Investment securities gains, net	**—**	**—**	**—**	**—**	**4,828**	**4,828**
Non-interest expense	**(266,892)**	**(226,795)**	**(90,643)**	**(584,330)**	**(34,139)**	**(618,469)**
Income before income taxes	**$ 86,763**	**$ 241,598**	**$ 56,635**	**$ 384,996**	**$ 13,612**	**$ 398,608**
Year ended December 31, 2011:						
Net interest income	$ 283,555	$ 283,790	$ 38,862	$ 606,207	$ 39,863	$ 646,070
Provision for loan losses	(47,273)	(16,195)	(712)	(64,180)	12,665	(51,515)
Non-interest income	131,253	162,533	101,836	395,622	(2,705)	392,917
Investment securities gains, net	—	—	—	—	10,812	10,812
Non-interest expense	(269,435)	(221,273)	(89,108)	(579,816)	(37,433)	(617,249)
Income before income taxes	$ 98,100	$ 208,855	$ 50,878	$ 357,833	$ 23,202	$ 381,035
2012 vs 2011						
Increase (decrease) in income before income taxes:						
Amount	**$ (11,337)**	**$ 32,743**	**$ 5,757**	**$ 27,163**	**$ (9,590)**	**$ 17,573**
Percent	**(11.6)%**	**15.7%**	**11.3%**	**7.6%**	**(41.3)%**	**4.6%**
Year ended December 31, 2010:						
Net interest income	$ 308,719	$ 264,870	$ 37,988	$ 611,577	$ 34,355	$ 645,932
Provision for loan losses	(70,635)	(24,823)	(1,263)	(96,721)	(3,279)	(100,000)
Non-interest income	157,904	154,306	93,745	405,955	(844)	405,111
Investment securities losses, net	—	—	—	—	(1,785)	(1,785)
Non-interest expense	(291,028)	(221,553)	(86,158)	(598,739)	(32,395)	(631,134)
Income (loss) before income taxes	$ 104,960	$ 172,800	$ 44,312	$ 322,072	$ (3,948)	$ 318,124
2011 vs 2010						
Increase (decrease) in income before income taxes:						
Amount	$ (6,860)	$ 36,055	$ 6,566	$ 35,761	$ 27,150	$ 62,911
Percent	(6.5)%	20.9 %	14.8 %	11.1 %	N.M.	19.8 %

Consumer

The Consumer segment includes consumer deposits, consumer finance, and consumer debit and credit cards. Pre-tax profitability for 2012 was $86.8 million, a decrease of $11.3 million, or 11.6%, from 2011. This decrease was mainly due to a decline of $8.7 million, or 3.1%, in net interest income, coupled with a decline of $16.9 million, or 12.9%, in non-interest income. These income reductions were partly offset by a decrease of $11.8 million in the provision for loan losses and a $2.5 million decrease in non-interest expense. Net interest income declined due to a $7.9 million decrease in loan interest income and a $9.8 million decrease in net allocated funding credits assigned to the Consumer segment's loan and deposit portfolios, partly offset by a decline of $9.0 million in deposit interest expense. Non-interest income decreased mainly due to declines in bank card fee income (primarily debit card fees) and deposit account fees (mainly overdraft charges). Non-interest expense declined from the same period in the previous year due to lower FDIC insurance expense and corporate management fees, partly offset by higher salaries expense. The provision for loan losses totaled $35.5 million, an $11.8 million decrease from 2011, which was due mainly to lower losses on consumer credit card loans and marine and RV loans. Total average loans in this segment during 2012 decreased 3.0% compared to the prior year due to a decline in held for sale student loans, which the Company no longer originates, and a decline in personal real estate loans. Consumer loans grew, however, due to higher auto loan originations, partly offset by repayments of marine and RV loans. Average deposits increased 4.2% over the prior period, resulting mainly from growth in money market and interest checking deposit accounts, partly offset by a decline in certificates of deposit under $100,000.

Pre-tax profitability for 2011 was $98.1 million, a decrease of $6.9 million, or 6.5%, from 2010. This decrease was mainly due to a decline of $25.2 million, or 8.2%, in net interest income, coupled with a decline of $26.7 million in non-interest income. These decreases were partly offset by a reduction in the provision for loan losses of $23.4 million and a decline of $21.6 million in non-interest expense. Net interest income declined due to a $34.0 million decrease in loan interest income and a $7.7 million reduction in net allocated funding credits, partly offset by a decline of $16.5 million in deposit interest expense. The decline in loan interest included a $10.6 million decrease in student loan interest, resulting from the Company's sale of most of the student loan portfolios in 2010, and an $8.3 million decrease in interest on marine and RV loans. Non-interest income decreased mainly due to lower gains on the sales of student loans, in addition to declines in overdraft charges and debit card fees. Non-interest expense declined 7.4% from the previous year due mainly to lower FDIC insurance expense, deposit account processing expense and teller services expense, partly offset by higher building rental expense. The provision for loan losses totaled $47.3 million, a $23.4 million decrease from 2010, which was mainly due to lower losses on consumer credit card loans, marine and RV loans, and other consumer loans. Total average loans decreased 23.6% in 2011 compared to the prior year due to the sale of most of the student loan portfolios in 2010 and a decline in consumer loans. Average deposits increased 2.1% over the prior period.

Commercial

The Commercial segment provides corporate lending (including the Small Business Banking product line within the branch network), leasing, international services, and business, government deposit, and related commercial cash management services, as well as merchant and commercial bank card products. The segment includes the Capital Markets Group, which sells fixed-income securities to individuals, corporations, correspondent banks, public institutions, and municipalities, and also provides investment safekeeping and bond accounting services. Pre-tax income for 2012 increased $32.7 million, or 15.7%, compared to the prior year, mainly due to a lower provision for loan losses and growth in net interest income and non-interest income. Net interest income increased $7.6 million, or 2.7%, due to higher net allocated funding credits of $15.8 million (related to higher average deposit balances), partly offset by a $10.1 million decline in loan interest income. The provision for loan losses in the segment totaled $2.8 million in 2012, a decrease of $13.4 million from 2011. During 2012, net recoveries of $2.7 million were recorded on business loans, compared to net charge-offs of $4.0 million in 2011. This decline in net charge-offs was partly due to recoveries of $3.6 million on two non-performing loans in 2012. In addition, net charge-offs on construction loans decreased $7.2 million. Non-interest income increased by $17.3 million, or 10.6.%, over the previous year due to growth in bank card fees (mainly corporate card), capital market fees and tax credit sales revenue. Non-interest expense increased $5.5 million, or 2.5%, over 2011, mainly due to higher salaries expense and bank card related expenses, partly offset by lower corporate management fees. Average segment loans increased 1.0% compared to 2011 as a result of a growth in business real estate, lease and tax-free loans, partly offset by a decline in construction loans. Average deposits increased 11.5% due to growth in non-interest bearing accounts, money market deposit accounts and interest checking accounts, partly offset by a decline in certificates of deposit over $100,000.

In 2011, pre-tax profitability for the Commercial segment increased $36.1 million, or 20.9%, compared to the prior year. Net interest income increased $18.9 million, or 7.1%, due to higher net allocated funding credits of $29.1 million, partly offset by an $11.4 million decline in loan interest income. The provision for loan losses in this segment totaled $16.2 million in 2011, a decrease of $8.6 million from 2010, due mainly to lower net charge-offs on construction loans of $8.1 million. Non-interest income increased by $8.2 million, or 5.3%, over the previous year due to growth in corporate card fees, partly offset by lower deposit account fees and bond trading income. Non-interest expense decreased slightly from the previous year and included declines in foreclosed real estate and other repossessed property expense and FDIC insurance expense, partly offset by higher bank card related expenses and deposit account cash management expense. Average segment loans decreased .7% compared to 2010 as a result of a decline in construction loans, partly offset by growth in business real estate loans. Average deposits increased 20.7% due to growth in non-interest bearing accounts, certificates of deposit over $100,000 and money market deposit accounts.

Wealth

The Wealth segment provides traditional trust and estate planning, advisory and discretionary investment management services, brokerage services, and includes Private Banking accounts. At December 31, 2012, the Trust group managed investments with a market value of $17.0 billion and administered an additional $13.3 billion in non-managed assets. It also provides investment management services to The Commerce Funds, a series of mutual funds with $1.8 billion in total assets at December 31, 2012. Wealth segment pre-tax profitability for 2012 was $56.6 million compared to $50.9 million in 2011, an increase of $5.8 million, or 11.3%. Net interest income increased $640 thousand, or 1.6%, and was impacted by a $1.8 million decline in deposit interest expense, partly offset by a $1.0 million decrease in net allocated funding credits. Non-interest income increased $6.6 million, or 6.5%, over the prior year due to higher personal and institutional trust fees. Non-interest expense increased $1.5 million, or 1.7%, mainly due to higher salary and benefit costs, partly offset by lower fraud losses and legal and professional fees. Average assets increased $62.9 million, or 9.2%, during 2012 mainly due to higher loan balances originated in this segment. Average deposits also increased $158.5 million, or 10.3%, during 2012 due to growth in money market deposit accounts and interest checking accounts.

In 2011, pre-tax income for the Wealth segment was $50.9 million compared to $44.3 million in 2010, an increase of $6.6 million, or 14.8%. Net interest income increased $874 thousand, or 2.3%, and was impacted by a $2.2 million increase in assigned net funding credits and a $1.4 million decline in deposit interest expense, offset by a $2.7 million decrease in loan interest income. Non-interest income increased $8.1 million, or 8.6%, over the prior year due to higher trust and brokerage fees. Non-interest expense increased $3.0 million, or 3.4%, mainly due to higher salary expense and fraud losses. Average assets decreased $1.5 million during 2011 mainly due to lower cash balances and overnight investments, partly offset by loan growth. Average deposits increased $203.1 million, or 15.3%, during 2011 due to growth in money market deposit accounts and long-term certificates of deposit.

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 certain administrative functions, the investment securities portfolio, and the effect of certain expense allocations to the segments. Also included in this category is the difference between the Company’s provision for loan losses and net loan charge-offs, which are generally assigned directly to the segments. In 2012, the pre-tax income in this category was $13.6 million, compared to $23.2 million in 2011. This decrease occurred partly due to a $5.7 million decline in net interest income in this category, related to the earnings of the investment portfolio and interest expense on borrowings not allocated to a segment. In addition, unallocated securities gains declined $6.0 million, while unallocated non-interest expense was lower by $3.3 million.

Impact of Recently Issued Accounting Standards

Fair Value Measurements In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”. The ASU contains guidance on the application of the highest and best use and valuation premise concepts, the measurement of fair values of instruments classified in shareholders’ equity, the measurement of fair values of financial instruments that are managed within a portfolio, and the application of premiums and discounts in a fair value measurement. It also requires additional disclosures about fair value measurements, including information about the unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy, the sensitivity of recurring fair value measurements within Level 3 to changes in unobservable inputs and the interrelationships between those inputs, and the categorization by level of the fair value hierarchy for items that are not measured at fair value but for which the fair value is required to be disclosed. These amendments were applied prospectively, effective January 1, 2012, and their application did not have a significant effect on the Company’s consolidated financial statements.

Repurchase Agreements In April 2011, the FASB issued ASU 2011-03, “Reconsideration of Effective Control for Repurchase Agreements”. The guidance in the ASU is intended to improve the accounting for repurchase agreements and other similar agreements. Specifically, the ASU modifies the criteria for determining when these transactions would be recorded as a financing arrangement as opposed to a purchase or sale arrangement with a commitment to resell or repurchase. It removes from the assessment of effective control the criterion relating to the transferor’s ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. This new guidance was effective January 1, 2012, and adoption of this guidance did not have a significant effect on the Company’s consolidated financial statements.

Other Comprehensive Income In June 2011, the FASB issued ASU 2011-05, “Presentation of Comprehensive Income”. The ASU increases the prominence of other comprehensive income in financial statements by requiring comprehensive income to be reported in either a single statement or in two consecutive statements which report both net income and other comprehensive income. It eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The ASU was effective for periods beginning January 1, 2012 and required retrospective application. The ASU did not change the components of other comprehensive income, the timing of items reclassified to net income, or the net income basis for income per share calculations. The Company has chosen to present net income and other comprehensive income in two consecutive statements in the accompanying consolidated financial statements,

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The amendments require an entity to present, either in the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU is effective for annual and interim periods beginning January 1, 2013. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

Goodwill In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment". The ASU allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Previous guidance required, on an annual basis, testing goodwill for impairment by comparing the fair value of a reporting unit to its carrying amount (including goodwill). As a result of this amendment, an entity will not be required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The ASU was effective for annual and interim goodwill impairment tests performed for periods beginning January 1, 2012. The adoption of this guidance did not have a significant effect on the Company's consolidated financial statements.

Balance Sheet In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities". The ASU is a joint requirement by the FASB and International Accounting Standards Board to enhance current disclosures and increase comparability of GAAP and International Financial Reporting Standards (IFRS) financial statements. Under the ASU, an entity will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting agreement. ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" was issued in January 2013, and amended ASU 2011-11 to specifically include only derivatives accounted for under Topic 815, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset or subject to an enforceable master netting arrangement. Both ASUs are effective for annual and interim periods beginning January 1, 2013. Their adoption is not expected to have a significant effect on the Company's consolidated financial statements.

Corporate Governance

The Company has adopted a number of corporate governance measures. These include corporate governance guidelines, a code of ethics that applies to its senior financial officers and the charters for its audit committee, its committee on compensation and human resources, and its committee on governance/directors. This information is available on the Company's Web site www.commercebank.com under Investor Relations.

AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

	Years Ended December 31								
	2012			2011			2010		
(Dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Average Rates Earned/Paid**	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
ASSETS									
Loans:[(A)]									
Business[(B)]	**$ 2,962,699**	**$ 102,013**	**3.44 %**	$ 2,910,668	$ 104,624	3.59%	$ 2,887,427	$ 110,792	3.84%
Real estate – construction and land	**356,425**	**15,146**	**4.25**	419,905	18,831	4.48	557,282	22,384	4.02
Real estate – business	**2,193,271**	**98,693**	**4.50**	2,117,031	101,988	4.82	2,029,214	102,451	5.05
Real estate – personal	**1,503,357**	**65,642**	**4.37**	1,433,869	69,048	4.82	1,476,031	76,531	5.18
Consumer	**1,180,538**	**66,402**	**5.62**	1,118,700	70,127	6.27	1,250,076	84,204	6.74
Revolving home equity	**446,204**	**18,586**	**4.17**	468,718	19,952	4.26	484,878	20,916	4.31
Student[(C)]	**—**	**—**	**—**	—	—	—	246,395	5,783	2.35
Consumer credit card	**730,697**	**85,652**	**11.72**	746,724	84,479	11.31	760,079	89,225	11.74
Overdrafts	**6,125**	**—**	**—**	6,953	—	—	7,288	—	—
Total loans	**9,379,316**	**452,134**	**4.82**	9,222,568	469,049	5.09	9,698,670	512,286	5.28
Loans held for sale	**9,688**	**361**	**3.73**	47,227	1,115	2.36	358,492	6,091	1.70
Investment securities:									
U.S. government & federal agency obligations	**332,382**	**12,260**	**3.69**	357,861	17,268	4.83	439,073	9,673	2.20
Government-sponsored enterprise obligations	**306,676**	**5,653**	**1.84**	253,020	5,781	2.28	203,593	4,591	2.25
State & municipal obligations[(B)]	**1,376,872**	**54,056**	**3.93**	1,174,751	51,988	4.43	966,694	45,469	4.70
Mortgage-backed securities	**3,852,616**	**107,527**	**2.79**	3,556,106	114,405	3.22	2,821,485	113,222	4.01
Asset-backed securities	**2,925,249**	**31,940**	**1.09**	2,443,901	30,523	1.25	1,973,734	38,559	1.95
Other marketable securities[(B)]	**139,499**	**6,556**	**4.70**	171,409	8,455	4.93	183,328	8,889	4.85
Trading securities[(B)]	**25,107**	**637**	**2.54**	20,011	552	2.76	21,899	671	3.06
Non-marketable securities[(B)]	**118,879**	**12,558**	**10.56**	107,501	8,283	7.71	113,326	7,216	6.37
Total investment securities	**9,077,280**	**231,187**	**2.55**	8,084,560	237,255	2.93	6,723,132	228,290	3.40
Short-term federal funds sold and securities purchased under agreements to resell	**16,393**	**82**	**.50**	10,690	55	.51	6,542	48	.73
Long-term securities purchased under agreements to resell	**892,624**	**19,174**	**2.15**	768,904	13,455	1.75	150,235	2,549	1.70
Interest earning deposits with banks	**135,319**	**339**	**.25**	194,176	487	.25	171,883	427	.25
Total interest earning assets	**19,510,620**	**703,277**	**3.60**	18,328,125	721,416	3.94	17,108,954	749,691	4.38
Allowance for loan losses	**(178,934)**			(191,311)			(195,870)		
Unrealized gain on investment securities	**257,511**			162,984			149,106		
Cash and due from banks	**369,020**			348,875			368,340		
Land, buildings and equipment - net	**357,336**			377,200			395,108		
Other assets	**385,125**			378,642			410,361		
Total assets	**$ 20,700,678**			$ 19,404,515			$ 18,235,999		
LIABILITIES AND EQUITY									
Interest bearing deposits:									
Savings	**$ 574,336**	**802**	**.14**	$ 525,371	852	.16	$ 478,592	622	.13
Interest checking and money market	**8,430,559**	**17,880**	**.21**	7,702,901	25,004	.32	6,785,299	28,676	.42
Time open & C.D.'s of less than $100,000	**1,117,236**	**7,918**	**.71**	1,291,165	11,352	.88	1,660,462	22,871	1.38
Time open & C.D.'s of $100,000 and over	**1,181,426**	**7,174**	**.61**	1,409,740	9,272	.66	1,323,952	13,847	1.05
Total interest bearing deposits	**11,303,557**	**33,774**	**.30**	10,929,177	46,480	.43	10,248,305	66,016	.64
Borrowings:									
Federal funds purchased and securities sold under agreements to repurchase	**1,185,978**	**808**	**.07**	1,035,007	1,741	.17	1,085,121	2,584	.24
Other borrowings	**108,916**	**3,481**	**3.20**	112,107	3,680	3.28	452,810	14,948	3.30
Total borrowings	**1,294,894**	**4,289**	**.33**	1,147,114	5,421	.47	1,537,931	17,532	1.14
Total interest bearing liabilities	**12,598,451**	**38,063**	**.30 %**	12,076,291	51,901	.43%	11,786,236	83,548	.71%
Non-interest bearing deposits	**5,522,991**			4,742,033			4,114,664		
Other liabilities	**334,684**			476,249			346,312		
Equity	**2,244,552**			2,109,942			1,988,787		
Total liabilities and equity	**$ 20,700,678**			$ 19,404,515			$ 18,235,999		
Net interest margin (T/E)		**$ 665,214**			$ 669,515			$ 666,143	
Net yield on interest earning assets			**3.41 %**			3.65%			3.89%
Percentage increase (decrease) in net interest margin (T/E) compared to the prior year			**(.64)%**			.51%			1.83%

(A) *Loans on non-accrual status are included in the computation of average balances. Included in interest income above are loan fees and late charges, net of amortization of deferred loan origination fees and costs, which are immaterial. Credit card income from merchant discounts and net interchange fees are not included in loan income.*

(B) *Interest income and yields are presented on a fully-taxable equivalent basis using the Federal statutory income tax rate. Loan interest income includes tax free loan income (categorized as business loan income) which includes tax equivalent adjustments of $5,803,000 in 2012, $5,538,000 in 2011, $4,620,000 in 2010, $3,922,000 in 2009, $3,553,000 in 2008 and $2,895,000 in 2007. Investment securities interest income include tax equivalent adjustments of $19,505,000 in 2012, $17,907,000 in 2011, $15,593,000 in 2010, $14,779,000 in 2009,*

Years Ended December 31									
2009			2008			2007			
Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance Five Year Compound Growth Rate
$ 3,119,778	$ 116,686	3.74%	$ 3,478,927	$ 170,620	4.90%	$ 3,110,386	$ 209,523	6.74%	(.97)%
739,896	26,746	3.61	701,519	34,445	4.91	671,986	49,436	7.36	(11.91)
2,143,675	108,107	5.04	2,281,664	136,955	6.00	2,204,041	154,819	7.02	(.10)
1,585,273	87,085	5.49	1,522,172	88,322	5.80	1,521,066	90,537	5.95	(.23)
1,464,170	101,761	6.95	1,674,497	119,837	7.16	1,558,302	115,184	7.39	(5.40)
495,629	21,456	4.33	474,635	23,960	5.05	443,748	33,526	7.56	.11
344,243	9,440	2.74	13,708	287	2.10	—	—	—	NM
727,422	89,045	12.24	776,810	83,972	10.81	665,964	84,856	12.74	1.87
9,781	—	—	11,926	—	—	13,823	—	—	(15.02)
10,629,867	560,326	5.27	10,935,858	658,398	6.02	10,189,316	737,881	7.24	(1.64)
397,583	8,219	2.07	347,441	14,968	4.31	321,916	21,940	6.82	(50.38)
169,214	6,754	3.99	7,065	364	5.15	9,063	506	5.58	105.53
137,928	4,219	3.06	176,018	7,075	4.02	401,107	15,999	3.99	(5.23)
873,607	43,882	5.02	695,542	37,770	5.43	594,154	33,416	5.62	18.30
2,802,532	136,921	4.89	2,203,921	112,184	5.09	1,828,478	88,909	4.86	16.07
937,435	30,166	3.22	265,546	13,185	4.97	292,043	13,334	4.57	58.54
179,847	9,793	5.45	98,650	4,243	4.30	129,622	7,355	5.67	1.48
16,927	506	2.99	28,840	1,355	4.70	22,321	1,144	5.13	2.38
136,911	6,398	4.67	133,996	7,730	5.77	92,251	5,710	6.19	5.20
5,254,401	238,639	4.54	3,609,578	183,906	5.09	3,369,039	166,373	4.94	21.92
43,811	222	.51	425,273	8,287	1.95	527,304	25,881	4.91	(50.05)
—	—	—	—	—	—	—	—	—	NM
325,744	807	.25	46,670	198	.42	—	—	—	NM
16,651,406	808,213	4.85	15,364,820	865,757	5.63	14,407,575	952,075	6.61	6.25
(181,417)			(145,176)			(132,234)			6.24
24,105			27,068			25,333			59.01
364,579			451,105			463,970			(4.48)
411,366			412,852			400,161			(2.24)
349,164			343,664			315,522			4.07
$ 17,619,203			$ 16,454,333			$ 15,480,327			5.98
$ 438,748	642	.15	$ 400,948	1,186	.30	$ 392,942	2,067	.53	7.89
5,807,753	30,789	.53	5,123,709	59,947	1.17	4,793,849	114,027	2.38	11.95
2,055,952	51,982	2.53	2,149,119	77,322	3.60	2,359,386	110,957	4.70	(13.89)
1,858,543	35,371	1.90	1,629,500	55,665	3.42	1,480,856	73,739	4.98	(4.42)
10,160,996	118,784	1.17	9,303,276	194,120	2.09	9,027,033	300,790	3.33	4.60
968,643	3,699	.38	1,373,625	25,085	1.83	1,696,613	83,464	4.92	(6.91)
920,467	31,527	3.43	1,092,746	37,905	3.47	292,446	13,775	4.71	(17.93)
1,889,110	35,226	1.86	2,466,371	62,990	2.55	1,989,059	97,239	4.89	(8.23)
12,050,106	154,010	1.28%	11,769,647	257,110	2.18%	11,016,092	398,029	3.61%	2.72
3,660,166			2,946,534			2,850,982			14.14
176,676			140,333			134,278			20.04
1,732,255			1,597,819			1,478,975			8.70
$ 17,619,203			$ 16,454,333			$ 15,480,327			5.98 %
	$ 654,203			$ 608,647			$ 554,046		
		3.93%			3.96%			3.85%	
		7.48%			9.85%			5.64%	

$12,355,000 in 2008 and $13,079,000 in 2007. These adjustments relate to state and municipal obligations, other marketable securities, trading securities, and non-marketable securities.

(C) In December 2008, the Company purchased $358,451,000 of student loans with the intent to hold to maturity. In October 2010, the seller elected to repurchase the loans under the terms of the original agreement.

QUARTERLY AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

	Year ended December 31, 2012							
	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
(Dollars in millions)	Average Balance	Average Rates Earned/Paid	Average Balance	Average Rates Earned/Paid	Average Balance	Average Rates Earned/Paid	Average Balance	Average Rates Earned/Paid
ASSETS								
Loans:								
Business[(A)]	$ 3,042	3.29%	$ 3,019	3.39%	$ 2,895	3.58%	$ 2,894	3.52%
Real estate – construction and land	346	4.11	340	4.30	360	4.24	380	4.34
Real estate – business	2,200	4.33	2,183	4.39	2,206	4.71	2,185	4.57
Real estate – personal	1,572	4.15	1,523	4.31	1,476	4.46	1,441	4.58
Consumer	1,273	5.35	1,205	5.54	1,135	5.73	1,108	5.93
Revolving home equity	436	4.13	444	4.17	449	4.17	455	4.18
Consumer credit card	749	11.42	730	11.83	713	11.87	731	11.78
Overdrafts	6	—	5	—	6	—	8	—
Total loans	9,624	4.64	9,449	4.76	9,240	4.95	9,202	4.95
Loans held for sale	9	3.74	9	3.86	9	3.91	12	3.48
Investment securities:								
U.S. government & federal agency obligations	341	5.11	329	(.07)	331	7.58	328	2.08
Government-sponsored enterprise obligations	400	1.72	276	1.65	265	2.06	283	2.01
State & municipal obligations[(A)]	1,532	3.67	1,388	3.89	1,323	4.03	1,263	4.17
Mortgage-backed securities	3,448	2.79	3,767	2.62	4,010	2.89	4,191	2.85
Asset-backed securities	3,158	.99	2,879	1.10	2,900	1.13	2,762	1.16
Other marketable securities[(A)]	138	5.35	122	4.50	136	4.92	163	4.11
Trading securities[(A)]	21	2.01	24	2.34	23	2.65	33	2.95
Non-marketable securities[(A)]	119	17.51	117	7.54	123	8.60	117	8.55
Total investment securities	9,157	2.59	8,902	2.29	9,111	2.75	9,140	2.56
Short-term federal funds sold and securities purchased under agreements to resell	10	.46	19	.49	22	.53	14	.50
Long-term securities purchased under agreements to resell	1,022	2.10	848	2.31	850	2.17	850	2.02
Interest earning deposits with banks	209	.25	81	.20	163	.28	88	.25
Total interest earning assets	20,031	3.52	19,308	3.49	19,395	3.75	19,306	3.66
Allowance for loan losses	(174)		(177)		(181)		(184)	
Unrealized gain on investment securities	282		275		243		230	
Cash and due from banks	385		366		358		367	
Land, buildings and equipment – net	359		353		356		361	
Other assets	382		392		378		387	
Total assets	$ 21,265		$ 20,517		$ 20,549		$ 20,467	
LIABILITIES AND EQUITY								
Interest bearing deposits:								
Savings	$ 581	.13	$ 582	.15	$ 584	.12	$ 550	.15
Interest checking and money market	8,638	.19	8,401	.21	8,369	.21	8,312	.24
Time open & C.D.'s under $100,000	1,084	.68	1,101	.70	1,129	.71	1,156	.73
Time open & C.D.'s $100,000 & over	1,030	.65	1,005	.69	1,250	.59	1,444	.53
Total interest bearing deposits	11,333	.28	11,089	.30	11,332	.30	11,462	.32
Borrowings:								
Federal funds purchased and securities sold under agreements to repurchase	1,130	.07	1,217	.07	1,110	.06	1,287	.07
Other borrowings	104	3.25	109	3.11	111	3.16	112	3.26
Total borrowings	1,234	.33	1,326	.32	1,221	.35	1,399	.33
Total interest bearing liabilities	12,567	.28%	12,415	.30%	12,553	.30%	12,861	.32%
Non-interest bearing deposits	6,013		5,536		5,405		5,132	
Other liabilities	399		296		368		276	
Equity	2,286		2,270		2,223		2,198	
Total liabilities and equity	$ 21,265		$ 20,517		$ 20,549		$ 20,467	
Net interest margin (T/E)	$ 168		$ 160		$ 171		$ 166	
Net yield on interest earning assets		3.35%		3.30%		3.55%		3.45%

(A) Includes tax equivalent calculations.

(Dollars in millions)	Year ended December 31, 2011							
	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	Average Balance	Average Rates Earned/Paid	Average Balance	Average Rates Earned/Paid	Average Balance	Average Rates Earned/Paid	Average Balance	Average Rates Earned/Paid
ASSETS								
Loans:								
Business[(A)]	$ 2,819	3.53%	$ 2,815	3.56%	$ 2,959	3.64%	$ 3,053	3.65%
Real estate – construction and land	387	4.52	412	4.42	430	4.51	452	4.49
Real estate – business	2,162	4.67	2,123	4.74	2,101	4.94	2,081	4.92
Real estate – personal	1,421	4.64	1,430	4.75	1,441	4.87	1,444	5.00
Consumer	1,111	6.08	1,105	6.20	1,112	6.32	1,147	6.47
Revolving home equity	465	4.24	467	4.27	468	4.24	475	4.28
Consumer credit card	734	11.62	735	11.59	743	11.13	775	10.92
Overdrafts	7	—	7	—	7	—	7	—
Total loans	9,106	5.01	9,094	5.07	9,261	5.12	9,434	5.15
Loans held for sale	37	2.55	42	2.57	52	2.37	58	2.08
Investment securities:								
U.S. government & federal agency obligations	329	2.49	328	3.40	342	9.72	435	3.84
Government-sponsored enterprise obligations	305	1.93	262	2.92	235	2.23	209	2.07
State & municipal obligations[(A)]	1,239	4.16	1,185	4.20	1,160	4.75	1,113	4.63
Mortgage-backed securities	4,453	2.71	3,765	2.95	3,058	3.63	2,929	3.93
Asset-backed securities	2,646	1.12	2,403	1.15	2,403	1.31	2,321	1.44
Other marketable securities[(A)]	165	5.39	173	4.27	173	4.18	176	5.91
Trading securities[(A)]	20	2.87	21	2.52	20	2.78	19	2.88
Non-marketable securities[(A)]	110	10.81	110	6.59	105	6.24	104	7.04
Total investment securities	9,267	2.56	8,247	2.69	7,496	3.34	7,306	3.28
Short-term federal funds sold and securities purchased under agreements to resell	10	.39	11	.47	16	.53	5	.80
Long-term securities purchased under agreements to resell	850	1.97	850	1.83	804	1.58	568	1.54
Interest earning deposits with banks	123	.25	326	.26	180	.25	146	.25
Total interest earning assets	19,393	3.67	18,570	3.77	17,809	4.15	17,517	4.20
Allowance for loan losses	(186)		(190)		(193)		(196)	
Unrealized gain on investment securities	189		186		147		129	
Cash and due from banks	367		347		334		346	
Land, buildings and equipment – net	370		375		379		385	
Other assets	382		376		387		370	
Total assets	$ 20,515		$ 19,664		$ 18,863		$ 18,551	
LIABILITIES AND EQUITY								
Interest bearing deposits:								
Savings	$ 529	.17	$ 534	.19	$ 538	.14	$ 500	.14
Interest checking and money market	8,068	.29	7,756	.32	7,581	.33	7,399	.37
Time open & C.D.'s under $100,000	1,186	.75	1,231	.78	1,324	.90	1,426	1.06
Time open & C.D.'s $100,000 & over	1,368	.59	1,373	.62	1,466	.67	1,434	.76
Total interest bearing deposits	11,151	.37	10,894	.40	10,909	.43	10,759	.50
Borrowings:								
Federal funds purchased and securities sold under agreements to repurchase	1,147	.05	1,017	.11	952	.29	1,023	.25
Other borrowings	112	3.26	112	3.28	112	3.29	112	3.30
Total borrowings	1,259	.33	1,129	.43	1,064	.61	1,135	.55
Total interest bearing liabilities	12,410	.37%	12,023	.40%	11,973	.45%	11,894	.51%
Non-interest bearing deposits	5,173		4,779		4,571		4,437	
Other liabilities	790		729		208		168	
Equity	2,142		2,133		2,111		2,052	
Total liabilities and equity	$ 20,515		$ 19,664		$ 18,863		$ 18,551	
Net interest margin (T/E)	$ 168		$ 164		$ 171		$ 167	
Net yield on interest earning assets		3.44%		3.51%		3.85%		3.85%

(A) Includes tax equivalent calculations.

SUMMARY OF QUARTERLY STATEMENTS OF INCOME

Year ended December 31, 2012	For the Quarter Ended			
(In thousands, except per share data)	12/31/2012	9/30/2012	6/30/2012	3/31/2012
Interest income	$ 170,185	$ 163,194	$ 174,624	$ 169,966
Interest expense	(8,932)	(9,383)	(9,519)	(10,229)
Net interest income	161,253	153,811	165,105	159,737
Non-interest income	103,309	100,922	100,816	94,583
Investment securities gains (losses), net	(3,728)	3,180	1,336	4,040
Salaries and employee benefits	(94,553)	(89,292)	(87,511)	(89,543)
Other expense	(63,724)	(64,099)	(68,829)	(60,918)
Provision for loan losses	(8,326)	(5,581)	(5,215)	(8,165)
Income before income taxes	94,231	98,941	105,702	99,734
Income taxes	(27,628)	(32,155)	(34,466)	(32,920)
Non-controlling interest	188	(780)	(503)	(1,015)
Net income attributable to Commerce Bancshares, Inc.	$ 66,791	$ 66,006	$ 70,733	$ 65,799
Net income per common share — basic*	$ .73	$ .71	$ .77	$ .70
Net income per common share — diluted*	$ .72	$ .72	$ .76	$ .70
Weighted average shares — basic*	90,825	91,239	91,774	92,632
Weighted average shares — diluted*	90,999	91,552	92,056	92,984

Year ended December 31, 2011	For the Quarter Ended			
(In thousands, except per share data)	12/31/2011	9/30/2011	6/30/2011	3/31/2011
Interest income	$ 173,223	$ 170,835	$ 178,087	$ 175,826
Interest expense	(11,466)	(12,205)	(13,377)	(14,853)
Net interest income	161,757	158,630	164,710	160,973
Non-interest income	94,035	101,632	101,344	95,906
Investment securities gains, net	4,942	2,587	1,956	1,327
Salaries and employee benefits	(88,010)	(85,700)	(84,223)	(87,392)
Other expense	(68,020)	(68,046)	(69,290)	(66,568)
Provision for loan losses	(12,143)	(11,395)	(12,188)	(15,789)
Income before income taxes	92,561	97,708	102,309	88,457
Income taxes	(29,514)	(31,699)	(32,692)	(27,507)
Non-controlling interest	(1,543)	(657)	(583)	(497)
Net income attributable to Commerce Bancshares, Inc.	$ 61,504	$ 65,352	$ 69,034	$ 60,453
Net income per common share — basic*	$ .66	$ .69	$ .72	$ .63
Net income per common share — diluted*	$ .66	$ .69	$ .71	$ .63
Weighted average shares — basic*	92,814	93,951	95,410	95,330
Weighted average shares — diluted*	93,086	94,224	95,837	95,737

Year ended December 31, 2010	For the Quarter Ended			
(In thousands, except per share data)	12/31/2010	9/30/2010	6/30/2010	3/31/2010
Interest income	$ 177,436	$ 178,916	$ 185,057	$ 188,069
Interest expense	(16,759)	(19,479)	(21,949)	(25,359)
Net interest income	160,677	159,437	163,108	162,710
Non-interest income	110,454	100,010	101,458	93,189
Investment securities gains (losses), net	1,204	16	660	(3,665)
Salaries and employee benefits	(86,562)	(85,442)	(87,108)	(87,438)
Other expense	(77,469)	(70,144)	(68,685)	(68,286)
Provision for loan losses	(21,647)	(21,844)	(22,187)	(34,322)
Income before income taxes	86,657	82,033	87,246	62,188
Income taxes	(24,432)	(26,012)	(27,428)	(18,377)
Non-controlling interest	(304)	(136)	(84)	359
Net income attributable to Commerce Bancshares, Inc.	$ 61,921	$ 55,885	$ 59,734	$ 44,170
Net income per common share — basic*	$ .65	$ .57	$ .62	$ .46
Net income per common share — diluted*	$ .64	$ .58	$ .61	$ .46
Weighted average shares — basic*	95,437	96,129	96,071	95,937
Weighted average shares — diluted*	95,837	96,535	96,528	96,460

** Restated for the 5% stock dividend distributed in 2012.*

Item 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is set forth on pages 43 through 45 of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Commerce Bancshares, Inc.:

We have audited the accompanying consolidated balance sheets of Commerce Bancshares, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commerce Bancshares, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Kansas City, Missouri
February 22, 2013

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
	(In thousands)	
ASSETS		
Loans	**$ 9,831,384**	$ 9,177,478
Allowance for loan losses	**(172,532)**	(184,532)
Net loans	**9,658,852**	8,992,946
Loans held for sale	**8,827**	31,076
Investment securities:		
Available for sale ($736,183,000 and $418,046,000 pledged in 2012 and 2011, respectively, to secure repurchase agreements)	**9,522,248**	9,224,702
Trading	**28,837**	17,853
Non-marketable	**118,650**	115,832
Total investment securities	**9,669,735**	9,358,387
Short-term federal funds sold and securities purchased under agreements to resell	**27,595**	11,870
Long-term securities purchased under agreements to resell	**1,200,000**	850,000
Interest earning deposits with banks	**179,164**	39,853
Cash and due from banks	**573,066**	465,828
Land, buildings and equipment – net	**357,612**	360,146
Goodwill	**125,585**	125,585
Other intangible assets – net	**5,300**	7,714
Other assets	**353,853**	405,962
Total assets	**$ 22,159,589**	$ 20,649,367
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	**$ 6,299,903**	$ 5,377,549
Savings, interest checking and money market	**9,817,943**	8,933,941
Time open and C.D.'s of less than $100,000	**1,074,618**	1,166,104
Time open and C.D.'s of $100,000 and over	**1,156,189**	1,322,289
Total deposits	**18,348,653**	16,799,883
Federal funds purchased and securities sold under agreements to repurchase	**1,083,550**	1,256,081
Other borrowings	**103,710**	111,817
Other liabilities	**452,102**	311,225
Total liabilities	**19,988,015**	18,479,006
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, $1 par value Authorized and unissued 2,000,000 shares	**—**	—
Common stock, $5 par value Authorized 100,000,000 shares; issued 91,729,235 and 89,277,398 shares in 2012 and 2011, respectively	**458,646**	446,387
Capital surplus	**1,102,507**	1,042,065
Retained earnings	**477,210**	575,419
Treasury stock of 196,922 and 217,755 shares in 2012 and 2011, respectively, at cost	**(7,580)**	(8,362)
Accumulated other comprehensive income	**136,344**	110,538
Total Commerce Bancshares, Inc. stockholders' equity	**2,167,127**	2,166,047
Non-controlling interest	**4,447**	4,314
Total equity	**2,171,574**	2,170,361
Total liabilities and equity	**$ 22,159,589**	$ 20,649,367

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Years Ended December 31		
	2012	2011	2010
INTEREST INCOME			
Interest and fees on loans	**$ 446,331**	$ 463,511	$ 507,666
Interest on loans held for sale	**361**	1,115	6,091
Interest on investment securities	**211,682**	219,348	212,697
Interest on short-term federal funds sold and securities purchased under agreements to resell	**82**	55	48
Interest on long-term securities purchased under agreements to resell	**19,174**	13,455	2,549
Interest on deposits with banks	**339**	487	427
Total interest income	**677,969**	697,971	729,478
INTEREST EXPENSE			
Interest on deposits:			
Savings, interest checking and money market	**18,682**	25,856	29,298
Time open and C.D.'s of less than $100,000	**7,918**	11,352	22,871
Time open and C.D.'s of $100,000 and over	**7,174**	9,272	13,847
Interest on federal funds purchased and securities sold under agreements to repurchase	**808**	1,741	2,584
Interest on other borrowings	**3,481**	3,680	14,946
Total interest expense	**38,063**	51,901	83,546
Net interest income	**639,906**	646,070	645,932
Provision for loan losses	**27,287**	51,515	100,000
Net interest income after provision for loan losses	**612,619**	594,555	545,932
NON-INTEREST INCOME			
Bank card transaction fees	**154,197**	157,077	148,888
Trust fees	**94,679**	88,313	80,963
Deposit account charges and other fees	**79,485**	82,651	92,637
Capital market fees	**21,066**	19,846	21,098
Consumer brokerage services	**10,162**	10,018	9,190
Loan fees and sales	**6,037**	7,580	23,116
Other	**34,004**	27,432	29,219
Total non-interest income	**399,630**	392,917	405,111
INVESTMENT SECURITIES GAINS (LOSSES), NET			
Impairment reversals on securities	**11,223**	2,190	13,058
Noncredit-related reversals on securities not expected to be sold	**(12,713)**	(4,727)	(18,127)
Net impairment losses	**(1,490)**	(2,537)	(5,069)
Realized gains on sales and fair value adjustments	**6,318**	13,349	3,284
Investment securities gains (losses), net	**4,828**	10,812	(1,785)
NON-INTEREST EXPENSE			
Salaries and employee benefits	**360,899**	345,325	346,550
Net occupancy	**45,534**	46,434	46,987
Equipment	**20,147**	22,252	23,324
Supplies and communication	**22,321**	22,448	27,113
Data processing and software	**73,798**	68,103	67,935
Marketing	**15,106**	16,767	18,161
Deposit insurance	**10,438**	13,123	19,246
Debit overdraft litigation	**—**	18,300	—
Debt extinguishment	**—**	—	11,784
Other	**70,226**	64,497	70,034
Total non-interest expense	**618,469**	617,249	631,134
Income before income taxes	**398,608**	381,035	318,124
Less income taxes	**127,169**	121,412	96,249
Net income	**271,439**	259,623	221,875
Less non-controlling interest expense	**2,110**	3,280	165
NET INCOME ATTRIBUTABLE TO COMMERCE BANCSHARES, INC.	**$ 269,329**	$ 256,343	$ 221,710
Net income per common share - basic	**$ 2.91**	$ 2.70	$ 2.30
Net income per common share - diluted	**$ 2.90**	$ 2.69	$ 2.29

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31		
(In thousands)	**2012**	2011	2010
Net income	**$ 271,439**	$ 259,623	$ 221,875
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 subsequent to initial OTTI recognition	**12,203**	5,184	22,973
Income tax expense	**(4,637)**	(1,970)	(8,730)
Net unrealized gains on OTTI securities	**7,566**	3,214	14,243
Other available for sale investment securities:			
Unrealized holding gains	**39,271**	78,059	6,412
Income tax expense on unrealized gains	**(14,927)**	(29,663)	(2,470)
Reclassification adjustment for gains included in net income	**(357)**	(177)	(3,488)
Reclassification adjustment for tax expense on gains included in net income	**139**	68	1,359
Net unrealized gains on other securities	**24,126**	48,287	1,813
Prepaid pension cost:			
Amortization of accumulated pension loss	**2,953**	1,949	2,208
Net loss arising during period	**(12,447)**	(8,898)	(786)
Income tax (expense) benefit on change in pension loss	**3,608**	2,641	(540)
Change in pension loss	**(5,886)**	(4,308)	882
Other comprehensive income	**25,806**	47,193	16,938
Comprehensive income	**297,245**	306,816	238,813
Non-controlling interest expense	**(2,110)**	(3,280)	(165)
Comprehensive income attributable to Commerce Bancshares, Inc.	**$ 295,135**	$ 303,536	$ 238,648

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31 **2012**	2011	2010
OPERATING ACTIVITIES			
Net income	**$ 271,439**	$ 259,623	$ 221,875
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**27,287**	51,515	100,000
Provision for depreciation and amortization	**43,448**	46,743	48,924
Amortization of investment security premiums, net	**36,238**	18,972	21,635
Deferred income tax (benefit) expense	**16,234**	(2,836)	(9,085)
Investment securities (gains) losses, net	**(4,828)**	(10,812)	1,785
Gain on sale of held to maturity student loans	**—**	—	(6,914)
Net gains on sales of loans held for sale	**(376)**	(2,040)	(10,402)
Proceeds from sales of loans held for sale	**22,720**	87,732	635,743
Originations of loans held for sale	**—**	(52,995)	(344,360)
Net (increase) decrease in trading securities	**(9,645)**	2,354	(928)
Stock-based compensation	**5,001**	4,731	6,021
(Increase) decrease in interest receivable	**3,149**	(2,010)	12,041
Decrease in interest payable	**(1,272)**	(4,598)	(9,462)
Increase (decrease) in income taxes payable	**(13,395)**	14,519	2,714
Net tax benefit related to equity compensation plans	**(2,094)**	(1,065)	(1,178)
Other changes, net	**(10,794)**	(2,472)	2,768
Net cash provided by operating activities	**383,112**	407,361	671,177
INVESTING ACTIVITIES			
Proceeds from sales of available for sale securities	**16,875**	19,833	78,640
Proceeds from maturities/pay downs of available for sale securities	**3,080,664**	2,562,551	2,308,323
Purchases of available for sale securities	**(3,182,857)**	(4,517,463)	(3,217,600)
Net (increase) decrease in loans	**(693,193)**	168,983	644,314
Long-term securities purchased under agreements to resell	**(575,000)**	(500,000)	(450,000)
Repayments of long-term securities purchased under agreements to resell	**225,000**	100,000	—
Purchases of land, buildings and equipment	**(34,969)**	(21,332)	(18,528)
Sales of land, buildings and equipment	**2,643**	2,593	397
Net cash used in investing activities	**(1,160,837)**	(2,184,835)	(654,454)
FINANCING ACTIVITIES			
Net increase in non-interest bearing, savings, interest checking and money market deposits	**1,777,058**	1,981,201	1,300,555
Net decrease in time open and C.D.'s	**(257,586)**	(255,769)	(469,557)
Long-term securities sold under agreements to repurchase	**—**	—	400,000
Repayment of long-term securities sold under agreements to repurchase	**—**	—	(500,000)
Net increase (decrease) in short-term federal funds purchased and securities sold under agreements to repurchase	**(172,531)**	273,254	(20,364)
Repayment of other long-term borrowings	**(8,107)**	(456)	(623,789)
Purchases of treasury stock	**(104,909)**	(101,154)	(40,984)
Issuance of stock under stock purchase and equity compensation plans	**15,588**	15,349	11,310
Net tax benefit related to equity compensation plans	**2,094**	1,065	1,178
Cash dividends paid on common stock	**(211,608)**	(79,140)	(78,231)
Net cash provided by (used in) financing activities	**1,039,999**	1,834,350	(19,882)
Increase (decrease) in cash and cash equivalents	**262,274**	56,876	(3,159)
Cash and cash equivalents at beginning of year	**517,551**	460,675	463,834
Cash and cash equivalents at end of year	**$ 779,825**	$ 517,551	$ 460,675
Income tax payments, net	**$ 119,166**	$ 106,653	$ 100,610
Interest paid on deposits and borrowings	**$ 39,335**	$ 56,499	$ 93,008
Loans transferred to foreclosed real estate	**$ 8,167**	$ 22,957	$ 16,440

See accompanying notes to consolidated financial statements.

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Commerce Bancshares, Inc. Shareholders						
(In thousands, except per share data)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
Balance, December 31, 2009	$ 415,637	$ 854,490	$ 568,532	$ (838)	$ 46,407	$ 1,677	$ 1,885,905
Net income			221,710			165	221,875
Other comprehensive income					16,938		16,938
Distributions to non-controlling interest						(365)	(365)
Purchase of treasury stock				(40,984)			(40,984)
Cash dividends paid ($.812 per share)			(78,231)				(78,231)
Net tax benefit related to equity compensation plans		1,178					1,178
Stock-based compensation		6,021					6,021
Issuance under stock purchase and equity compensation plans, net	2,196	3,102		6,012			11,310
5% stock dividend, net	16,109	106,502	(156,233)	33,439			(183)
Balance, December 31, 2010	433,942	971,293	555,778	(2,371)	63,345	1,477	2,023,464
Net income			256,343			3,280	259,623
Other comprehensive income					47,193		47,193
Distributions to non-controlling interest						(443)	(443)
Purchase of treasury stock				(101,154)			(101,154)
Cash dividends paid ($.834 per share)			(79,140)				(79,140)
Net tax benefit related to equity compensation plans		1,065					1,065
Stock-based compensation		4,731					4,731
Issuance under stock purchase and equity compensation plans, net	2,539	4,061		8,749			15,349
5% stock dividend, net	9,906	60,915	(157,562)	86,414			(327)
Balance, December 31, 2011	446,387	1,042,065	575,419	(8,362)	110,538	4,314	2,170,361
Net income			**269,329**			**2,110**	**271,439**
Other comprehensive income					**25,806**		**25,806**
Distributions to non-controlling interest						**(1,977)**	**(1,977)**
Purchase of treasury stock				**(104,909)**			**(104,909)**
Cash dividends paid ($2.305 per share)			**(211,608)**				**(211,608)**
Net tax benefit related to equity compensation plans		**2,094**					**2,094**
Stock-based compensation		**5,001**					**5,001**
Issuance under stock purchase and equity compensation plans, net		**(16,905)**		**32,493**			**15,588**
5% stock dividend, net	**12,259**	**70,252**	**(155,930)**	**73,198**			**(221)**
Balance, December 31, 2012	**$ 458,646**	**$ 1,102,507**	**$ 477,210**	**$ (7,580)**	**$ 136,344**	**$ 4,447**	**$ 2,171,574**

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

Commerce Bancshares, Inc. and its subsidiaries (the Company) conducts its principal activities from approximately 360 locations throughout Missouri, Illinois, Kansas, Oklahoma and Colorado. Principal activities include retail and commercial banking, investment management, securities brokerage, mortgage banking, credit related insurance and private equity investment activities.

Basis of Presentation

The Company follows accounting principles generally accepted in the United States of America (GAAP) and reporting practices applicable to the banking industry. The preparation of financial statements under GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. These estimates are based on information available to management at the time the estimates are made. While the consolidated financial statements reflect management's best estimates and judgments, actual results could differ from those estimates. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (after elimination of all material intercompany balances and transactions). Certain amounts for prior years have been reclassified to conform to the current year presentation. Such reclassifications had no effect on net income or total assets.

Cash and Cash Equivalents

In the accompanying consolidated statements of cash flows, cash and cash equivalents include "Cash and due from banks", "Short-term federal funds sold and securities purchased under agreements to resell", and "Interest earning deposits with banks" as segregated in the accompanying consolidated balance sheets.

Loans and Related Earnings

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances, net of undisbursed loan proceeds, the allowance for loan losses, and any deferred fees and costs on originated loans. Origination fee income received on loans and amounts representing the estimated direct costs of origination are deferred and amortized to interest income over the life of the loan using the interest method. Prepayment premium or yield maintenance agreements are generally required on all term commercial loans with fixed rate intervals of 3 years or more.

Interest on loans is accrued based upon the principal amount outstanding. Interest income is recognized primarily on the level yield method. Loan and commitment fees, net of costs, are deferred and recognized in income over the term of the loan or commitment as an adjustment of yield. Annual fees charged on credit card loans are capitalized to principal and amortized over 12 months to loan fees and sales. Other credit card fees, such as cash advance fees and late payment fees, are recognized in income as an adjustment of yield when charged to the cardholder's account.

Non-Accrual Loans

Loans are placed on non-accrual status when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment. Business, construction real estate, business real estate, and personal real estate loans that are contractually 90 days past due as to principal and/or interest payments are generally placed on non-accrual, unless they are both well-secured and in the process of collection. Consumer, revolving home equity and credit card loans are exempt under regulatory rules from being classified as non-accrual. When a loan is placed on non-accrual status, any interest previously accrued but not collected is reversed against current income, and the loan is charged off to the extent uncollectible. Principal and interest payments received on non-accrual loans are generally applied to principal. Interest is included in income only after all previous loan charge-offs have been recovered and is recorded only as received. The loan is returned to accrual status only when the borrower has brought all past due principal and interest payments current, and, in the opinion of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled. A six month history of sustained payment performance is generally required before reinstatement of accrual status.

Restructured Loans

A loan is accounted for as a troubled debt restructuring if the Company, for economic or legal reasons related to the borrowers' financial difficulties, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring typically involves (1) modification of terms such as a reduction of the stated interest rate, loan principal, or accrued interest, (2) a loan renewal at a stated interest rate lower than the current market rate for a new loan with similar risk, or (3) debt that was not reaffirmed in bankruptcy. Business, business real estate, construction real estate and personal real estate troubled debt restructurings with impairment charges are placed on non-accrual status. The Company measures the impairment loss of a troubled debt restructuring in the same manner as described below. Troubled debt restructurings which are performing under their contractual terms continue to accrue interest which is recognized in current earnings.

Impaired Loans

Loans are evaluated regularly by management for impairment. Included in impaired loans are all non-accrual loans, as well as loans that have been classified as troubled debt restructurings. Once a loan has been identified as impaired, impairment is measured based on either the present value of the expected future cash flows at the loan's initial effective interest rate or the fair value of the collateral if collateral dependent. Factors considered in determining impairment include delinquency status, cash flow analysis, credit analysis, and collateral value and availability.

Loans Held for Sale

Loans held for sale include student loans and certain fixed rate residential mortgage loans. These loans are typically classified as held for sale upon origination based upon management's intent to sell the production of these loans. They are carried at the lower of aggregate cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics, sale contract prices, or, for those portfolios for which management has concerns about contractual performance, discounted cash flow analyses. Declines in fair value below cost (and subsequent recoveries) are recognized in loan fees and sales. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Gains or losses on sales are recognized upon delivery and included in loan fees and sales.

Allowance/Provision for Loan Losses

The allowance for loan losses is maintained at a level believed to be appropriate by management to provide for probable loan losses inherent in the portfolio as of the balance sheet date, including losses on known or anticipated problem loans as well as for loans which are not currently known to require specific allowances. Management has established a process to determine the amount of the allowance for loan losses which assesses the risks and losses inherent in its portfolio. Business, construction real estate and business real estate loans are normally larger and more complex, and their collection rates are harder to predict. These loans are more likely to be collateral dependent and are allocated a larger reserve, due to their potential volatility. Personal real estate, credit card, consumer and revolving home equity loans are individually smaller and perform in a more homogenous manner, making loss estimates more predictable. Management's process provides an allowance consisting of a specific allowance component based on certain individually evaluated loans and a general component based on estimates of reserves needed for pools of loans.

Loans subject to individual evaluation generally consist of business, construction real estate, business real estate and personal real estate loans on non-accrual status. These impaired loans are evaluated individually for the impairment of repayment potential and collateral adequacy, and in conjunction with current economic conditions and loss experience, allowances are estimated. Other impaired loans identified as performing troubled debt restructurings are collectively evaluated because they have similar risk characteristics. Loans which have not been identified as impaired are segregated by loan type and sub-type and are collectively evaluated. Reserves calculated for these loan pools are estimated using a consistent methodology that considers historical loan loss experience by loan type, delinquencies, current economic factors, loan risk ratings and industry concentrations.

The Company's estimate of the allowance for loan losses and the corresponding provision for loan losses is based on various judgments and assumptions made by management. The amount of the allowance for loan losses is highly dependent on management's estimates affecting valuation, appraisal of collateral, evaluation of performance and status, and the amount and timing of future cash flows expected to be received on impaired loans. Factors that influence these judgments include past loan loss experience, current loan portfolio composition and characteristics, trends in portfolio risk ratings, levels of non-performing assets, prevailing regional and national economic conditions, and the Company's ongoing loan review process.

The estimates, appraisals, evaluations, and cash flows utilized by management may be subject to frequent adjustments due to changing economic prospects of borrowers or properties. These estimates are reviewed periodically and adjustments, if necessary, are recorded in the provision for loan losses in the periods in which they become known.

Loans, or portions of loans, are charged off to the extent deemed uncollectible. Loan charge-offs reduce the allowance for loan losses, and recoveries of loans previously charged off are added back to the allowance. Business, business real estate, construction real estate and personal real estate loans are generally charged down to estimated collectible balances when they are placed on non-accrual status. Consumer loans and related accrued interest are normally charged down to the fair value of related collateral (or are charged off in full if no collateral) once the loans are more than 120 days delinquent. Credit card loans are charged off against the allowance for loan losses when the receivable is more than 180 days past due. The interest and fee income previously capitalized but not collected on credit card charge-offs is reversed against interest income.

Operating, Direct Financing and Sales Type Leases

The net investment in direct financing and sales type leases is included in loans on the Company's consolidated balance sheets and consists of the present values of the sum of the future minimum lease payments and estimated residual value of the leased asset. Revenue consists of interest earned on the net investment and is recognized over the lease term as a constant percentage return thereon. The net investment in operating leases is included in other assets on the Company's consolidated balance sheets. It is carried at cost, less the amount depreciated to date. Depreciation is recognized, on the straight-line basis, over the lease term to the estimated residual value. Operating lease revenue consists of the contractual lease payments and is recognized over the lease term in other non-interest income. Estimated residual values are established at lease inception utilizing contract terms, past customer experience, and general market data and are reviewed and adjusted, if necessary, on an annual basis.

Investments in Debt and Equity Securities

The Company has classified the majority of its investment portfolio as available for sale. From time to time, the Company sells securities and utilizes the proceeds to reduce borrowings, fund loan growth, or modify its interest rate profile. Securities classified as available for sale are carried at fair value. Changes in fair value, excluding certain losses associated with other-than-temporary impairment (OTTI), are reported in other comprehensive income (loss), a component of stockholders' equity. Securities are periodically evaluated for OTTI in accordance with guidance provided in ASC 320-10-35. For securities with OTTI, the entire loss in fair value is required to be recognized in current earnings if the Company intends to sell the securities or believes it likely that it will be required to sell the security before the anticipated recovery. If neither condition is met, but the Company does not expect to recover the amortized cost basis, the Company determines whether a credit loss has occurred, and the loss is then recognized in current earnings. The noncredit-related portion of the overall loss is reported in other comprehensive income (loss). Mortgage and asset-backed securities whose credit ratings are below AA at their purchase date are evaluated for OTTI under ASC 325-40-35, which requires evaluations for OTTI at purchase date and in subsequent periods. Gains and losses realized upon sales of securities are calculated using the specific identification method and are included in Investment securities gains (losses), net, in the consolidated statements of income. Premiums and discounts are amortized to interest income over the estimated lives of the securities. Prepayment experience is continually evaluated to determine the appropriate estimate of the future rate of prepayment. When a change in a bond's estimated remaining life is necessary, a corresponding adjustment is made in the related amortization of premium or discount accretion.

Non-marketable securities include certain private equity investments, consisting of both debt and equity instruments. These securities are carried at fair value in accordance with ASC 946-10-15, with changes in fair value reported in current earnings. In the absence of readily ascertainable market values, fair value is estimated using internally developed models. Changes in fair value and gains and losses from sales are included in Investment securities gains (losses), net. Other non-marketable securities acquired for debt and regulatory purposes are accounted for at cost.

Trading account securities, which are bought and held principally for the purpose of resale in the near term, are carried at fair value. Gains and losses, both realized and unrealized, are recorded in non-interest income.

Purchases and sales of securities are recognized on a trade date basis. A receivable or payable is recognized for pending transaction settlements.

Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase

The Company periodically enters into investments of securities under agreements to resell with large financial institutions. These agreements are accounted for as collateralized financing transactions. Securities pledged by the counterparties to secure these agreements are delivered to a third party custodian. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral, or the Company may return collateral pledged when appropriate to maintain full collateralization for these transactions. At December 31, 2012, the Company had entered into $1.2 billion of long-term agreements to resell and had accepted securities valued at $1.3 billion as collateral.

Securities sold under agreements to repurchase are offered to cash management customers as an automated, collateralized investment account and totaled $659.0 million at December 31, 2012. Securities sold are also used by the Bank to obtain additional borrowed funds at favorable rates, and at December 31, 2012, such securities sold totaled $400.0 million of long-term structured repurchase agreements. As of December 31, 2012, the Company had pledged $2.1 billion of available for sale securities as collateral for repurchase agreements.

As permitted by current accounting guidance, the Company offsets certain securities purchased under agreements to resell against securities sold under agreements to repurchase in its balance sheet presentation. These agreements, which are not included in the balance sheet amounts above, are further discussed in Note 3, Investment Securities.

Land, Buildings and Equipment

Land is stated at cost, and buildings and equipment are stated at cost, including capitalized interest when appropriate, less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods. The Company generally assigns depreciable lives of 30 years for buildings, 10 years for building improvements, and 3 to 8 years for equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or remaining lease terms. Maintenance and repairs are charged to non-interest expense as incurred.

Foreclosed Assets

Foreclosed assets consist of property that has been repossessed and is comprised of commercial and residential real estate and other non-real estate property, including auto and recreational and marine vehicles. The assets are initially recorded at the lower of the loan balance or fair value less estimated selling costs. Initial valuation adjustments are charged to the allowance for loan losses. Fair values are estimated primarily based on appraisals, third-party price opinions, or internally developed pricing models. After initial recognition, fair value estimates are updated periodically, and the assets may be marked down further, reflecting a new cost basis. These valuation adjustments, in addition to gains and losses realized on sales and net operating expenses, are recorded in other non-interest expense.

Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized but are tested annually for impairment. Intangible assets that have finite useful lives, such as core deposit intangibles and mortgage servicing rights, are amortized over their estimated useful lives. Core deposit intangibles are amortized over periods of 8 to 14 years, representing their estimated lives, using accelerated methods. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions.

When facts and circumstances indicate potential impairment of amortizable intangible assets, the Company evaluates the recoverability of the asset carrying value, using estimates of undiscounted future cash flows over the remaining asset life. Any impairment loss is measured by the excess of carrying value over fair value. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. In these tests, the fair value of each reporting unit, or segment, is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated. If so, the implied fair value of the reporting unit's goodwill is compared to its carrying amount, and the impairment loss is measured by the excess of the carrying value over fair value. There has been no impairment resulting from goodwill impairment tests. However, adverse changes in the economic environment, operations of the reporting unit, or other factors could result in a decline in the implied fair value.

Income Taxes

Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income taxes are provided for temporary differences between the financial reporting bases and income tax bases of the Company's assets and liabilities, net operating losses, and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income when such assets and liabilities are anticipated to be settled or realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as tax expense or benefit in the period that includes the enactment date of the change. In determining the amount of deferred tax assets to recognize in the financial statements, the Company evaluates the likelihood of realizing such benefits in future periods. A valuation allowance is established if it is more likely than not that all or some portion of the deferred tax asset will not be realized. The Company recognizes interest and penalties related to income taxes within income tax expense in the consolidated statements of income.

The Company and its eligible subsidiaries file a consolidated federal income tax return. State and local income tax returns are filed on a combined, consolidated or separate return basis based upon each jurisdiction's laws and regulations.

Derivatives

As required by current accounting guidance, all derivatives are carried at fair value on the balance sheet. Accounting for changes in the fair value of derivatives (gains and losses) differs depending on whether a qualifying hedge relationship has been designated and on the type of hedge relationship. Derivatives used to hedge the exposure to change in the fair value of an asset, liability, or firm commitment attributable to a particular risk are considered fair value hedges. Under the fair value hedging model, gains or losses attributable to the change in fair value of the derivative, as well as gains and losses attributable to the change in fair value of the hedged item, are recognized in current earnings. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Under the cash flow hedging model, the effective portion of the gain or loss related to the derivative is recognized as a component of other comprehensive income and reclassified to earnings in the same period in which the hedged transaction affects earnings. The ineffective portion is recognized in current earnings. For derivatives that are not part of a hedging relationship, any gain or loss is recognized immediately in current earnings.

The Company formally documents all hedging relationships between hedging instruments and the hedged item, as well as its risk management objective. At December 31, 2012, the Company had three interest rate swaps designated as fair value hedges. The Company performs quarterly assessments, using the regression method, to determine whether the hedging relationship has been highly effective in offsetting changes in fair values.

Other derivatives held by the Company do not qualify for hedge accounting, and gains and losses on these derivatives, as mentioned above, are recognized in current earnings. These include interest rate swaps and caps, which are offered to customers to assist in managing their risks of adverse changes in interest rates. Each contract between the Company and a customer is offset by a contract between the Company and an institutional counterparty, thus minimizing the Company's exposure to rate changes. The Company also enters into certain contracts, known as credit risk participation agreements, to buy or sell credit protection on specific interest rate swaps. It also purchases and sells forward foreign exchange contracts, either in connection with customer transactions, or for its own trading purposes. In addition, in previous years the Company's general practice was to sell fixed rate mortgage loans in the secondary market. Both the mortgage loan commitments and the related sales contracts were accounted for as derivatives.

The Company has master netting arrangements with various counterparties but does not offset derivative assets and liabilities under these arrangements in its consolidated balance sheet.

Additional information about derivatives held by the Company and valuation methods employed is provided in Note 15, Fair Value Measurements and Note 17, Derivative Instruments.

Pension Plan

The Company's pension plan is described in Note 9, Employee Benefit Plans. The funded status of the plan is recognized as an asset or liability in the consolidated balance sheet, and changes in that funded status are recognized in the year in which the changes occur through other comprehensive income. Plan assets and benefit obligations are measured as of fiscal year end. The measurement of the projected benefit obligation and pension expense involve actuarial valuation methods and the use of various actuarial and economic assumptions. The Company monitors the assumptions and updates them periodically. Due to the long-term nature of the pension plan obligation, actual results may differ significantly from estimations. Such differences are adjusted over time as the assumptions are replaced by facts and values are recalculated.

Stock-Based Compensation

The Company's stock-based employee compensation plan is described in Note 10, Stock-Based Compensation and Directors Stock Purchase Plan. In accordance with the requirements of ASC 718-10-30-3 and 35-2, the Company measures the cost of stock-based compensation based on the grant-date fair value of the award, recognizing the cost over the requisite service period. The fair value of an award is estimated using the Black-Scholes option-pricing model. The expense recognized is based on an estimation of the number of awards for which the requisite service is expected to be rendered and is included in salaries and employee benefits in the accompanying consolidated statements of income.

Treasury Stock

Purchases of the Company's common stock are recorded at cost. Upon re-issuance for acquisitions, exercises of stock-based awards or other corporate purposes, treasury stock is reduced based upon the average cost basis of shares held.

Income per Share

Basic income per share is computed using the weighted average number of common shares outstanding during each year. Diluted income per share includes the effect of all dilutive potential common shares (primarily stock options and stock appreciation rights) outstanding during each year. The Company applies the two-class method of computing income per share. The two-class method is an earnings allocation formula that determines income per share for common stock and for participating securities, according to dividends declared and participation rights in undistributed earnings. The Company's restricted share awards are considered to be a class of participating security. All per share data has been restated to reflect the 5% stock dividend distributed in December 2012.

2. Loans and Allowance for Loan Losses

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

(In thousands)	**2012**	2011
Commercial:		
Business	**$ 3,134,801**	$ 2,808,265
Real estate — construction and land	**355,996**	386,598
Real estate — business	**2,214,975**	2,180,100
Personal Banking:		
Real estate — personal	**1,584,859**	1,428,777
Consumer	**1,289,650**	1,114,889
Revolving home equity	**437,567**	463,587
Consumer credit card	**804,245**	788,701
Overdrafts	**9,291**	6,561
Total loans	**$ 9,831,384**	$ 9,177,478

Loans to directors and executive officers of the Parent and its significant subsidiaries, and to their associates, are summarized as follows:

(In thousands)	
Balance at January 1, 2012	$ 62,788
Additions	289,843
Amounts collected	(291,094)
Amounts written off	—
Balance, December 31, 2012	$ 61,537

Management believes all loans to directors and executive officers have been made in the ordinary course of business with normal credit terms, including interest rate and collateral considerations, and do not represent more than a normal risk of collection. There were no outstanding loans at December 31, 2012 to principal holders (over 10% ownership) of the Company's common stock.

The Company's lending activity is generally centered in Missouri, Illinois, Kansas and other nearby states including Oklahoma, Colorado, Iowa, Ohio, and others. The Company maintains a diversified portfolio with limited industry concentrations of credit risk. Loans and loan commitments are extended under the Company's normal credit standards, controls, and monitoring features. Most loan commitments are short or intermediate term in nature. Commercial loan maturities generally range from three to seven years. Collateral is commonly required and would include such assets as marketable securities and cash equivalent assets, accounts receivable and inventory, equipment, other forms of personal property, and real estate. At December 31, 2012, unfunded loan commitments totaled $8.4 billion (which included $3.9 billion in unused approved lines of credit related to credit card loan agreements) which could be drawn by customers subject to certain review and terms of agreement. At December 31, 2012, loans totaling $3.3 billion were pledged at the FHLB 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.

The Company has a net investment in direct financing and sales type leases of $311.6 million and $241.8 million at December 31, 2012 and 2011, respectively, which is included in business loans on the Company's consolidated balance sheets. This investment includes deferred income of $23.6 million and $20.8 million at December 31, 2012 and 2011, respectively. The net investment in operating leases amounted to $21.1 million and $20.1 million at December 31, 2012 and 2011, respectively, and is included in other assets on the Company's consolidated balance sheets.

Allowance for loan losses

A summary of the activity in the allowance for losses during the years ended December 31, 2012 and 2011 follows:

	2012			2011		
(In thousands)	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at January 1	**$ 122,497**	**$ 62,035**	**$ 184,532**	$ 119,946	$ 77,592	$ 197,538
Provision for loan losses	**(14,444)**	**41,731**	**27,287**	18,052	33,463	51,515
Deductions:						
Loans charged off	**11,094**	**52,067**	**63,161**	18,818	62,567	81,385
Less recoveries	**8,766**	**15,108**	**23,874**	3,317	13,547	16,864
Net loans charged off	**2,328**	**36,959**	**39,287**	15,501	49,020	64,521
Balance at December 31	**$ 105,725**	**$ 66,807**	**$ 172,532**	$ 122,497	$ 62,035	$ 184,532

A summary of the activity in the allowance for losses during the year ended December 31, 2010 follows:

(In thousands)	2010
Balance at January 1	$ 194,480
Provision for loan losses	100,000
Deductions:	
Loan charged off	114,573
Less recoveries	17,631
Net loans charged off	96,942
Balance at December 31	$ 197,538

The following table shows the balance in the allowance for loan losses and the related loan balance at December 31, 2012 and 2011, disaggregated on the basis of impairment methodology. Impaired loans evaluated under ASC 310-10-35 include loans on non-accrual status which are individually evaluated for impairment and other impaired loans deemed to have similar risk characteristics, which 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
December 31, 2012				
Commercial	**$ 5,434**	**$ 80,807**	**$ 100,291**	**$ 5,624,965**
Personal Banking	**2,051**	**36,111**	**64,756**	**4,089,501**
Total	**$ 7,485**	**$ 116,918**	**$ 165,047**	**$ 9,714,466**
December 31, 2011				
Commercial	$ 6,668	$ 108,167	$ 115,829	$ 5,266,796
Personal Banking	4,090	31,088	57,945	3,771,427
Total	$ 10,758	$ 139,255	$ 173,774	$ 9,038,223

Impaired loans

The table below shows the Company's investment in impaired loans at December 31, 2012 and 2011. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the troubled debt restructurings section on page 71.

(In thousands)	**2012**	2011
Non-accrual loans	**$ 51,410**	$ 75,482
Restructured loans (accruing)	**65,508**	63,773
Total impaired loans	**$ 116,918**	$ 139,255

The following table provides additional information about impaired loans held by the Company at December 31, 2012 and 2011, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2012			
With no related allowance recorded:			
Business	**$ 9,964**	**$ 12,697**	$ —
Real estate – construction and land	**8,440**	**15,102**	—
Real estate – business	**5,484**	**8,200**	—
Real estate – personal	**1,166**	**1,380**	—
Revolving home equity	**510**	**843**	—
	$ 25,564	**$ 38,222**	**$ —**
With an allowance recorded:			
Business	**$ 19,358**	**$ 22,513**	**$ 1,888**
Real estate – construction and land	**20,446**	**25,808**	**1,762**
Real estate – business	**17,115**	**23,888**	**1,784**
Real estate – personal	**14,157**	**17,304**	**857**
Consumer	**4,779**	**4,779**	**93**
Revolving home equity	**779**	**779**	**18**
Consumer credit card	**14,720**	**14,720**	**1,083**
	$ 91,354	**$ 109,791**	**$ 7,485**
Total	**$ 116,918**	**$ 148,013**	**$ 7,485**
December 31, 2011			
With no related allowance recorded:			
Business	$ 19,759	$ 22,497	$ —
Real estate – construction and land	8,391	22,746	—
Real estate – business	6,853	9,312	—
Real estate – personal	793	793	—
	$ 35,796	$ 55,348	$ —
With an allowance recorded:			
Business	$ 15,604	$ 19,286	$ 1,500
Real estate – construction and land	37,387	47,516	2,580
Real estate – business	20,173	24,799	2,588
Real estate – personal	7,867	10,671	795
Consumer credit card	22,428	22,428	3,295
	$ 103,459	$ 124,700	$ 10,758
Total	$ 139,255	$ 180,048	$ 10,758

Total average impaired loans during 2012 and 2011 are shown in the table below.

	2012			2011		
(In thousands)	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Average impaired loans:						
Non-accrual loans	**$ 55,994**	**$ 7,343**	**$ 63,337**	$ 70,053	$ 7,121	$ 77,174
Restructured loans (accruing)	**43,181**	**22,520**	**65,701**	43,575	22,583	66,158
Total	**$ 99,175**	**$ 29,863**	**$ 129,038**	$ 113,628	$ 29,704	$ 143,332

The table below shows interest income recognized during the years ended December 31, 2012 and 2011 for impaired loans held at the end of each respective period. This interest relates to accruing restructured loans, as discussed previously.

(In thousands)	For the Year Ended December 31 2012	2011
Interest income recognized on impaired loans:		
Business	**$ 1,184**	$ 284
Real estate – construction and land	**655**	947
Real estate – business	**246**	327
Real estate – personal	**376**	37
Consumer	**415**	—
Revolving home equity	**37**	—
Consumer credit card	**1,341**	2,016
Total	**$ 4,254**	$ 3,611

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 December 31, 2012 and 2011.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual	Total
December 31, 2012					
Commercial:					
Business	**$ 3,110,403**	**$ 10,054**	**$ 1,288**	**$ 13,056**	**$ 3,134,801**
Real estate – construction and land	**325,541**	**16,721**	**56**	**13,678**	**355,996**
Real estate – business	**2,194,395**	**3,276**	**—**	**17,304**	**2,214,975**
Personal Banking:					
Real estate – personal	**1,564,281**	**10,862**	**2,854**	**6,862**	**1,584,859**
Consumer	**1,273,581**	**13,926**	**2,143**	**—**	**1,289,650**
Revolving home equity	**433,437**	**2,121**	**1,499**	**510**	**437,567**
Consumer credit card	**786,081**	**10,657**	**7,507**	**—**	**804,245**
Overdrafts	**8,925**	**366**	**—**	**—**	**9,291**
Total	**$ 9,696,644**	**$ 67,983**	**$ 15,347**	**$ 51,410**	**$ 9,831,384**
December 31, 2011					
Commercial:					
Business	$ 2,777,578	$ 4,368	$ 595	$ 25,724	$ 2,808,265
Real estate – construction and land	362,592	1,113	121	22,772	386,598
Real estate – business	2,151,822	8,875	29	19,374	2,180,100
Personal Banking:					
Real estate – personal	1,406,449	11,671	3,045	7,612	1,428,777
Consumer	1,096,742	15,917	2,230	—	1,114,889
Revolving home equity	461,941	1,003	643	—	463,587
Consumer credit card	769,922	10,484	8,295	—	788,701
Overdrafts	6,173	388	—	—	6,561
Total	$ 9,033,219	$ 53,819	$ 14,958	$ 75,482	$ 9,177,478

Credit quality

The following table provides information about the credit quality of the Commercial loan portfolio, using the Company's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. The "pass" category consists of a range of loan grades that reflect increasing, though still acceptable, risk. Movement of risk through the various grade levels in the "pass" category is monitored for early identification of credit deterioration. The "special mention" rating is attached to loans where the borrower exhibits material negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. It is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well-defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. Loans are placed on "non-accrual" when management does not expect to collect payments consistent with acceptable and agreed upon terms of repayment, as discussed in Note 1.

	Commercial Loans			
(In thousands)	Business	Real Estate - Construction	Real Estate - Business	Total
December 31, 2012				
Pass	**$ 3,018,062**	**$ 297,156**	**$ 2,103,913**	**$ 5,419,131**
Special mention	**58,793**	**11,400**	**38,396**	**108,589**
Substandard	**44,890**	**33,762**	**55,362**	**134,014**
Non-accrual	**13,056**	**13,678**	**17,304**	**44,038**
Total	**$ 3,134,801**	**$ 355,996**	**$ 2,214,975**	**$ 5,705,772**
December 31, 2011				
Pass	$ 2,669,868	$ 304,408	$ 1,994,391	$ 4,968,667
Special mention	37,460	4,722	52,683	94,865
Substandard	75,213	54,696	113,652	243,561
Non-accrual	25,724	22,772	19,374	67,870
Total	$ 2,808,265	$ 386,598	$ 2,180,100	$ 5,374,963

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above Delinquency section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a person's financial history. The bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain loans for which FICO scores are not obtained because the loans are related to commercial activity. At December 31, 2012, these were comprised of $224.5 million in personal real estate loans and $87.4 million in consumer loans, or 7.6% of the Personal Banking portfolio. At December 31, 2011, these were comprised of $222.8 million in personal real estate loans and $148.7 million in consumer loans, or 9.8% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at December 31, 2012 and 2011 by FICO score.

	Personal Banking Loans			
	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
December 31, 2012				
FICO score:				
Under 600	**2.3%**	**6.7%**	**2.6%**	**4.4%**
600 – 659	**3.2**	**11.3**	**5.3**	**11.7**
660 – 719	**10.4**	**24.4**	**15.2**	**32.1**
720 – 779	**26.6**	**26.4**	**30.0**	**28.2**
780 and over	**57.5**	**31.2**	**46.9**	**23.6**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**
December 31, 2011				
FICO score:				
Under 600	3.4%	8.4%	2.6%	4.9%
600 – 659	4.1	11.0	4.9	11.2
660 – 719	12.2	23.2	15.1	31.0
720 – 779	29.2	26.0	26.3	29.0
780 and over	51.1	31.4	51.1	23.9
Total	100.0%	100.0%	100.0%	100.0%

Troubled debt restructurings

As mentioned previously, the Company's impaired loans include loans which have been classified as troubled debt restructurings. Total restructured loans amounted to $94.0 million at December 31, 2012. Restructured loans are those extended to borrowers who are experiencing financial difficulty and who have been granted a concession. Restructured loans are placed on non-accrual status if the Company does not believe it probable that amounts due under the contractual terms will be collected, and those non-accrual loans totaled $28.5 million at December 31, 2012. Other performing restructured loans totaled $65.5 million at December 31, 2012. These are are partly comprised of certain business, construction and business real estate loans classified as substandard. Upon maturity, the loans renewed at interest rates judged not to be market rates for new debt with similar risk and as a result were classified as troubled debt restructurings. These commercial loans totaled $40.3 million and $41.3 million at December 31, 2012 and 2011, respectively. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. Troubled debt restructurings also include certain credit card loans under various debt management and assistance programs, which totaled $14.7 million at December 31, 2012 and $22.4 million at December 31, 2011. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. During 2012, the Company classified additional loans as troubled debt restructurings because they had not been reaffirmed by the borrower in bankruptcy proceedings. These loans totaled $10.4 million in personal real estate, revolving home equity, and consumer loans. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments.

The table below shows the outstanding balance of loans classified as troubled debt restructurings at December 31, 2012, in addition to the period end balances of 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)	December 31, 2012	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$ 25,657	$ 724
Real estate – construction and land	27,289	6,484
Real estate – business	10,480	748
Personal Banking:		
Real estate – personal	10,337	585
Consumer	4,779	190
Revolving home equity	779	84
Consumer credit card	14,720	778
Total restructured loans	$ 94,041	$ 9,593

For those loans on non-accrual status also classified as restructured, the modification did not create any further financial effect on the Company as those loans were already recorded at net realizable value. For those performing commercial loans classified as restructured, there were no concessions involving forgiveness of principal or interest and, therefore, there was no financial impact to the Company as a result of modification to these loans. No financial impact resulted from those performing loans where the debt was not reaffirmed in bankruptcy, as no changes to loan terms occurred in that process . However, the effects of modifications to consumer credit card loans were estimated to decrease interest income by approximately $1.9 million on an annual, pre-tax basis, compared to amounts contractually owed.

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

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

The Company had commitments of $16.5 million at December 31, 2012 to lend additional funds to borrowers with restructured loans.

The Company’s holdings of foreclosed real estate totaled $13.5 million and $18.3 million at December 31, 2012 and 2011, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $3.5 million and $4.2 million at December 31, 2012 and 2011, respectively. These assets are carried at the lower of the amount recorded at acquisition date or the current fair value less estimated selling costs.

3. Investment Securities

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

(In thousands)	**2012**	2011
Available for sale:		
U.S. government and federal agency obligations	**$ 438,759**	$ 364,665
Government-sponsored enterprise obligations	**471,574**	315,698
State and municipal obligations	**1,615,707**	1,245,284
Agency mortgage-backed securities	**3,380,955**	4,106,059
Non-agency mortgage-backed securities	**237,011**	316,902
Asset-backed securities	**3,167,394**	2,693,143
Other debt securities	**177,752**	141,260
Equity securities	**33,096**	41,691
Total available for sale	**9,522,248**	9,224,702
Trading	**28,837**	17,853
Non-marketable	**118,650**	115,832
Total investment securities	**$ 9,669,735**	$ 9,358,387

Most of the Company's investment securities are classified as available for sale, and this portfolio is discussed in more detail below. Securities which are classified as non-marketable include Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank stock held for borrowing and regulatory purposes, which totaled $45.4 million and $45.3 million at December 31, 2012 and December 31, 2011, respectively. Investment in Federal Reserve Bank stock is based on the capital structure of the investing bank, and investment in FHLB stock is mainly tied to the level of borrowings from the FHLB. These holdings are carried at cost. Non-marketable securities also include private equity investments, which amounted to $73.2 million and $70.5 million at December 31, 2012 and December 31, 2011, respectively. In the absence of readily ascertainable market values, these securities are carried at estimated fair value.

A summary of the available for sale investment securities by maturity groupings as of December 31, 2012 is shown in the following table. The weighted average yield for each range of maturities was calculated using the yield on each security within that range weighted by the amortized cost of each security at December 31, 2012. Yields on tax exempt securities have not been adjusted for tax exempt status. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as FHLMC, FNMA, GNMA and FDIC, in addition to non-agency mortgage-backed securities which have no guarantee, but are collateralized by residential mortgages. Also included are certain other asset-backed securities, primarily collateralized by credit cards, automobiles and commercial loans. The Company does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield
U.S. government and federal agency obligations:			
After 1 but within 5 years	$ 219,192	$ 241,964	1.70*%
After 5 but within 10 years	107,708	125,331	1.30*
After 10 years	73,071	71,464	(.30)*
Total U.S. government and federal agency obligations	399,971	438,759	1.23*
Government-sponsored enterprise obligations:			
Within 1 year	7,473	7,543	1.13
After 1 but within 5 years	100,794	104,256	1.79
After 5 but within 10 years	171,805	171,861	1.59
After 10 years	186,991	187,914	1.90
Total government-sponsored enterprise obligations	467,063	471,574	1.75
State and municipal obligations:			
Within 1 year	89,091	89,899	2.23
After 1 but within 5 years	681,954	708,271	2.71
After 5 but within 10 years	537,897	550,026	2.37
After 10 years	276,984	267,511	2.18
Total state and municipal obligations	1,585,926	1,615,707	2.47
Mortgage and asset-backed securities:			
Agency mortgage-backed securities	3,248,007	3,380,955	2.82
Non-agency mortgage-backed securities	224,223	237,011	6.08
Asset-backed securities	3,152,913	3,167,394	.94
Total mortgage and asset-backed securities	6,625,143	6,785,360	2.04
Other debt securities:			
Within 1 year	45,818	47,014	
After 1 but within 5 years	41,499	43,121	
After 5 but within 10 years	78,468	78,603	
After 10 years	8,942	9,014	
Total other debt securities	174,727	177,752	
Equity securities	5,695	33,096	
Total available for sale investment securities	$ 9,258,525	$ 9,522,248	

** Rate does not reflect inflation adjustment on inflation-protected securities*

Investments in U.S. government securities are comprised mainly of U.S. Treasury inflation-protected securities, which totaled $438.6 million, at fair value, at December 31, 2012. Interest paid on these securities increases with inflation and decreases with deflation, as measured by the Consumer Price Index. At maturity, the principal paid is the greater of an inflation-adjusted principal or the original principal. Included in state and municipal obligations are $126.4 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. Equity securities are primarily comprised of investments in common stock held by the Parent, which totaled $30.7 million, at fair value, at December 31, 2012.

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
U.S. government and federal agency obligations	**$ 399,971**	**$ 40,395**	**$ (1,607)**	**$ 438,759**
Government-sponsored enterprise obligations	**467,063**	**5,188**	**(677)**	**471,574**
State and municipal obligations	**1,585,926**	**46,076**	**(16,295)**	**1,615,707**
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	**3,248,007**	**132,953**	**(5)**	**3,380,955**
Non-agency mortgage-backed securities	**224,223**	**12,906**	**(118)**	**237,011**
Asset-backed securities	**3,152,913**	**15,848**	**(1,367)**	**3,167,394**
Total mortgage and asset-backed securities	**6,625,143**	**161,707**	**(1,490)**	**6,785,360**
Other debt securities	**174,727**	**3,127**	**(102)**	**177,752**
Equity securities	**5,695**	**27,401**	**—**	**33,096**
Total	**$ 9,258,525**	**$ 283,894**	**$ (20,171)**	**$ 9,522,248**
December 31, 2011				
U.S. government and federal agency obligations	$ 328,530	$ 36,135	$ —	$ 364,665
Government-sponsored enterprise obligations	311,529	4,169	—	315,698
State and municipal obligations	1,220,840	35,663	(11,219)	1,245,284
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	3,989,464	117,088	(493)	4,106,059
Non-agency mortgage-backed securities	315,752	8,962	(7,812)	316,902
Asset-backed securities	2,692,436	7,083	(6,376)	2,693,143
Total mortgage and asset-backed securities	6,997,652	133,133	(14,681)	7,116,104
Other debt securities	135,190	6,070	—	141,260
Equity securities	18,354	23,337	—	41,691
Total	$ 9,012,095	$ 238,507	$ (25,900)	$ 9,224,702

The Company's impairment policy requires a review of all securities for which fair value is less than amortized cost. Special emphasis and analysis is placed on securities whose credit rating has fallen below A3 (Moody's) or A- (Standard & Poor's), whose fair values have fallen more than 20% below purchase price for an extended period of time, or have been identified based on management's judgment. These securities are placed on a watch list, and for all such securities, detailed cash flow models are prepared which use inputs specific to each security. Inputs to these models include factors such as cash flow received, contractual payments required, and various other information related to the underlying collateral (including current delinquencies), collateral loss severity rates (including loan to values), expected delinquency rates, credit support from other tranches, and prepayment speeds. Stress tests are performed at varying levels of delinquency rates, prepayment speeds and loss severities in order to gauge probable ranges of credit loss. At December 31, 2012, the fair value of securities on this watch list was $220.7 million compared to $220.9 million at December 31, 2011.

As of December 31, 2012, the Company had recorded OTTI on certain non-agency mortgage-backed securities, part of the watch list mentioned above, which had an aggregate fair value of $101.7 million. The credit-related portion of the impairment initially recorded on these securities totaled $11.6 million and was recorded in earnings. The Company does not intend to sell these securities and believes it is not likely that it will be required to sell the securities before the recovery of their amortized cost.

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

Significant Inputs	Range
Prepayment CPR	0% - 25%
Projected cumulative default	17% - 58%
Credit support	0% - 16%
Loss severity	33% - 70%

The following table shows changes in the credit losses recorded in current earnings, for which a portion of an OTTI was recognized in other comprehensive income.

(In thousands)		**2012**		2011		2010
Balance at January 1	**$**	**9,931**	$	7,542	$	2,473
Credit losses on debt securities for which impairment was not previously recognized		**—**		170		353
Credit losses on debt securities for which impairment was previously recognized		**1,490**		2,368		4,716
Increase in expected cash flows that are recognized over remaining life of security		**(115)**		(149)		—
Balance at December 31	**$**	**11,306**	$	9,931	$	7,542

Securities with unrealized losses recorded in accumulated other comprehensive income are shown in the table below, along with the length of the impairment period. The table includes securities for which a portion of an OTTI has been recognized in other comprehensive income.

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012						
U.S. government and federal agency obligations	**$ 71,464**	**$ 1,607**	**$ —**	**$ —**	**$ 71,464**	**$ 1,607**
Government-sponsored enterprise obligations	**102,082**	**677**	**—**	**—**	**102,082**	**677**
State and municipal obligations	**173,600**	**2,107**	**80,530**	**14,188**	**254,130**	**16,295**
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	**5,874**	**5**	**—**	**—**	**5,874**	**5**
Non-agency mortgage-backed securities	**—**	**—**	**12,609**	**118**	**12,609**	**118**
Asset-backed securities	**338,007**	**976**	**78,684**	**391**	**416,691**	**1,367**
Total mortgage and asset-backed securities	**343,881**	**981**	**91,293**	**509**	**435,174**	**1,490**
Other debt securities	**39,032**	**102**	**—**	**—**	**39,032**	**102**
Total	**$ 730,059**	**$ 5,474**	**$ 171,823**	**$ 14,697**	**$ 901,882**	**$ 20,171**
December 31, 2011						
State and municipal obligations	$ 65,962	$ 712	$ 110,807	$ 10,507	$ 176,769	$ 11,219
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	72,019	493	—	—	72,019	493
Non-agency mortgage-backed securities	23,672	784	118,972	7,028	142,644	7,812
Asset-backed securities	1,236,526	4,982	87,224	1,394	1,323,750	6,376
Total mortgage and asset-backed securities	1,332,217	6,259	206,196	8,422	1,538,413	14,681
Total	$ 1,398,179	$ 6,971	$ 317,003	$ 18,929	$ 1,715,182	$ 25,900

The total available for sale portfolio consisted of approximately 1,700 individual securities at December 31, 2012. The portfolio included 144 securities, having an aggregate fair value of $901.9 million, that were in a loss position at December 31, 2012. Securities in a loss position for 12 months or longer included those with temporary impairment totaling $166.3 million, or 1.7% of the total portfolio value, and other securities identified as other-than-temporarily impaired totaling $5.5 million.

The Company's holdings of state and municipal obligations included gross unrealized losses of $16.3 million at December 31, 2012. Of these losses, $14.2 million related to auction rate securities, which are discussed above, and $2.1 million related to other state and municipal obligations. This portfolio, excluding auction rate securities, totaled $1.5 billion at fair value, or 15.6% of total available for sale securities. The portfolio is diversified in order to reduce risk, and information about the top five largest holdings, by state and economic sector, is shown in the table below.

	% of Portfolio	Average Life (in years)	Average Rating (Moody's)
At December 31, 2012			
Texas	9.9%	5.8	Aa1
Florida	9.4	5.1	Aa2
Ohio	6.0	5.8	Aa2
Washington	5.7	5.3	Aa2
New York	5.2	7.2	Aa2
General obligation	31.7%	5.2	Aa2
Housing	18.2	7.2	Aa1
Lease	15.4	5.1	Aa2
Transportation	13.3	4.8	Aa3
Limited tax	5.0	5.9	Aa1

The credit ratings (Moody's rating or equivalent) at December 31, 2012 in the state and municipal bond portfolio (excluding auction rate securities) are shown in the following table. The average credit quality of the portfolio is Aa2 as rated by Moody's.

	% of Portfolio
Aaa	11.5%
Aa	70.0
A	16.1
Baa	.7
Not rated	1.7
	100.0%

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

(In thousands)	**2012**	2011	2010
Proceeds from sales of available for sale securities	**$ 5,231**	$ 11,202	$ 78,448
Proceeds from sales of non-marketable securities	**11,644**	8,631	192
Total proceeds	**$ 16,875**	$ 19,833	$ 78,640
Available for sale:			
Gains realized on sales	**$ 358**	$ 177	$ 3,639
Losses realized on sales	**—**	—	(151)
Other-than-temporary impairment recognized on debt securities	**(1,490)**	(2,537)	(5,069)
Non-marketable:			
Gains realized on sales	**1,655**	2,388	52
Losses realized on sales	**(200)**	—	—
Fair value adjustments, net	**4,505**	10,784	(256)
Investment securities gains (losses), net	**$ 4,828**	$ 10,812	$ (1,785)

Investment securities totaling $4.3 billion in fair value were pledged at both December 31, 2012 and 2011 to secure public deposits, securities sold under repurchase agreements, trust funds, and borrowings at the Federal Reserve Bank. Securities pledged under agreements pursuant to which the collateral may be sold or re-pledged by the secured parties approximated $736.2 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 exceeds 10% of stockholders' equity.

During 2012, the Company entered into several agreements commonly known as collateral swaps. These agreements involve the exchange of collateral under simultaneous repurchase and resell agreements with the same financial institution counterparty. These repurchase and resell agreements have the same principal amounts, inception dates, and maturity dates and have been offset against each other in the balance sheet, as permitted under the netting provisions of ASC 210-20-45. At December 31, 2012, the Company had posted collateral consisting of $314.0 million in agency mortgage-backed securities and accepted $345.5 million in investment grade asset-backed, commercial mortgage-backed, and corporate bonds on collateral swaps of $300.0 million. The agreements mature in 2013 through 2015, and the Company will earn an average interest rate of approximately 86 basis points during their term.

4. Land, Buildings and Equipment

Land, buildings and equipment consist of the following at December 31, 2012 and 2011:

(In thousands)	**2012**	2011
Land	**$ 107,540**	$ 100,748
Buildings and improvements	**523,662**	517,691
Equipment	**229,370**	223,548
Total	**860,572**	841,987
Less accumulated depreciation and amortization	**502,960**	481,841
Net land, buildings and equipment	**$ 357,612**	$ 360,146

Depreciation expense of $32.2 million, $34.5 million and $35.1 million for 2012, 2011 and 2010, respectively, was included in occupancy expense and equipment expense in the consolidated income statements. Repairs and maintenance expense of $17.3 million, $17.7 million and $18.5 million for 2012, 2011 and 2010, respectively, was included in occupancy expense and equipment expense. Interest expense capitalized on construction projects in the past three years has not been significant.

5. Goodwill and Other Intangible Assets

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

	December 31, 2012				December 31, 2011			
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Valuation Allowance**	**Net Amount**	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	**$ 25,720**	**$ (20,892)**	**$ —**	**$ 4,828**	$ 25,720	$ (18,750)	$ —	$ 6,970
Mortgage servicing rights	**3,132**	**(2,267)**	**(393)**	**472**	3,097	(1,926)	(427)	744
Total	**$ 28,852**	**$ (23,159)**	**$ (393)**	**$ 5,300**	$ 28,817	$ (20,676)	$ (427)	$ 7,714

The carrying amount of goodwill and its allocation among segments at year end is shown in the table below. As a result of ongoing assessments, no impairment of goodwill was recorded in 2012, 2011 or 2010. Further, the regular annual review on January 1, 2013 revealed no impairment as of that date.

(In thousands)	Consumer Segment	Commercial Segment	Wealth Segment	Total Goodwill
Balance at December 31, 2012	$ 67,765	$ 57,074	$ 746	$ 125,585

Changes in the net carrying amount of goodwill and other net intangible assets for the years ended December 31, 2012 and 2011 are shown in the following table.

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance at December 31, 2010	$ 125,585	$ 9,612	$ 1,325
Originations	—	—	15
Amortization	—	(2,642)	(354)
Impairment	—	—	(242)
Balance at December 31, 2011	125,585	6,970	744
Originations	—	—	35
Amortization	—	(2,142)	(341)
Impairment reversal	—	—	34
Balance at December 31, 2012	**$ 125,585**	**$ 4,828**	**$ 472**

Mortgage servicing rights (MSRs) are initially recorded at fair value and subsequently amortized over the period of estimated servicing income. They are periodically reviewed for impairment and if impairment is indicated, recorded at fair value. At December 31, 2012, temporary impairment of $393 thousand had been recognized. Temporary impairment, including impairment recovery, is effected through a change in a valuation allowance. The fair value of the MSRs is based on the present value of expected future cash flows, as further discussed in Note 15 on Fair Value Measurements.

Aggregate amortization expense on intangible assets for the years ended December 31, 2012, 2011 and 2010 was $2.5 million, $3.0 million and $3.5 million, respectively. The following table shows the estimated future amortization expense based on existing asset balances and the interest rate environment as of December 31, 2012. The Company's actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2013	$ 1,751
2014	1,270
2015	928
2016	617
2017	345

6. Deposits

At December 31, 2012, the scheduled maturities of total time open and certificates of deposit were as follows:

(In thousands)	
Due in 2013	$ 1,768,087
Due in 2014	242,439
Due in 2015	88,227
Due in 2016	86,876
Due in 2017	45,149
Thereafter	29
Total	**$ 2,230,807**

The following table shows a detailed breakdown of the maturities of time open and certificates of deposit, by size category, at December 31, 2012.

(In thousands)	Certificates of Deposit under $100,000	Other Time Deposits under $100,000	Certificates of Deposit over $100,000	Other Time Deposits over $100,000	Total
Due in 3 months or less	$ 175,548	$ 33,383	$ 351,136	$ 24,735	$ 584,802
Due in over 3 through 6 months	210,490	41,118	195,824	35,488	482,920
Due in over 6 through 12 months	335,213	54,523	228,622	82,007	700,365
Due in over 12 months	139,625	84,718	216,623	21,754	462,720
Total	**$ 860,876**	**$ 213,742**	**$ 992,205**	**$ 163,984**	**$ 2,230,807**

Regulations of the Federal Reserve System require cash balances to be maintained at the Federal Reserve Bank, based on certain deposit levels. The minimum reserve requirement for the Bank at December 31, 2012 totaled $61.1 million.

7. Borrowings

The following table sets forth selected information for short-term borrowings (borrowings with an original maturity of less than one year).

(Dollars in thousands)	Year End Weighted Rate	Average Weighted Rate	Average Balance Outstanding	Maximum Outstanding at any Month End	Balance at December 31
Federal funds purchased and repurchase agreements:					
2012	**.1%**	**.1%**	**$ 785,978**	**$ 1,149,156**	**$ 683,550**
2011	.1	.1	635,009	1,002,092	856,081
2010	.1	.1	624,847	1,130,555	582,827

Short-term borrowings consist primarily of federal funds purchased and securities sold under agreements to repurchase (repurchase agreements), which generally mature within 90 days. Short-term repurchase agreements at December 31, 2012 were comprised of non-insured customer funds totaling $659.0 million, which were secured by a portion of the Company's investment portfolio.

Long-term borrowings of the Company consisted of the following at December 31, 2012:

(Dollars in thousands)	Borrower	Maturity Date	Year End Weighted Rate	Year End Balance
FHLB advances	Subsidiary bank	2013	4.7 %	$ 1,510
		2014-17	3.5	102,200
Structured repurchase agreements	Subsidiary bank	2013-14	.0	400,000
Total				**$ 503,710**

The Bank is a member of the Des Moines FHLB and has access to term financing from the FHLB. These borrowings are secured under a blanket collateral agreement including primarily residential mortgages as well as all unencumbered assets and stock of the borrowing bank. Total outstanding advances at December 31, 2012 were $103.7 million. All of the outstanding advances have fixed interest rates and contain prepayment penalties. The FHLB has also issued letters of credit, totaling $260.1 million at December 31, 2012, to secure the Company's obligations to certain depositors of public funds.

Structured repurchase agreements totaled $400.0 million at December 31, 2012. These borrowings have floating interest rates based upon various published constant maturity swap (CMS) rates and will mature in 2013 and 2014. They are secured by agency mortgage-backed and U.S. government securities in the Company's investment portfolio, which totaled $422.2 million at December 31, 2012. As of year end, these agreements did not bear interest because of low CMS rates.

8. Income Taxes

The components of income tax expense from operations for the years ended December 31, 2012, 2011 and 2010 were as follows:

(In thousands)		Current		Deferred		Total
Year ended December 31, 2012:						
U.S. federal	**$**	**100,210**	**$**	**15,125**	**$**	**115,335**
State and local		**10,725**		**1,109**		**11,834**
Total	**$**	**110,935**	**$**	**16,234**	**$**	**127,169**
Year ended December 31, 2011:						
U.S. federal	$	113,920	$	(2,720)	$	111,200
State and local		10,328		(116)		10,212
Total	$	124,248	$	(2,836)	$	121,412
Year ended December 31, 2010:						
U.S. federal	$	98,592	$	(6,612)	$	91,980
State and local		6,742		(2,473)		4,269
Total	$	105,334	$	(9,085)	$	96,249

The components of income tax expense recorded directly to stockholders' equity for the years ended December 31, 2012, 2011 and 2010 were as follows:

(In thousands)		**2012**		2011		2010
Unrealized gain on securities available for sale	**$**	**19,425**	$	31,565	$	9,841
Accumulated pension (benefit) loss		**(3,608)**		(2,641)		327
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes		**(2,094)**		(1,065)		(1,201)
Income tax expense allocated to stockholders' equity	**$**	**13,723**	$	27,859	$	8,967

Significant components of the Company's deferred tax assets and liabilities at December 31, 2012 and 2011 were as follows:

(In thousands)		**2012**		2011
Deferred tax assets:				
Loans, principally due to allowance for loan losses	**$**	**75,710**	$	86,677
Accrued expenses		**15,528**		17,652
Equity-based compensation		**12,469**		13,218
Pension		**7,840**		3,645
Deferred compensation		**6,280**		5,739
Other		**11,799**		10,800
Total deferred tax assets		**129,626**		137,731
Deferred tax liabilities:				
Unrealized gain on securities available for sale		**100,215**		80,790
Equipment lease financing		**54,980**		48,451
Land, buildings and equipment		**16,433**		19,116
Accretion on investment securities		**6,613**		6,877
Intangibles		**4,867**		4,642
Prepaid expenses		**3,119**		2,861
Other		**5,280**		4,823
Total deferred tax liabilities		**191,507**		167,560
Net deferred tax liabilities	**$**	**(61,881)**	$	(29,829)

The Company acquired a federal net operating loss (NOL) carryforward of approximately $4.3 million in connection with a 2003 acquisition, and the remaining unused NOL carryforward totaled $121 thousand at December 31, 2012. The NOL carryforward will expire in 2022 if it cannot be utilized. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the total deferred tax assets.

A reconciliation between the expected federal income tax expense using the federal statutory tax rate of 35% and the Company's actual income tax expense for 2012, 2011 and 2010 is provided in the table below. The effective tax rate is calculated by dividing income taxes by income before income taxes less the non-controlling interest expense.

(In thousands)	**2012**	2011	2010
Computed "expected" tax expense	**$ 138,774**	$ 132,214	$ 111,286
Increase (decrease) in income taxes resulting from:			
Tax-exempt interest, net of cost to carry	**(15,516)**	(14,815)	(12,745)
State and local income taxes, net of federal tax benefit	**7,692**	6,638	2,775
Tax deductible dividends on allocated shares held by the Company's ESOP	**(2,991)**	(1,058)	(1,096)
Other	**(790)**	(1,567)	(3,971)
Total income tax expense	**$ 127,169**	$ 121,412	$ 96,249

It is the Company's policy to recognize interest and penalties related to income tax matters in income tax expense. The Company recorded tax benefits related to interest and penalties of $81 thousand, $1 thousand and $68 thousand in 2012, 2011 and 2010, respectively. At December 31, 2012 and 2011, liabilities for interest and penalties were $176 thousand and $258 thousand, respectively.

As of December 31, 2012 and 2011, the gross amount of unrecognized tax benefits was $1.6 million, and the total amount of unrecognized tax benefits that would impact the effective tax rate, if recognized, was $1.1 million and $1.0 million, respectively.

The Company and its subsidiaries are subject to income tax by federal, state and local government taxing authorities. Tax years 2009 through 2012 remain open to examination for U.S. federal income tax as well as income tax in major state taxing jurisdictions.

The activity in the accrued liability for unrecognized tax benefits for the years ended December 31, 2012 and 2011 was as follows:

(In thousands)	**2012**	2011
Unrecognized tax benefits at beginning of year	**$ 1,584**	$ 1,613
Gross increases – tax positions in prior period	**417**	12
Gross decreases – tax positions in prior period	**(25)**	(8)
Gross increases – current-period tax positions	**219**	292
Lapse of statute of limitations	**(614)**	(325)
Unrecognized tax benefits at end of year	**$ 1,581**	$ 1,584

9. Employee Benefit Plans

Employee benefits charged to operating expenses are summarized in the table below. Substantially all of the Company's employees are covered by a defined contribution (401(k)) plan, under which the Company makes matching contributions.

(In thousands)	**2012**	2011	2010
Payroll taxes	**$ 21,247**	$ 20,703	$ 20,226
Medical plans	**19,861**	16,350	18,248
401(k) plan	**12,613**	11,728	11,448
Pension plans	**2,441**	994	1,815
Other	**2,062**	2,232	2,138
Total employee benefits	**$ 58,224**	$ 52,007	$ 53,875

A portion of the Company's employees are covered by a noncontributory defined benefit pension plan, however, participation in the pension plan is not available to employees hired after June 30, 2003. All participants are fully vested in their benefit payable upon normal retirement date, which is based on years of participation and compensation. Certain key executives also participate in a supplemental executive retirement plan (the CERP) that the Company funds only as retirement benefits are disbursed. The CERP carries no segregated assets.

Effective January 1, 2005, substantially all benefits accrued under the pension plan were frozen. With this change, certain annual salary credits to pension accounts were discontinued, however, the accounts continue to accrue interest at a stated annual rate. Enhancements were then made to the 401(k) plan, which have increased employer contributions to the 401(k) plan.

Enhancements were also made to the CERP, providing credits based on hypothetical contributions in excess of those permitted under the 401(k) plan. Effective January 1, 2011, all remaining benefits accrued under the pension plan were frozen.

Under the Company's funding policy for the defined benefit pension plan, contributions are made to a trust as necessary to satisfy the statutory minimum required contribution as defined by the Pension Protection Act, which is intended to provide for current service accruals and for any unfunded accrued actuarial liabilities over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, a contribution might not be made in a particular year. The Company made a discretionary contribution of $1.5 million to its defined benefit pension plan in 2012 in order to reduce pension guarantee premiums. The minimum required contribution for 2013 is expected to be zero. The Company does not expect to make any further contributions other than the necessary funding contributions to the CERP. Contributions to the CERP were $65 thousand, $18 thousand and $10 thousand during 2012, 2011 and 2010, respectively.

Benefit obligations of the CERP at the December 31, 2012 and 2011 valuation dates are shown in the table immediately below. In all other tables presented, the pension plan and the CERP are presented on a combined basis.

(In thousands)	**2012**	2011
Projected benefit obligation	**$ 3,811**	$ 3,263
Accumulated benefit obligation	**$ 3,811**	$ 3,263

The following items are components of the net pension cost for the years ended December 31, 2012, 2011 and 2010.

(In thousands)	**2012**	2011	2010
Service cost-benefits earned during the year	**$ 504**	$ 406	$ 716
Interest cost on projected benefit obligation	**5,162**	5,366	5,505
Expected return on plan assets	**(6,178)**	(6,727)	(6,614)
Amortization of unrecognized net loss	**2,953**	1,949	2,208
Net periodic pension cost	**$ 2,441**	$ 994	$ 1,815

The following table sets forth the pension plans' funded status, using valuation dates of December 31, 2012 and 2011.

(In thousands)	**2012**	2011
Change in projected benefit obligation		
Projected benefit obligation at prior valuation date	**$ 110,186**	$ 103,857
Service cost	**504**	406
Interest cost	**5,162**	5,366
Benefits paid	**(5,248)**	(4,766)
Actuarial loss	**14,543**	5,323
Projected benefit obligation at valuation date	**125,147**	110,186
Change in plan assets		
Fair value of plan assets at prior valuation date	**97,228**	98,824
Actual return on plan assets	**8,274**	3,152
Employer contributions	**1,580**	18
Benefits paid	**(5,248)**	(4,766)
Fair value of plan assets at valuation date	**101,834**	97,228
Funded status and net amount recognized at valuation date	**$ (23,313)**	$ (12,958)

The accumulated benefit obligation, which represents the liability of a plan using only benefits as of the measurement date, was $125.1 million and $110.2 million for the combined plans on December 31, 2012 and 2011, respectively.

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) at December 31, 2012 and 2011 are shown below, including amounts recognized in other comprehensive income during the periods. All amounts are shown on a pre-tax basis.

(In thousands)		**2012**		2011
Prior service credit (cost)	**$**	**—**	$	—
Accumulated loss		**(43,849)**		(34,355)
Accumulated other comprehensive loss		**(43,849)**		(34,355)
Cumulative employer contributions in excess of net periodic benefit cost		**20,536**		21,397
Net amount recognized as an accrued benefit liability on the December 31 balance sheet	**$**	**(23,313)**	$	(12,958)
Net loss arising during period	**$**	**(12,447)**	$	(8,898)
Amortization of net loss		**2,953**		1,949
Total recognized in other comprehensive income	**$**	**(9,494)**	$	(6,949)
Total expense recognized in net periodic pension cost and other comprehensive income	**$**	**(11,935)**	$	(7,943)

The estimated net loss to be amortized from accumulated other comprehensive income into net periodic pension cost in 2013 is $3.1 million.

The following assumptions, on a weighted average basis, were used in accounting for the plans.

	2012	2011	2010
Determination of benefit obligation at year end:			
Discount rate	**3.65%**	4.80%	5.40%
Assumed credit on cash balance accounts	**5.00%**	5.00%	5.00%
Determination of net periodic benefit cost for year ended:			
Discount rate	**4.80%**	5.40%	5.75%
Long-term rate of return on assets	**6.50%**	7.00%	7.25%
Assumed credit on cash balance accounts	**5.00%**	5.00%	5.00%

The following table shows the fair values of the Company's pension plan assets by asset category at December 31, 2012 and 2011. Information about the valuation techniques and inputs used to measure fair value are provided in Note 15 on Fair Value Measurements.

		Fair Value Measurements		
(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)
December 31, 2012				
Assets:				
Cash	**$ 31**	**$ 31**	**$ —**	**$ —**
U.S. government obligations	**343**	**343**	**—**	**—**
Government-sponsored enterprise obligations [(a)]	**6,930**	**—**	**6,930**	**—**
State and municipal obligations	**5,700**	**—**	**5,700**	**—**
Agency mortgage-backed securities [(b)]	**3,000**	**—**	**3,000**	**—**
Non-agency mortgage-backed securities	**6,936**	**—**	**6,936**	**—**
Asset-backed securities	**7,125**	**—**	**7,125**	**—**
Corporate bonds [(c)]	**23,962**	**—**	**23,962**	**—**
International bonds	**3,691**	**—**	**3,691**	**—**
Equity securities and mutual funds: [(d)]				
U.S. large-cap	**22,400**	**22,400**	**—**	**—**
U.S. mid-cap	**12,600**	**12,600**	**—**	**—**
U.S. small-cap	**3,792**	**3,792**	**—**	**—**
International developed markets	**908**	**908**	**—**	**—**
Emerging markets	**916**	**916**	**—**	**—**
Money market funds	**3,500**	**3,500**	**—**	**—**
Total	**$ 101,834**	**$ 44,490**	**$ 57,344**	**$ —**
December 31, 2011				
Assets:				
Cash	$ 164	$ 164	$ —	$ —
U.S. government obligations	4,863	4,863	—	—
Government-sponsored enterprise obligations [(a)]	9,749	—	9,749	—
State and municipal obligations	5,005	—	5,005	—
Agency mortgage-backed securities [(b)]	4,480	—	4,480	—
Non-agency mortgage-backed securities	6,908	—	6,908	—
Asset-backed securities	8,085	—	8,085	—
Corporate bonds [(c)]	22,700	—	22,700	—
International bonds	3,169	—	3,169	—
Equity securities and mutual funds: [(d)]				
U.S. large-cap	13,928	13,928	—	—
U.S. mid-cap	8,250	8,250	—	—
U.S. small-cap	3,348	3,348	—	—
International developed markets	1,184	1,184	—	—
Emerging markets	1,569	1,569	—	—
Money market funds	3,826	3,826	—	—
Total	$ 97,228	$ 37,132	$ 60,096	$ —

(a) This category represents bonds (excluding mortgage-backed securities) issued by agencies such as the Federal Home Loan Bank, the Federal Home Loan Mortgage Corp and the Federal National Mortgage Association.

(b) This category represents mortgage-backed securities issued by the agencies mentioned in (a).

(c) This category represents investment grade bonds of U.S. issuers from diverse industries.

(d) This category represents investments in individual common stocks and equity funds. These holdings are diversified, largely across the financial services, consumer goods, healthcare, technology, and energy sectors.

The investment policy of the pension plan is designed for growth in value within limits designed to safeguard against significant losses within the portfolio. The policy sets guidelines regarding the types of investments held that may change from time to time, currently including items such as holding bonds rated investment grade or better and prohibiting investment in Company stock. The plan does not utilize derivatives. Management believes there are no significant concentrations of risk within the plan asset portfolio at December 31, 2012. Under the current policy, the long-term investment target mix for the plan is 35% equity securities and 65% fixed income securities. The Company regularly reviews its policies on investment mix and may make changes depending on economic conditions and perceived investment risk.

The discount rate is based on matching the Company's estimated plan cash flows to a yield curve derived from a portfolio of corporate bonds rated AA by Moody's.

The assumed overall expected long-term rate of return on pension plan assets used in calculating 2012 pension plan expense was 6.5%. Determination of the plan's expected rate of return is based upon historical and anticipated returns of the asset classes invested in by the pension plan and the allocation strategy currently in place among those classes. The rate used in plan calculations may be adjusted by management for current trends in the economic environment. The average 10-year annualized return for the Company's pension plan was 8.0%. During 2012, the plan's rate of return was 8.4%, compared to 3.8% in 2011. Because a portion of the plan's investments are equity securities, the actual return for any one plan year is affected by changes in the stock market. Due to positive investment returns that were higher than expected during 2012, along with the impact of a lower discount rate on interest cost, the Company expects to incur pension expense of $1.6 million in 2013, compared to $2.4 million in 2012.

The following future benefit payments are expected to be paid:

(In thousands)		
2013	$	5,731
2014		5,967
2015		6,215
2016		6,521
2017		6,689
2018 - 2022		35,468

10. Stock-Based Compensation and Directors Stock Purchase Plan*

The Company's stock-based compensation is provided under a stockholder-approved plan which allows for issuance of various types of awards, including stock options, stock appreciation rights, restricted stock and restricted stock units, performance awards and stock-based awards. At December 31, 2012, 3,022,503 shares remained available for issuance under the plan. The stock-based compensation expense that was charged against income was $5.0 million, $4.7 million and $6.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $1.9 million, $1.8 million and $2.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

During 2012 and 2011, stock-based compensation was issued solely in the form of nonvested stock awards. Nonvested stock is awarded to key employees, by action of the Company's Compensation and Human Resources Committee and Board of Directors. These awards generally vest after 5 to 7 years of continued employment, but vesting terms may vary according to the specifics of the individual grant agreement. There are 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 December 31, 2012 and changes during the year then ended is presented below.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2012	686,359	33.71
Granted	262,920	36.72
Vested	(56,793)	34.86
Forfeited	(9,683)	25.73
Nonvested at December 31, 2012	882,803	34.62

The total fair value (at vest date) of shares vested during 2012, 2011 and 2010 was $2.1 million, $1.6 million and $2.1 million, respectively.

In previous years, stock appreciation rights (SARs) and stock options have also been granted, and were granted with exercise prices equal to the market price of the Company's stock at the date of grant. SARs, which the Company granted in 2006 through 2009, vest on a graded basis over four years of continuous service and have 10-year contractual terms. All SARs must be settled in stock under provisions of the plan. Stock options, which were granted in 2005 and previous years, vested on a graded basis over three years of continuous service, and also have 10-year contractual terms.

In determining compensation cost, the Black-Scholes option-pricing model is used to estimate the fair value of options and SARs on date of grant. The Black-Scholes model is a closed-end model that uses various assumptions as shown in the following table. Expected volatility is based on historical volatility of the Company's stock. The Company uses historical exercise behavior and other factors to estimate the expected term of the options and SARs, which represents the period of time that the options and SARs granted are expected to be outstanding. The risk-free rate for the expected term is based on the U.S. Treasury zero coupon spot rates in effect at the time of grant.

A summary of option activity during 2012 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,420,130	$ 28.82		
Granted	—	—		
Forfeited	—	—		
Expired	(891)	18.68		
Exercised	(650,466)	25.65		
Outstanding, exercisable and vested at December 31, 2012	768,773	$ 31.51	1.6 years	$ 2,728

A summary of SAR activity during 2012 is presented below.

(Dollars in thousands, except per share data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	1,825,783	$ 36.03		
Granted	—	—		
Forfeited	—	—		
Expired	—	—		
Exercised	(39,774)	34.03		
Outstanding at December 31, 2012	1,786,009	$ 36.07	4.1 years	$ 440
Exercisable at December 31, 2012	1,783,880	$ 36.07	4.1 years	$ 434
Vested and expected to vest at December 31, 2012	1,785,707	$ 36.07	4.1 years	$ 439

Additional information about stock options and SARs exercises is presented below.

(In thousands)	**2012**	2011	2010
Intrinsic value of options and SARs exercised	**$ 7,769**	$ 6,722	$ 7,005
Cash received from options and SARs exercised	**$ 14,820**	$ 14,604	$ 10,563
Tax benefit realized from options and SARs exercised	**$ 1,269**	$ 847	$ 1,042

As of December 31, 2012, there was $15.8 million of unrecognized compensation cost (net of estimated forfeitures) related to unvested SARs and stock awards. That cost is expected to be recognized over a weighted average period of 4.0 years.

The Company has a directors stock purchase plan whereby outside directors of the Company and its subsidiaries may elect to use their directors' fees to purchase Company stock at market value each month end. Remaining shares available for issuance under this plan were 30,057 at December 31, 2012. In 2012, 20,715 shares were purchased at an average price of $37.08 and in 2011, 20,092 shares were purchased at an average price of $36.83.

** All share and per share amounts in this note have been restated for the 5% stock dividend distributed in 2012.*

11. Accumulated Other Comprehensive Income

The table below shows the accumulated balances for components of other comprehensive income, net of tax. The largest component is the unrealized holding gains and losses on available for sale securities. Unrealized gains and losses on debt securities for which an other-than-temporary impairment (OTTI) has been recorded in current earnings are shown separately below. The other component is pension gains and losses that arise during the period but are not recognized as components on net periodic benefit cost, and corresponding adjustments when these gains and losses are subsequently amortized to net periodic benefit cost.

	Unrealized Gains (Losses) on Securities			
(In thousands)	OTTI	Other	Pension Loss	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2010	$ (7,469)	$ 87,784	$ (16,970)	$ 63,345
Current period other comprehensive income	3,214	48,287	(4,308)	47,193
Reclassification for securities for which impairment was not previously recognized	(66)	66	—	—
Balance at December 31, 2011	(4,321)	136,137	(21,278)	110,538
Current period other comprehensive income	7,566	24,126	(5,886)	25,806
Balance at December 31, 2012	**$ 3,245**	**$ 160,263**	**$ (27,164)**	**$ 136,344**

12. Segments

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

The Company's business line reporting system derives segment information from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. This information is based on internal management accounting policies, which have been developed to reflect the underlying economics of the businesses. The policies address the methodologies applied in connection with funds transfer pricing and assignment of overhead costs among segments. Funds transfer pricing was used in the determination of net interest income by assigning a standard cost (credit) for funds used (provided) by assets and liabilities based on their maturity, prepayment and/or repricing characteristics. Income and expense that directly relate to segment operations are recorded in the segment when incurred. Expenses that indirectly support the segments are allocated based on the most appropriate method available.

The Company uses a funds transfer pricing method to value funds used (e.g., loans, fixed assets, and cash) and funds provided (e.g., deposits, borrowings, and equity) by the business segments and their components. This process assigns a specific value to each new source or use of funds with a maturity, based on current swap rates, thus determining an interest spread at the time of the transaction. Non-maturity assets and liabilities are valued using weighted average pools. The funds transfer pricing process attempts to remove interest rate risk from valuation, allowing management to compare profitability under various rate environments.

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

Segment Income Statement Data

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/ Elimination	Consolidated Totals
Year ended December 31, 2012:						
Net interest income	**$ 274,844**	**$ 291,393**	**$ 39,502**	**$ 605,739**	**$ 34,167**	**$ 639,906**
Provision for loan losses	**(35,496)**	**(2,824)**	**(695)**	**(39,015)**	**11,728**	**(27,287)**
Non-interest income	**114,307**	**179,824**	**108,471**	**402,602**	**(2,972)**	**399,630**
Investment securities gains, net	**—**	**—**	**—**	**—**	**4,828**	**4,828**
Non-interest expense	**(266,892)**	**(226,795)**	**(90,643)**	**(584,330)**	**(34,139)**	**(618,469)**
Income before income taxes	**$ 86,763**	**$ 241,598**	**$ 56,635**	**$ 384,996**	**$ 13,612**	**$ 398,608**
Year ended December 31, 2011:						
Net interest income	$ 283,555	$ 283,790	$ 38,862	$ 606,207	$ 39,863	$ 646,070
Provision for loan losses	(47,273)	(16,195)	(712)	(64,180)	12,665	(51,515)
Non-interest income	131,253	162,533	101,836	395,622	(2,705)	392,917
Investment securities gains, net	—	—	—	—	10,812	10,812
Non-interest expense	(269,435)	(221,273)	(89,108)	(579,816)	(37,433)	(617,249)
Income before income taxes	$ 98,100	$ 208,855	$ 50,878	$ 357,833	$ 23,202	$ 381,035
Year ended December 31, 2010:						
Net interest income	$ 308,719	$ 264,870	$ 37,988	$ 611,577	$ 34,355	$ 645,932
Provision for loan losses	(70,635)	(24,823)	(1,263)	(96,721)	(3,279)	(100,000)
Non-interest income	157,904	154,306	93,745	405,955	(844)	405,111
Investment securities losses, net	—	—	—	—	(1,785)	(1,785)
Non-interest expense	(291,028)	(221,553)	(86,158)	(598,739)	(32,395)	(631,134)
Income (loss) before income taxes	$ 104,960	$ 172,800	$ 44,312	$ 322,072	$ (3,948)	$ 318,124

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.

Segment Balance Sheet Data

(In thousands)	Consumer	Commercial	Wealth	Segment Totals	Other/ Elimination	Consolidated Totals
Average balances for 2012:						
Assets	**$ 2,503,503**	**$ 5,834,512**	**$ 743,312**	**$ 9,081,327**	**$ 11,619,351**	**$ 20,700,678**
Loans, including held for sale	**2,418,428**	**5,648,923**	**735,153**	**8,802,504**	**586,500**	**9,389,004**
Goodwill and other intangible assets	**72,765**	**58,573**	**746**	**132,084**	**—**	**132,084**
Deposits	**8,816,905**	**6,266,569**	**1,689,937**	**16,773,411**	**53,137**	**16,826,548**
Average balances for 2011:						
Assets	$ 2,584,920	$ 5,770,552	$ 680,413	$ 9,035,885	$ 10,368,630	$ 19,404,515
Loans, including held for sale	2,492,324	5,594,202	673,737	8,760,263	509,532	9,269,795
Goodwill and other intangible assets	75,134	59,139	746	135,019	—	135,019
Deposits	8,465,488	5,619,008	1,531,475	15,615,971	55,239	15,671,210

The above segment balances include only those items directly associated with the segment. The "Other/Elimination" column includes unallocated bank balances not associated with a segment (such as investment securities and federal funds sold), balances relating to certain other administrative and corporate functions, and eliminations between segment and non-segment balances. This column also includes the resulting effect of allocating such items as float, deposit reserve and capital for the purpose of computing the cost or credit for funds used/provided.

The Company's reportable segments are strategic lines of business that offer different products and services. They are managed separately because each line services a specific customer need, requiring different performance measurement analyses and marketing strategies. The performance measurement of the 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.

13. Common Stock

On December 17, 2012, the Company distributed a 5% stock dividend on its $5 par common stock for the nineteenth consecutive year. All per share data in this report has been restated to reflect the stock dividend. On the same date, the Company paid a special cash dividend of $1.429 per share, in addition to its regular quarterly cash dividend of $.219 per share.

Basic income per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted income per share gives effect to all dilutive potential common shares that were outstanding during the year. Presented below is a summary of the components used to calculate basic and diluted income per share, which have been restated for all stock dividends.

The Company applies the two-class method of computing income per share. Under current guidance, 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 10 on Stock-Based Compensation.

(In thousands, except per share data)	**2012**	2011	2010
Basic income per common share:			
Net income attributable to Commerce Bancshares, Inc.	**$ 269,329**	$ 256,343	$ 221,710
Less income allocated to nonvested restricted stockholders	**2,563**	1,846	1,208
Net income available to common stockholders	**$ 266,766**	$ 254,497	$ 220,502
Weighted average common shares outstanding	**91,614**	94,368	95,893
Basic income per common share	**$ 2.91**	$ 2.70	$ 2.30
Diluted income per common share:			
Net income attributable to Commerce Bancshares, Inc.	**$ 269,329**	$ 256,343	$ 221,710
Less income allocated to nonvested restricted stockholders	**2,562**	1,842	1,204
Net income available to common stockholders	**$ 266,767**	$ 254,501	$ 220,506
Weighted average common shares outstanding	**91,614**	94,368	95,893
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	**280**	344	446
Weighted average diluted common shares outstanding	**91,894**	94,712	96,339
Diluted income per common share	**$ 2.90**	$ 2.69	$ 2.29

Nearly all unexercised stock options and stock appreciation rights were included in the computation of diluted income per share for the year ended December 31, 2012. Unexercised options and rights of 1.2 million and 1.9 million, respectively, were excluded from the computations for 2011 and 2010 because their inclusion would have been anti-dilutive.

The table below shows activity in the outstanding shares of the Company's common stock during the past three years. Shares in the table below are presented on an historical basis and have not been restated for the annual 5% stock dividends.

	Years Ended December 31		
(In thousands)	**2012**	2011	2010
Shares outstanding at January 1	**88,952**	86,624	83,008
Issuance of stock:			
Awards and sales under employee and director plans	**837**	724	603
5% stock dividend	**4,352**	4,231	4,122
Purchases of treasury stock	**(2,716)**	(2,622)	(1,103)
Other	**(11)**	(5)	(6)
Shares outstanding at December 31	**91,414**	88,952	86,624

The Company maintains a treasury stock buyback program authorized by its Board of Directors. At December 31, 2012, 2,127,618 shares were available for purchase under the current Board authorization.

14. Regulatory Capital Requirements

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary actions by regulators that could have a direct material effect on the Company's financial statements. The regulations require the Company to meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Tier I capital to total average assets (leverage ratio), and minimum ratios of Tier I and Total capital to risk-weighted assets (as defined). To meet minimum, adequately capitalized regulatory requirements, an institution must maintain a Tier I capital ratio of 4.00%, a Total capital ratio of 8.00% and a leverage ratio of 4.00%. The minimum required ratios for well-capitalized banks (under prompt corrective action provisions) are 6.00% for Tier I capital, 10.00% for Total capital and 5.00% for the leverage ratio.

The following tables show the capital amounts and ratios for the Company (on a consolidated basis) and the Bank, together with the minimum and well-capitalized capital requirements, at the last two year ends.

	Actual		Minimum Capital Requirement		Well-Capitalized Capital Requirement	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2012						
Total Capital (to risk-weighted assets):						
Commerce Bancshares, Inc. (consolidated)	$ 2,092,141	14.93%	$ 1,121,252	8.00%	N.A.	N.A.
Commerce Bank	1,887,251	13.60	1,110,330	8.00	$ 1,387,912	10.00%
Tier I Capital (to risk-weighted assets):						
Commerce Bancshares, Inc. (consolidated)	$ 1,906,203	13.60%	$ 560,626	4.00%	N.A.	N.A.
Commerce Bank	1,713,752	12.35	555,165	4.00	$ 832,747	6.00%
Tier I Capital (to adjusted quarterly average assets):						
(Leverage Ratio)						
Commerce Bancshares, Inc. (consolidated)	$ 1,906,203	9.14%	$ 834,171	4.00%	N.A.	N.A.
Commerce Bank	1,713,752	8.26	829,711	4.00	$ 1,037,139	5.00%
December 31, 2011						
Total Capital (to risk-weighted assets):						
Commerce Bancshares, Inc. (consolidated)	$ 2,103,401	16.04%	$ 1,049,221	8.00%	N.A.	N.A.
Commerce Bank	1,840,952	14.19	1,037,636	8.00	$ 1,297,045	10.00%
Tier I Capital (to risk-weighted assets):						
Commerce Bancshares, Inc. (consolidated)	$ 1,928,690	14.71%	$ 524,610	4.00%	N.A.	N.A.
Commerce Bank	1,678,530	12.94	518,818	4.00	$ 778,227	6.00%
Tier I Capital (to adjusted quarterly average assets):						
(Leverage Ratio)						
Commerce Bancshares, Inc. (consolidated)	$ 1,928,690	9.55%	$ 807,839	4.00%	N.A.	N.A.
Commerce Bank	1,678,530	8.36	802,709	4.00	$ 1,003,386	5.00%

At December 31, 2012, the Company met all capital requirements to which it is subject, and the Bank's capital position exceeded the regulatory definition of well-capitalized.

15. Fair Value Measurements

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

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

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

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

Instruments Measured at Fair Value on a Recurring Basis

The table below presents the carrying values of assets and liabilities measured at fair value on a recurring basis at December 31, 2012 and 2011. There were no transfers among levels during these years.

		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)
December 31, 2012				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	**$ 438,759**	**$ 438,759**	**$ —**	**$ —**
Government-sponsored enterprise obligations	**471,574**	**—**	**471,574**	**—**
State and municipal obligations	**1,615,707**	**—**	**1,489,293**	**126,414**
Agency mortgage-backed securities	**3,380,955**	**—**	**3,380,955**	**—**
Non-agency mortgage-backed securities	**237,011**	**—**	**237,011**	**—**
Asset-backed securities	**3,167,394**	**—**	**3,167,394**	**—**
Other debt securities	**177,752**	**—**	**177,752**	**—**
Equity securities	**33,096**	**17,835**	**15,261**	**—**
Trading securities	**28,837**	**—**	**28,837**	**—**
Private equity investments	**68,167**	**—**	**—**	**68,167**
Derivatives *	**16,740**	**—**	**16,731**	**9**
Assets held in trust	**5,440**	**5,440**	**—**	**—**
Total assets	**9,641,432**	**462,034**	**8,984,808**	**194,590**
Liabilities:				
Derivatives *	**17,718**	**—**	**17,522**	**196**
Total liabilities	**$ 17,718**	**$ —**	**$ 17,522**	**$ 196**
December 31, 2011				
Assets:				
Available for sale securities:				
U.S. government and federal agency obligations	$ 364,665	$ 357,155	$ 7,510	$ —
Government-sponsored enterprise obligations	315,698	—	315,698	—
State and municipal obligations	1,245,284	—	1,109,663	135,621
Agency mortgage-backed securities	4,106,059	—	4,106,059	—
Non-agency mortgage-backed securities	316,902	—	316,902	—
Asset-backed securities	2,693,143	—	2,693,143	—
Other debt securities	141,260	—	141,260	—
Equity securities	41,691	27,808	13,883	—
Trading securities	17,853	—	17,853	—
Private equity investments	66,978	—	—	66,978
Derivatives *	21,537	—	21,502	35
Assets held in trust	4,506	4,506	—	—
Total assets	9,335,576	389,469	8,743,473	202,634
Liabilities:				
Derivatives *	22,722	—	22,564	158
Total liabilities	$ 22,722	$ —	$ 22,564	$ 158

* *The fair value of each class of derivative is shown in Note 17.*

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

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

Available for sale investment securities

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

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

Valuation methods and inputs, by class of security:

- *U.S. government and federal agency obligations*

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

- *Government-sponsored enterprise obligations*

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

- *State and municipal obligations, excluding auction rate securities*

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

- *Mortgage and asset-backed securities*

  Collateralized mortgage obligations and other asset-backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche-specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

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

- *Other debt securities*

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

- *Equity securities*

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

The available for sale portfolio includes certain auction rate securities. The auction process by which the auction rate securities are normally priced has not functioned since 2008, and due to the illiquidity in the market, the fair value of these securities cannot be based on observable market prices. The fair values of these securities are estimated using a discounted cash flows analysis which is discussed more fully in the Level 3 Inputs section of this note. Because many of the inputs significant to the measurement are not observable, these measurements are classified as Level 3 measurements.

Trading securities

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

Private equity investments

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

Derivatives

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

- Valuations for interest rate swaps are derived from a proprietary model whose significant inputs are readily observable market parameters, primarily yield curves used to calculate current exposure. Counterparty credit risk is incorporated into the model and calculated by applying a net credit spread over LIBOR to the swap's total expected exposure over time. The net credit spread is comprised of spreads for both the Company and its counterparty, derived from probability of default and other loss estimate information obtained from a third party credit data provider or from the Company's Credit Department when not otherwise available. The credit risk component is not significant compared to the overall fair value of the swaps. The results of the model are constantly validated through comparison to active trading in the marketplace. These fair value measurements are classified as Level 2.
- Fair value measurements for foreign exchange contracts are derived from a model whose primary inputs are quotations from global market makers and are classified as Level 2.
- The fair values of mortgage loan commitments and forward sales contracts on the associated loans are based on quoted prices for similar loans in the secondary market. These prices include the value of loan servicing rights. However, these prices are adjusted by a factor which considers the likelihood that a commitment will ultimately result in a closed loan. This estimate is based on the Company's historical data and its judgment about future economic trends. Based on the unobservable nature of this adjustment, these measurements are classified as Level 3.
- The Company's contracts related to credit risk guarantees are valued under a proprietary model which uses unobservable inputs and assumptions about the creditworthiness of the counterparty (generally a Bank customer). Customer credit spreads, which are based on probability of default and other loss estimates, are calculated internally by the Company's Credit Department, as mentioned above, and are based on the Company's internal risk rating for each customer. Because these inputs are significant to the measurements, they are classified as Level 3.

Assets held in trust

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

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(In thousands)	State and Municipal Obligations	Private Equity Investments	Derivatives	Total
Year ended December 31, 2012:				
Balance at January 1, 2012	**$ 135,621**	**$ 66,978**	**$ (123)**	**$ 202,476**
Total gains or losses (realized/unrealized):				
Included in earnings	**—**	**4,505**	**16**	**4,521**
Included in other comprehensive income	**(1,368)**	**—**	**—**	**(1,368)**
Investment securities called	**(8,275)**	**—**	**—**	**(8,275)**
Discount accretion	**436**	**—**	**—**	**436**
Purchases of private equity securities	**—**	**8,910**	**—**	**8,910**
Sale / paydown of private equity securities	**—**	**(12,751)**	**—**	**(12,751)**
Capitalized interest/dividends	**—**	**525**	**—**	**525**
Purchase of risk participation agreement	**—**	**—**	**28**	**28**
Sale of risk participation agreement	**—**	**—**	**(108)**	**(108)**
Balance at December 31, 2012	**$ 126,414**	**$ 68,167**	**$ (187)**	**$ 194,394**
Total gains or losses for the annual period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2012	**$ —**	**$ 3,080**	**$ (21)**	**$ 3,059**
Year ended December 31, 2011:				
Balance at January 1, 2011	$ 150,089	$ 53,860	$ 352	$ 204,301
Total gains or losses (realized/unrealized):				
Included in earnings	—	10,784	(203)	10,581
Included in other comprehensive income	(2,493)	—	—	(2,493)
Investment securities called	(12,593)	—	—	(12,593)
Discount accretion	618	—	—	618
Purchases of private equity securities	—	9,905	—	9,905
Sale / paydown of private equity securities	—	(7,847)	—	(7,847)
Capitalized interest/dividends	—	276	—	276
Purchase of risk participation agreement	—	—	79	79
Sale of risk participation agreement	—	—	(351)	(351)
Balance at December 31, 2011	$ 135,621	$ 66,978	$ (123)	$ 202,476
Total gains or losses for the annual period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2011	$ —	$ 8,084	$ 4	$ 8,088

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

(In thousands)	Loan Fees and Sales	Other Non-Interest Income	Investment Securities Gains (Losses), Net	Total
Year ended December 31, 2012:				
Total gains or losses included in earnings	**$ (9)**	**$ 25**	**$ 4,505**	**$ 4,521**
Change in unrealized gains or losses relating to assets still held at December 31, 2012	**$ —**	**$ (21)**	**$ 3,080**	**$ 3,059**
Year ended December 31, 2011:				
Total gains or losses included in earnings	$ (473)	$ 270	$ 10,784	$ 10,581
Change in unrealized gains or losses relating to assets still held at December 31, 2011	$ 9	$ (5)	$ 8,084	$ 8,088

Level 3 Inputs

As shown above, the Company's significant Level 3 measurements which employ unobservable inputs that are readily quantifiable pertain to auction rate securities (ARS) held by the Bank and investments in portfolio concerns held by the Company's private equity subsidiaries. ARS are included in state and municipal securities and totaled $126.4 million at December 31, 2012, while private equity investments, included in non-marketable securities, totaled $68.2 million.

Information about these inputs is presented in the table and discussions below.

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Technique	Unobservable Input	Range
Auction rate securities	Discounted cash flow	Estimated market recovery period	5 years
		Estimated market rate	2.3% - 4.0%
Private equity investments	Market comparable companies	EBITDA multiple	4.0 - 5.4

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

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

Instruments Measured at Fair Value on a Nonrecurring Basis

For assets measured at fair value on a nonrecurring basis during 2012 and 2011, and still held as of December 31, 2012 and 2011, the following table provides the adjustments to fair value recognized during the respective periods, the level of valuation assumptions used to determine each adjustment, and the carrying value of the related individual assets or portfolios at December 31, 2012 and 2011.

		Fair Value Measurements Using			
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Balance at December 31, 2012					
Collateral dependent impaired loans	**$ 24,572**	**$ —**	**$ —**	**$ 24,572**	**$ (8,411)**
Mortgage servicing rights	**472**	**—**	**—**	**472**	**34**
Foreclosed assets	**297**	**—**	**—**	**297**	**(170)**
Long-lived assets	**5,617**	**—**	**—**	**5,617**	**(3,428)**
Balance at December 31, 2011					
Collateral dependent impaired loans	$ 42,262	$ —	$ —	$ 42,262	$ (15,336)
Mortgage servicing rights	744	—	—	744	(242)
Foreclosed assets	2,178	—	—	2,178	(1,308)
Long-lived assets	8,266	—	—	8,266	(4,042)

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

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

Collateral dependent impaired loans

While the overall loan portfolio is not carried at fair value, the Company periodically records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In determining the value of real estate collateral, the Company relies on external and internal appraisals of property values depending on the size and complexity of the real estate collateral. The Company maintains a staff of qualified appraisers who also review third party appraisal reports for reasonableness. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgments based on the experience and expertise of internal specialists. Values of all loan collateral are regularly reviewed by credit administration. Unobservable inputs to these measurements, which include estimates and judgments often used in conjunction with appraisals, are not readily quantifiable. These measurements are classified as Level 3. Changes in fair value recognized for partial charge-offs of loans and loan impairment reserves on loans held by the Company at December 31, 2012 and 2011 are shown in the table above.

Loans held for sale

Loans held for sale are carried at the lower of cost or fair value. The portfolio consists of student loans and, in prior years, residential real estate loans which the Company intends to sell in secondary markets. A portion of the student loan portfolio is under contract to an agency which has been unable to consistently purchase loans under existing contractual terms. These loans have been evaluated using a fair value measurement method based on a discounted cash flows analysis, which is classified as Level 3. The fair value of these loans was $5.8 million at December 31, 2012, net of an impairment reserve of $148 thousand. The measurement of fair value for other student loans is based on the specific prices mandated in the underlying sale contracts and the estimated exit price and is classified as Level 2. Fair value measurements on mortgage loans held for sale are based on quoted market prices for similar loans in the secondary market and are classified as Level 2.

Private equity investments and restricted stock

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

Mortgage servicing rights

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

Goodwill and core deposit premium

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

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

Foreclosed assets

Foreclosed assets consist of loan collateral which has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including auto, marine and recreational vehicles. Foreclosed assets are recorded as held for sale initially at the lower of the loan balance or fair value of the collateral less estimated selling costs. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further, reflecting a new cost basis. Fair value measurements may be based upon appraisals, third-party price opinions, or internally developed pricing methods. These measurements are classified as Level 3.

Long-lived assets

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

16. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments held by the Company, in addition to a discussion of the methods used and assumptions made in computing those estimates, are set forth below.

Loans

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

Loans Held for Sale, Investment Securities and Derivative Instruments

Detailed descriptions of the fair value measurements of these instruments are provided in Note 15 on Fair Value Measurements.

Federal Funds Purchased and Sold, Interest Earning Deposits With Banks and Cash and Due From Banks

The carrying amounts of federal funds purchased and sold, interest earning deposits with banks, and cash and due from banks approximates fair value, as these instruments are payable on demand or mature overnight.

Securities Purchased/Sold under Agreements to Resell/Repurchase

The fair values of these investments and borrowings are estimated by discounting contractual maturities using an estimate of the current market rate for similar instruments.

Deposits

The fair value of deposits with no stated maturity is equal to the amount payable on demand. Such deposits include savings and interest and non-interest bearing demand deposits. These fair value estimates do not recognize any benefit the Company receives as a result of being able to administer, or control, the pricing of these accounts. Because they are payable on demand, they are classified as Level 1 in the fair value hierarchy. The fair value of time open and certificates of deposit is based on the discounted value of cash flows, taking early withdrawal optionality into account. Discount rates are based on the Company's approximate cost of obtaining similar maturity funding in the market. Their fair value measurement is classified as Level 3.

Other Borrowings

The fair value of other borrowings, which consists of long-term debt, is estimated by discounting contractual maturities using an estimate of the current market rate for similar instruments.

The estimated fair values of the Company's financial instruments are as follows:

(In thousands)	Fair Value Hierarchy Level	2012 Carrying Amount	2012 Estimated Fair Value	2011 Carrying Amount	2011 Estimated Fair Value
Financial Assets					
Loans:					
Business	Level 3	**$ 3,134,801**	**$ 3,144,989**	$ 2,808,265	$ 2,820,005
Real estate - construction and land	Level 3	**355,996**	**352,547**	386,598	388,723
Real estate - business	Level 3	**2,214,975**	**2,240,796**	2,180,100	2,197,535
Real estate - personal	Level 3	**1,584,859**	**1,642,820**	1,428,777	1,485,028
Consumer	Level 3	**1,289,650**	**1,309,403**	1,114,889	1,136,798
Revolving home equity	Level 3	**437,567**	**441,651**	463,587	471,086
Consumer credit card	Level 3	**804,245**	**823,560**	788,701	780,808
Overdrafts	Level 3	**9,291**	**9,291**	6,561	6,561
Loans held for sale	Level 2	**3,017**	**3,030**	24,394	26,597
Loans held for sale	Level 3	**5,810**	**5,810**	6,682	6,682
Investment securities:					
Available for sale	Level 1	**456,594**	**456,594**	384,963	384,963
Available for sale	Level 2	**8,939,240**	**8,939,240**	8,704,118	8,704,118
Available for sale	Level 3	**126,414**	**126,414**	135,621	135,621
Trading	Level 2	**28,837**	**28,837**	17,853	17,853
Non-marketable	Level 3	**118,650**	**118,650**	115,832	115,832
Federal funds sold	Level 1	**27,595**	**27,595**	11,870	11,870
Securities purchased under agreements to resell	Level 3	**1,200,000**	**1,215,234**	850,000	864,089
Interest earning deposits with banks	Level 1	**179,164**	**179,164**	39,853	39,853
Cash and due from banks	Level 1	**573,066**	**573,066**	465,828	465,828
Derivative instruments	Level 2	**16,731**	**16,731**	21,502	21,502
Derivative instruments	Level 3	**9**	**9**	35	35
Financial Liabilities					
Non-interest bearing deposits	Level 1	**$ 6,299,903**	**$ 6,299,903**	$ 5,377,549	$ 5,377,549
Savings, interest checking and money market deposits	Level 1	**9,817,943**	**9,817,943**	8,933,941	8,933,941
Time open and certificates of deposit	Level 3	**2,230,807**	**2,239,595**	2,488,393	2,493,727
Federal funds purchased	Level 1	**24,510**	**24,510**	153,330	153,330
Securities sold under agreements to repurchase	Level 3	**1,059,040**	**1,057,462**	1,102,751	1,099,883
Other borrowings	Level 3	**103,710**	**117,527**	111,817	126,397
Derivative instruments	Level 2	**17,522**	**17,522**	22,564	22,564
Derivative instruments	Level 3	**196**	**196**	158	158

Off-Balance Sheet Financial Instruments

The fair value of letters of credit and commitments to extend credit is based on the fees currently charged to enter into similar agreements. The aggregate of these fees is not material. These instruments are also referenced in Note 18 on Commitments, Contingencies and Guarantees.

Limitations

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

17. Derivative Instruments

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

	December 31	
(In thousands)	**2012**	2011
Interest rate swaps	**$ 435,542**	$ 486,207
Interest rate caps	**27,736**	29,736
Credit risk participation agreements	**43,243**	41,414
Foreign exchange contracts	**47,897**	80,535
Mortgage loan commitments	**—**	1,280
Mortgage loan forward sale contracts	**—**	3,650
Total notional amount	**$ 554,418**	$ 642,822

The Company's foreign exchange activity involves the purchase and sale of forward foreign exchange contracts, which are commitments to purchase or deliver a specified amount of foreign currency at a specific future date. This activity enables customers involved in international business to hedge their exposure to foreign currency exchange rate fluctuations. The Company minimizes its related exposure arising from these customer transactions with offsetting contracts for the same currency and time frame. In addition, the Company uses foreign exchange contracts, to a limited extent, for trading purposes, including taking proprietary positions. Risk arises from changes in the currency exchange rate and from the potential for counterparty nonperformance. These risks are controlled by adherence to a foreign exchange trading policy which contains control limits on currency amounts, open positions, maturities and losses, and procedures for approvals, record-keeping, monitoring and reporting. Hedge accounting has not been applied to these foreign exchange activities. The decline in these contracts from 2011 was largely due to lower customer demand and lower volatility in the currency markets during 2012.

The Company's mortgage banking operation makes commitments to extend fixed rate loans secured by 1-4 family residential properties. The Company's general practice in previous years was to sell such loans in the secondary market. The related commitments were considered to be derivative instruments. These commitments were recognized on the balance sheet at fair value from their inception through their expiration or funding and had an average term of 60 to 90 days. The Company obtained forward sale contracts with investors in the secondary market in order to manage these risk positions. Most of the contracts were matched to a specific loan on a "best efforts" basis, in which the Company was obligated to deliver the loan only if the loan closed. The sale contracts were also accounted for as derivatives. Hedge accounting was not applied to these activities. In late 2011, the Company curtailed the sales of these types of loans, and at December 31, 2012, did not hold any such loans for sale.

Credit risk participation agreements arise when the Company contracts, as a guarantor or beneficiary, with other financial institutions to share credit risk associated with certain interest rate swaps. The Company's risks and responsibilities as guarantor are further discussed in Note 18 on Commitments, Contingencies and Guarantees.

The Company's interest rate risk management strategy includes the ability to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not adversely affect the net interest margin and cash flows. Interest rate swaps are used on a limited basis as part of this strategy. At December 31, 2012, the Company had entered into three interest rate swaps with a notional amount of $13.2 million, which are designated as fair value hedges of certain fixed rate loans. Gains and losses on these derivative instruments, as well as the offsetting loss or gain on the hedged loans attributable to the hedged risk, are recognized in current earnings. These gains and losses are reported in interest and fees on loans in the accompanying consolidated statements of income. The table below shows gains and losses related to fair value hedges.

	For the Years Ended December 31		
(In thousands)	**2012**	2011	2010
Gain (loss) on interest rate swaps	**$ 331**	$ 106	$ (305)
Gain (loss) on loans	**(324)**	(95)	291
Amount of hedge ineffectiveness	**$ 7**	$ 11	$ (14)

The Company's other derivative instruments are accounted for as free-standing derivatives, and changes in their fair value are recorded in current earnings. These instruments include interest rate swap contracts sold to customers who wish to modify their interest rate sensitivity. These swaps are offset by matching contracts purchased by the Company from other financial institutions. Because of the matching terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings. The notional amount of these types of swaps at December 31, 2012 was $422.4 million. The Company is party to master netting arrangements with its institutional counterparties; however, the Company does not offset assets and liabilities under these arrangements. Collateral, usually in the form of marketable securities, is posted by the counterparty with liability positions, in accordance with contract thresholds. At December 31, 2012, the Company had net liability positions with its financial institution counterparties totaling $16.6 million and had posted $17.2 million in collateral.

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

The banking customer counterparties are engaged in a variety of businesses, including real estate, building materials, communications, consumer products, education, and manufacturing. At December 31, 2012, the largest loss exposures were in the groups related to education, real estate and building materials, and manufacturing. If the counterparties in these groups failed to perform, and if the underlying collateral proved to be of no value, the Company would incur losses of $3.7 million (education), $3.2 million (real estate and building materials), and $2.4 million (manufacturing), based on estimated amounts at December 31, 2012.

The fair values of the Company's derivative instruments are shown in the table below. Information about the valuation methods used to measure fair value is provided in Note 15 on Fair Value Measurements.

	Asset Derivatives			Liability Derivatives		
		December 31			**December 31**	
		2012	2011		**2012**	2011
(In thousands)	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
Derivatives designated as hedging instruments:						
Interest rate swaps	Other assets	**$ —**	$ —	Other liabilities	**$ (723)**	$ (1,053)
Total derivatives designated as hedging instruments		$ —	$ —		**$ (723)**	$ (1,053)
Derivatives not designated as hedging instruments:						
Interest rate swaps	Other assets	**$ 16,334**	$ 19,051	Other liabilities	**$ (16,337)**	$ (19,157)
Interest rate caps	Other assets	**1**	11	Other liabilities	**(1)**	(11)
Credit risk participation agreements	Other assets	**9**	9	Other liabilities	**(196)**	(141)
Foreign exchange contracts	Other assets	**396**	2,440	Other liabilities	**(461)**	(2,343)
Mortgage loan commitments	Other assets	**—**	20	Other liabilities	**—**	—
Mortgage loan forward sale contracts	Other assets	**—**	6	Other liabilities	**—**	(17)
Total derivatives not designated as hedging instruments		**$ 16,740**	$ 21,537		**$ (16,995)**	$ (21,669)
Total derivatives		**$ 16,740**	$ 21,537		**$ (17,718)**	$ (22,722)

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

(In thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative For the Years Ended December 31 2012	2011	2010
Derivatives in fair value hedging relationships:				
Interest rate swaps	Interest and fees on loans	**$ 331**	$ 106	$ (305)
Total		**$ 331**	$ 106	$ (305)
Derivatives not designated as hedging instruments:				
Interest rate swaps	Other non-interest income	**$ 743**	$ 797	$ 1,202
Interest rate caps	Other non-interest income	**—**	—	32
Credit risk participation agreements	Other non-interest income	**25**	270	101
Foreign exchange contracts	Other non-interest income	**(161)**	(36)	12
Mortgage loan commitments	Loan fees and sales	**(20)**	(51)	43
Mortgage loan forward sale contracts	Loan fees and sales	**11**	(422)	231
Total		**$ 598**	$ 558	$ 1,621

18. Commitments, Contingencies and Guarantees

The Company leases certain premises and equipment, all of which were classified as operating leases. The rent expense under such arrangements amounted to $6.9 million, $7.4 million and $7.6 million in 2012, 2011 and 2010, respectively. A summary of minimum lease commitments follows:

(In thousands) Year Ended December 31	Type of Property: Real Property	Equipment	Total
2013	$ 5,247	$ 107	$ 5,354
2014	4,753	34	4,787
2015	3,366	25	3,391
2016	2,577	22	2,599
2017	2,209	2	2,211
After	16,532	—	16,532
Total minimum lease payments			**$ 34,874**

All leases expire prior to 2055. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, the future minimum lease commitments are not expected to be less than the amounts shown for 2013.

The Company engages in various transactions and commitments with off-balance sheet risk in the normal course of business to meet customer financing needs. The Company uses the same credit policies in making the commitments and conditional obligations described below as it does for on-balance sheet instruments. The following table summarizes these commitments at December 31:

(In thousands)	**2012**	2011
Commitments to extend credit:		
Credit card	**$ 3,878,468**	$ 3,497,036
Other	**4,500,352**	4,070,434
Standby letters of credit, net of participations	**359,765**	377,103
Commercial letters of credit	**12,582**	13,626

Commitments to extend credit are legally binding agreements to lend to a borrower providing there are no violations of any conditions established in the contract. As many of the commitments are expected to expire without being drawn upon, the total commitment does not necessarily represent future cash requirements. Refer to Note 2 on Loans and Allowance for Loan Losses for further discussion.

Commercial letters of credit act as a means of ensuring payment to a seller upon shipment of goods to a buyer. The majority of commercial letters of credit issued are used to settle payments in international trade. Typically, letters of credit require presentation of documents which describe the commercial transaction, evidence shipment, and transfer title.

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 the customer, the Company has rights to the underlying collateral, which could include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities.

At December 31, 2012, the Company had recorded a liability in the amount of $5.3 million, representing the carrying value of the guarantee obligations associated with the standby letters of credit. This amount will be amortized into income over the life of the commitment. Commitments outstanding under these letters of credit, which represent the maximum potential future payments guaranteed by the Company, were $359.8 million at December 31, 2012.

The Company regularly purchases various state tax credits arising from third-party property redevelopment. These credits are either resold to third parties or retained for use by the Company. During 2012, purchases and sales of tax credits amounted to $56.9 million and $31.0 million, respectively. At December 31, 2012, the Company had outstanding purchase commitments totaling $149.8 million. The commitments are expected to be funded in 2013 through 2016.

The Company periodically enters into risk participation agreements (RPAs) as a guarantor to other financial institutions, in order to mitigate those institutions' credit risk associated with interest rate swaps with third parties. The RPA stipulates that, in the event of default by the third party on the interest rate swap, the Company will reimburse a portion of the loss borne by the financial institution. These interest rate swaps are normally collateralized (generally with real property, inventories and equipment) by the third party, which limits the credit risk associated with the Company's RPAs. The third parties usually have other borrowing relationships with the Company. The Company monitors overall borrower collateral, and at December 31, 2012, believes sufficient collateral is available to cover potential swap losses. The RPAs are carried at fair value throughout their term, with all changes in fair value, including those due to a change in the third party's creditworthiness, recorded in current earnings. The terms of the RPAs, which correspond to the terms of the underlying swaps, range from 4 to 10 years. At December 31, 2012, the liability recorded for guarantor RPAs was $196 thousand, and the notional amount of the underlying swaps was $40.0 million. The maximum potential future payment guaranteed by the Company cannot be readily estimated and is dependent upon the fair value of the interest rate swaps at the time of default.

During the past several years, the Company has carried a liability representing its obligation to share certain estimated litigation costs of Visa, Inc. (Visa). An escrow account was established by Visa and is being used to fund actual litigation settlements as they occur. The escrow account was funded initially with proceeds from an initial public offering in 2008 and subsequently with contributions by Visa. The Company's indemnification obligation has been periodically adjusted to reflect changes in estimates of litigation costs and has been reduced as funding occurs in the escrow account. As a result of additional funding, the liability was reduced to zero in 2011, as the Company believes that its proportional share of escrow funding to date has more than offset its liability related to the Visa litigation. The Company does have a liability recorded resulting from a preliminary settlement in 2012 related to Visa and MasterCard credit card interchange, which is discussed below.

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

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

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

The Company has various other lawsuits pending at December 31, 2012, arising in the normal course of business. While some matters pending against the Company specify damages claimed by plaintiffs, others do not seek a specified amount of damages or are at very early stages of the legal process. The Company records a loss accrual for all legal matters for which it deems a loss is probable and can be reasonably estimated. Some legal matters, which are at early stages in the legal process, have not yet progressed to the point where a loss amount can be determined to be probable and estimable.

19. Related Parties

The Company's Chief Executive Officer, its Vice Chairman, and its President are directors of Tower Properties Company (Tower) and, together with members of their immediate families, beneficially own approximately 74% of the outstanding stock of Tower. At December 31, 2012, Tower owned 212,060 shares of Company stock. Tower is primarily engaged in the business of owning, developing, leasing and managing real property.

Payments from the Company and its affiliates to Tower are summarized below. During these periods, the Company leased several surface parking lots owned by Tower for employee use. Other payments, with the exception of dividend payments, relate to property management services, including construction oversight, on four Company-owned office buildings and related parking garages in downtown Kansas City.

(In thousands)	**2012**	2011	2010
Rent on leased parking lots	**$ 294**	$ 353	$ 353
Leasing agent fees	**63**	57	3
Operation of parking garages	**75**	83	107
Building management fees	**1,774**	1,615	1,769
Property construction management fees	**231**	118	24
Dividends paid on Company stock held by Tower	**489**	177	172
Total	**$ 2,926**	$ 2,403	$ 2,428

Tower has a $13.5 million line of credit with the Bank which is subject to normal credit terms and has a variable interest rate. The maximum borrowings outstanding under this line during 2012 was $5.0 million and the balance outstanding at December 31,

2012 was $2.0 million. The maximum borrowings outstanding during 2011 was $3.0 million and the balance outstanding at December 31, 2011 was zero. Interest of $51 thousand and $22 thousand was paid during 2012 and 2011, respectively. No loans were outstanding during 2010 under this line of credit. Letters of credit may be collateralized under this line of credit; however, there were no letters of credit outstanding during 2012, 2011 or 2010, and thus, no fees were received during these periods. From time to time, the Bank extends additional credit to Tower for construction and development projects. No construction loans were outstanding during 2012, 2011 and 2010.

Tower leases office space in the Kansas City bank headquarters building owned by the Company. Rent paid to the Company totaled $66 thousand in 2012, $75 thousand in 2011 and $69 thousand in 2010, at $15.08, $15.67 and $15.50 per square foot, respectively.

In the fourth quarter of 2012, the Company purchased various surface parking lots from Tower for $7.1 million. The lots are located in downtown Kansas City and to be used for employee parking.

Directors of the Company and their beneficial interests have deposit accounts with the Bank and may be provided with cash management and other banking services, including loans, in the ordinary course of business. Such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unrelated persons and did not involve more than the normal risk of collectability.

As discussed in Note 18 on Commitments, Contingencies, and Guarantees, the Company regularly purchases various state tax credits arising from third-party property redevelopment and resells the credits to third parties. The Company sold state tax credits to its Chief Executive Officer for the price of $465 thousand and $1.0 million in 2012 and 2011, respectively, for personal tax planning. During 2011, state tax credits were sold to his father, a former Chief Executive Officer, for $920 thousand. The terms of the sales and the amounts paid were the same as the terms and amounts paid for similar tax credits by persons not related to the Company.

20. Parent Company Condensed Financial Statements

Following are the condensed financial statements of Commerce Bancshares, Inc. (Parent only) for the periods indicated:

Condensed Balance Sheets

(In thousands)	December 31 **2012**	2011
Assets		
Investment in consolidated subsidiaries:		
Banks	**$ 1,983,751**	$ 1,923,498
Non-banks	**61,217**	54,477
Cash	**58**	61
Securities purchased under agreements to resell	**67,675**	118,075
Investment securities:		
Available for sale	**65,189**	74,635
Non-marketable	**4,272**	2,677
Advances to subsidiaries, net of borrowings	**5,504**	9,640
Income tax benefits	**10,236**	2,593
Other assets	**13,051**	12,381
Total assets	**$ 2,210,953**	$ 2,198,037
Liabilities and stockholders' equity		
Pension obligation	**$ 23,313**	$ 12,958
Other liabilities	**20,513**	19,032
Total liabilities	**43,826**	31,990
Stockholders' equity	**2,167,127**	2,166,047
Total liabilities and stockholders' equity	**$ 2,210,953**	$ 2,198,037

Condensed Statements of Income

(In thousands)	For the Years Ended December 31 **2012**	2011	2010
Income			
Dividends received from consolidated subsidiaries:			
Banks	**$ 235,000**	$ 180,001	$ 105,000
Non-banks	**—**	115	105
Earnings of consolidated subsidiaries, net of dividends	**34,467**	74,260	110,809
Interest and dividends on investment securities	**5,074**	7,997	12,842
Management fees charged subsidiaries	**23,658**	19,318	22,621
Investment securities gains (losses)	**346**	—	(56)
Other	**2,067**	1,560	2,092
Total income	**300,612**	283,251	253,413
Expense			
Salaries and employee benefits	**24,188**	21,572	21,293
Professional fees	**1,950**	1,826	2,322
Data processing fees paid to affiliates	**2,664**	3,351	3,180
Indemnification obligation	**—**	(4,432)	(4,405)
Other	**7,582**	5,975	7,451
Total expense	**36,384**	28,292	29,841
Income tax expense (benefit)	**(5,101)**	(1,384)	1,862
Net income	**$ 269,329**	$ 256,343	$ 221,710

Condensed Statements of Cash Flows

(In thousands)	For the Years Ended December 31		
	2012	2011	2010
Operating Activities			
Net income	**$ 269,329**	$ 256,343	$ 221,710
Adjustments to reconcile net income to net cash provided by operating activities:			
Earnings of consolidated subsidiaries, net of dividends	**(34,467)**	(74,260)	(110,809)
Other adjustments, net	**(7,078)**	(1,144)	(4,787)
Net cash provided by operating activities	**227,784**	180,939	106,114
Investing Activities			
(Increase) decrease in securities purchased under agreements to resell	**50,400**	(40,375)	(30,175)
Decrease in investment in subsidiaries, net	**1,195**	116	101
Proceeds from sales of investment securities	**346**	—	185
Proceeds from maturities/pay downs of investment securities	**17,063**	22,233	26,487
Purchases of investment securities	**(2,000)**	—	(110)
Decrease in advances to subsidiaries, net	**4,136**	1,658	2,499
Net (purchases) sales of equipment	**(92)**	(685)	1,629
Net cash provided by (used in) investing activities	**71,048**	(17,053)	616
Financing Activities			
Purchases of treasury stock	**(104,909)**	(101,154)	(40,984)
Issuance under stock purchase and equity compensation plans	**15,588**	15,349	11,310
Net tax benefit related to equity compensation plans	**2,094**	1,065	1,178
Cash dividends paid on common stock	**(211,608)**	(79,140)	(78,231)
Net cash used in financing activities	**(298,835)**	(163,880)	(106,727)
Increase (decrease) in cash	**(3)**	6	3
Cash at beginning of year	**61**	55	52
Cash at end of year	**$ 58**	$ 61	$ 55
Income tax payments (receipts), net	**$ 523**	$ (2,700)	$ 2,000

Dividends paid by the Parent to its shareholders were substantially provided from Bank dividends. The Bank may distribute dividends without prior regulatory approval, provided that the dividends do not exceed the sum of net income for the current year and retained net income for the preceding two years, subject to maintenance of minimum capital requirements. The Parent charges fees to its subsidiaries for management services provided, which are allocated to the subsidiaries based primarily on total average assets. The Parent makes advances to non-banking subsidiaries and its subsidiary bank holding company. Advances are made to the Parent by its subsidiary bank holding company for investment in temporary liquid securities. Interest on such advances is based on market rates.

For the past several years, the Parent has maintained a $20.0 million line of credit for general corporate purposes with the Bank. The line of credit is secured by investment securities. The Parent has not borrowed under this line during the past three years.

At December 31, 2012, the fair value of available for sale investment securities held by the Parent consisted of investments of $30.7 million in common stock and $34.5 million in non-agency mortgage-backed securities. The Parent's unrealized net gain in fair value on its investments was $30.7 million at December 31, 2012. The corresponding net of tax unrealized gain included in stockholders' equity was $19.1 million. Also included in stockholders' equity was an unrealized net of tax gain in fair value of investment securities held by subsidiaries, which amounted to $144.4 million at December 31, 2012.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants on accounting and financial disclosure.

Item 9a. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15 (e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework,* our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The Company's internal control over financial reporting as of December 31, 2012 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which follows.

Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, such controls during the last quarter of the period covered by this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Commerce Bancshares, Inc.:

We have audited Commerce Bancshares, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Commerce Bancshares, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Commerce Bancshares, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated February 22, 2013 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Kansas City, Missouri
February 22, 2013

Item 9b. OTHER INFORMATION

None

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Items 401, 405 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K regarding executive officers is included at the end of Part I of this Form 10-K under the caption "Executive Officers of the Registrant" and under the captions "Proposal One - Election of the 2016 Class of Directors", "Section 16(a) Beneficial Ownership Reporting Compliance", "Audit Committee Report", "Committees of the Board - Audit Committee and Committee on Governance/Directors" in the definitive proxy statement, which is incorporated herein by reference.

The Company's financial officer code of ethics for the chief executive officer and senior financial officers of the Company, including the chief financial officer, principal accounting officer or controller, or persons performing similar functions, is available at www.commercebank.com. Amendments to, and waivers of, the code of ethics are posted on this Web site.

Item 11. EXECUTIVE COMPENSATION

The information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K regarding executive compensation is included under the captions "Compensation Discussion and Analysis", "Executive Compensation", "Director Compensation", "Compensation and Human Resources Committee Report", and "Compensation and Human Resources Committee Interlocks and Insider Participation" in the definitive proxy statement, which is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Items 201(d) and 403 of Regulation S-K is included under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" in the definitive proxy statement, which is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Items 404 and 407(a) of Regulation S-K is covered under the captions "Proposal One - Election of the 2016 Class of Directors" and "Corporate Governance" in the definitive proxy statement, which is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 9(e) of Schedule 14A is included under the captions "Pre-approval of Services by the External Auditor" and "Fees Paid to KPMG LLP" in the definitive proxy statement, which is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this report:

		Page
(1)	Financial Statements:	
	Consolidated Balance Sheets	56
	Consolidated Statements of Income	57
	Consolidated Statements of Comprehensive Income	58
	Consolidated Statements of Cash Flows	59
	Consolidated Statements of Changes in Equity	60
	Notes to Consolidated Financial Statements	61
	Summary of Quarterly Statements of Income	54
(2)	Financial Statement Schedules:	
	All schedules are omitted as such information is inapplicable or is included in the financial statements.	

(b) The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are listed in the Index to Exhibits (pages E-1 through E-2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 22nd day of February 2013.

COMMERCE BANCSHARES, INC.

By: /s/ JAMES L. SWARTS
James L. Swarts
Vice President and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 22nd day of February 2013.

By: /s/ CHARLES G. KIM
Charles G. Kim
Chief Financial Officer

By: /s/ JEFFERY D. ABERDEEN
Jeffery D. Aberdeen
Controller
(Chief Accounting Officer)

David W. Kemper
(Chief Executive Officer)
Terry D. Bassham
John R. Capps
Earl H. Devanny, III
James B. Hebenstreit
Terry O. Meek
Benjamin F. Rassieur, III
Todd R. Schnuck
Andrew C. Taylor
Kimberly G. Walker

A majority of the Board of Directors*

* David W. Kemper, Director and Chief Executive Officer, and the other Directors of Registrant listed, executed a power of attorney authorizing James L. Swarts, their attorney-in-fact, to sign this report on their behalf.

By: /s/ JAMES L. SWARTS
James L. Swarts
Attorney-in-Fact

INDEX TO EXHIBITS

3 —Articles of Incorporation and By-Laws:

(a) Restated Articles of Incorporation, as amended, were filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated August 10, 1999, and the same are hereby incorporated by reference.

(b) Restated By-Laws, as amended, were filed in current report on Form 8-K dated February 14, 2013, and the same are hereby incorporated by reference.

4 — Instruments defining the rights of security holders, including indentures:

(a) Pursuant to paragraph (b)(4)(iii) of Item 601 Regulation S-K, Registrant will furnish to the Commission upon request copies of long-term debt instruments.

10 — Material Contracts (Each of the following is a management contract or compensatory plan arrangement):

(a) Commerce Bancshares, Inc. Executive Incentive Compensation Plan amended and restated as of January 1, 2009 was filed in quarterly report on Form 10-Q dated August 7, 2009, and the same is hereby incorporated by reference.

(b)(1) Commerce Bancshares, Inc. 1987 Non-Qualified Stock Option Plan amended and restated as of July 24, 2009 was filed in quarterly report on Form 10-Q dated August 7, 2009, and the same is hereby incorporated by reference.

(b)(2) An amendment to the Commerce Bancshares, Inc. 1987 Non-Qualified Stock Option Plan was filed in current report on Form 8-K dated February 16, 2012, and the same is hereby incorporated by reference.

(c) Commerce Bancshares, Inc. Stock Purchase Plan for Non-Employee Directors amended and restated as of October 4, 1996 was filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated November 8, 1996, and the same is hereby incorporated by reference.

(d)(1) Commerce Bancshares, Inc. 1996 Incentive Stock Option Plan amended and restated as of April 2001 was filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated May 8, 2001, and the same is hereby incorporated by reference.

(d)(2) An amendment to the Commerce Bancshares, Inc. 1996 Incentive Stock Option Plan was filed in current report on Form 8-K dated February 16, 2012, and the same is hereby incorporated by reference.

(e) Commerce Executive Retirement Plan amended and restated as of January 28, 2011 was filed in annual report on Form 10-K dated February 25, 2011, and the same is hereby incorporated by reference.

(f) Commerce Bancshares, Inc. Restricted Stock Plan amended and restated as of July 24, 2009 was filed in quarterly report on Form 10-Q dated August 7, 2009, and the same is hereby incorporated by reference.

(g) Form of Severance Agreement between Commerce Bancshares, Inc. and certain of its executive officers entered into as of October 4, 1996 was filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated November 8, 1996, and the same is hereby incorporated by reference.

(h) Trust Agreement for the Commerce Bancshares, Inc. Executive Incentive Compensation Plan amended and restated as of January 1, 2001 was filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated May 8, 2001, and the same is hereby incorporated by reference.

(i) Commerce Bancshares, Inc. 2013 Compensatory Arrangements with CEO and Named Executive Officers were filed in two current reports on Form 8-K dated February 5, 2013 and February 14, 2013, respectively, and the same are hereby incorporated by reference.

(j)(1) Commerce Bancshares, Inc. 2005 Equity Incentive Plan amended and restated as of July 24, 2009 was filed in quarterly report on Form 10-Q dated August 7, 2009, and the same is hereby incorporated by reference.

(j)(2) An amendment to the Commerce Bancshares, Inc. 2005 Equity Incentive Plan was filed in current report on Form 8-K dated February 16, 2012, and the same is hereby incorporated by reference.

(k) Commerce Bancshares, Inc. Notice of Grant of Stock Options and Option Agreement was filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated August 5, 2005, and the same is hereby incorporated by reference.

(l) Commerce Bancshares, Inc. Restricted Stock Award Agreement, pursuant to the Restricted Stock Plan, was filed in quarterly report on Form 10-Q (Commission file number 0-2989) dated August 5, 2005, and the same is hereby incorporated by reference.

(m) Commerce Bancshares, Inc. Stock Appreciation Rights Agreement and Commerce Bancshares, Inc. Restricted Stock Award Agreement, pursuant to the 2005 Equity Incentive Plan, were filed in current report on Form 8-K (Commission file number 0-2989) dated February 23, 2006, and the same are hereby incorporated by reference.

21 — Subsidiaries of the Registrant

23 — Consent of Independent Registered Public Accounting Firm

24 — Power of Attorney

31.1 — Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 — Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 — Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 — Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail

Exhibit 21

The consolidated subsidiaries of the Registrant at February 1, 2013 were as follows:

Name	Location	State or Other Jurisdiction of Incorporation
CBI-Kansas, Inc.	Kansas City, MO	Kansas
Commerce Bank	Kansas City, MO	Missouri
Commerce Brokerage Services, Inc.	Clayton, MO	Missouri
Clayton Holdings, LLC	Kansas City, MO	Missouri
Clayton Financial Corp.	Clayton, MO	Missouri
Clayton Realty Corp.	Clayton, MO	Missouri
Illinois Financial, LLC	Peoria, IL	Delaware
Illinois Realty, LLC	Peoria, IL	Delaware
Commerce Insurance Services, Inc.	Fenton, MO	Missouri
Commerce Investment Advisors, Inc.	Kansas City, MO	Missouri
Commerce Mortgage Corp.	Kansas City, MO	Missouri
CBI Equipment Finance, Inc.	Kansas City, MO	Missouri
Mid-Am Acquisition, LLC	Clayton, MO	Missouri
Tower Redevelopment Corporation	Kansas City, MO	Missouri
CBI Insurance Company	Kansas City, MO	Arizona
CFB Partners II, LLC	Kansas City, MO	Missouri
CFB Partners, LLC	Clayton, MO	Delaware
CFB Venture Fund I, Inc.	Kansas City, MO	Missouri
CFB Venture Fund, L.P.	Clayton, MO	Delaware
CFB Venture Fund II, L.P.	Kansas City, MO	Missouri
Capital for Business, Inc.	Kansas City, MO	Missouri

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Commerce Bancshares, Inc.:

We consent to the incorporation by reference in the Registration Statements No. 33-28294, No. 33-82692, No. 33-8075, No. 33-78344, No. 33-61499, No. 33-61501 and No. 333-14651, each on Form S-8, No. 333-140221 on Form S-3ASR, and No. 333-140475 on Form S-4 of Commerce Bancshares, Inc. of our reports dated February 22, 2013, with respect to the consolidated balance sheets of Commerce Bancshares, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which reports appear in the December 31, 2012 annual report on Form 10-K of Commerce Bancshares, Inc.

KPMG LLP

Kansas City, Missouri
February 22, 2013

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned do hereby appoint James L. Swarts and Jeffery D. Aberdeen, or either of them, attorney for the undersigned to sign the Annual Report on Form 10-K of Commerce Bancshares, Inc., for the fiscal year ended December 31, 2012, together with any and all amendments which might be required from time to time with respect thereto, to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, with respect to Commerce Bancshares, Inc., with full power and authority in either of said attorneys to do and perform in the name of and on behalf of the undersigned every act whatsoever necessary or desirable to be done in the premises as fully and to all intents and purposes as the undersigned might or could do in person.

IN WITNESS WHEREOF, the undersigned have executed these presents as of this 8th day of February, 2013.

/s/ JOHN R. CAPPS

/s/ TERRY D. BASSHAM

/s/ EARL H. DEVANNY, III

/s/ JAMES B. HEBENSTREIT

/s/ DAVID W. KEMPER

/s/ TERRY O. MEEK

/s/ BENJAMIN F. RASSIEUR, III

/s/ TODD R. SCHNUCK

/s/ ANDREW C. TAYLOR

/s/ KIMBERLY G. WALKER

Exhibit 31.1

CERTIFICATION

I, David W. Kemper, certify that:

1. I have reviewed this annual report on Form 10-K of Commerce Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID W. KEMPER

David W. Kemper
Chairman and
Chief Executive Officer

February 22, 2013

Exhibit 31.2

CERTIFICATION

I, Charles G. Kim, certify that:

1. I have reviewed this annual report on Form 10-K of Commerce Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHARLES G. KIM

Charles G. Kim
Executive Vice President and
Chief Financial Officer

February 22, 2013

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Commerce Bancshares, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, David W. Kemper and Charles G. Kim, Chief Executive Officer and Chief Financial Officer, respectively, of the Company, hereby certify, pursuant to 18 U.S.C. § 1350 as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID W. KEMPER

David W. Kemper
Chief Executive Officer

/s/ CHARLES G. KIM

Charles G. Kim
Chief Financial Officer

February 22, 2013

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CORPORATE HEADQUARTERS

1000 Walnut
P.O. Box 419248
Kansas City, MO 64141-6248
(816) 234-2000
www.commercebank.com

INDEPENDENT ACCOUNTANTS

KPMG LLP
Kansas City, Missouri

TRANSFER AGENT, REGISTRAR AND DIVIDEND DISBURSING AGENT

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
(800) 317-4445
(800) 952-9245 Hearing Impaired/TDD
www.computershare.com/investor

STOCK EXCHANGE LISTING

NASDAQ
Symbol: CBSH

COMMON STOCK INFORMATION

The table below sets forth the high and the low prices of actual transactions for the Company's common stock, which is publicly traded on the NASDAQ Stock Market, adjusted for the December 2012 5% stock dividend.

FISCAL 2012	HIGH	LOW
First Quarter	$39.31	$35.78
Second Quarter	39.05	34.45
Third Quarter	40.70	35.91
Fourth Quarter	38.70	34.69

ANNUAL MEETING

The annual meeting of shareholders will be held Wednesday, April 17, 2013 at 9:30 a.m., in the Kemper Auditorium on the 15th floor of the Commerce Trust Building at 922 Walnut Street, Kansas City, MO 64106.

INVESTOR INQUIRIES

Shareholders, analysts and investors seeking information about the Company should direct their inquiries to:

Jeffery D. Aberdeen, Controller
1000 Walnut
P.O. Box 419248
Kansas City, MO 64141-6248
(800) 892-7100
mymoney@commercebank.com

SHAREHOLDERS MAY RECEIVE FUTURE ANNUAL REPORTS AND PROXY MATERIALS OVER THE INTERNET

To take advantage of the opportunity to receive materials electronically, rather than by mail, **individuals who hold stock in their name** may enroll for electronic delivery at Computershare's investor website http://www.computershare.com/investor.

- If you have already created a login ID and password at the above site, just login and follow the prompts to "Enroll in Electronic Delivery."
- If you have not created a login ID and password on the above site, choose "Create Login." You will need the Social Security number or tax ID number associated with your Commerce stock account to create the login. After you have created your login, follow the prompts to "Enroll in Electronic Delivery."

Please note:

- Your consent is entirely revocable.
- You can always vote your proxy on the Internet whether or not you elect to receive your materials electronically.

Shareholders who hold their Commerce stock through a bank, broker or other holder of record should refer to the information provided by that entity for instructions on how to elect to view future annual reports and proxy statements over the Internet.

Employee PIP (401(k)) shareholders who have a Company email address and online access, will *automatically* be enrolled to receive the Annual Report, Proxy Statement and proxy card over the Internet unless they choose to opt out by emailing the Corporate Secretary at james.swarts@commercebank.com.

Designed by Falk Harrison, St. Louis, Missouri

COMMERCE BANCSHARES, INC.

1000 WALNUT
P.O. BOX 419248
KANSAS CITY, MO 64141-6248

Phone: (816) 234-2000
(800) 892-7100
Email: mymoney@commercebank.com
Website: www.commercebank.com

An Equal Opportunity Employer MK2912