COMMERCE BANCSHARES INC /MO/
Form 10-K
February 24, 2015
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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, 2014 — 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
	(Zip Code)
(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
Depositary Shares, each representing a 1/1000th interest in a share of 6.0% Series B Non-Cumulative Perpetual Preferred 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 þ No o
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark 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. o
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
As of June 30, 2014, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $3,788,000,000.
As of February 6, 2015, there were 96,443,657 shares of Registrant’s $5 Par Value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant’s definitive proxy statement for its 2015 annual meeting of shareholders, which will be filed within 120 days of December 31, 2014, are incorporated by reference into Part III of this Report.

Commerce Bancshares, Inc.

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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, 2014, the Company had consolidated assets of $24.0 billion, loans of $11.5 billion, deposits of $19.5 billion, and equity of $2.3 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 and Oklahoma City, 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. The real estate lending operations of the Bank are centered in its lower Midwestern markets. Historically, these markets have tended to be less volatile than in other parts of the country. Management believes the diversity and nature of the Bank's markets has a mitigating effect on real estate loan losses in these markets and were key factors in the Bank's relatively lower loan loss levels stemming from the 2008 financial crisis.

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 assets and branches. The Company seeks merger or acquisition partners that are culturally similar, have experienced management and either possess significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. On September 1, 2013, the Company acquired Summit Bancshares Inc. (Summit). The Company's acquisition of Summit added $261.6 million in assets (including $207.4 million in loans), $232.3 million in deposits and two branch locations in Tulsa and Oklahoma City, Oklahoma.

The Company employed 4,328 persons on a full-time basis and 538 persons on a part-time basis at December 31, 2014. 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 (GLB Act), competition has increased over time from institutions not

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subject to the same regulatory restrictions as domestic banks and bank holding companies. The Company generally competes by providing sophisticated financial products with a strong commitment to customer service, convenience of locations, reputation, and price of service, including interest rates on loan and deposit products. The Company has approximately 14% of the deposit market share in Kansas City and approximately 8% 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 195 full-service branches, a widespread ATM network of 392 machines, and the use of alternative delivery channels such as extensive online banking, mobile, and telephone banking services. In 2014, this retail segment contributed 21% 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 2014, the Commercial segment contributed 60% 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. At December 31, 2014, the Trust group managed investments with a market value of $22.5 billion and administered an additional $16.6 billion in non-managed assets. This segment also manages the Company’s family of proprietary mutual funds, which are available for sale to both trust and general retail customers. Additional information relating to operating segments can be found on pages 46 and 90.

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

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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 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. The regulations include significant penalties for non-compliance.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2011 (Dodd-Frank Act) was sweeping legislation intended to overhaul regulation of the financial services industry. Among its many provisions, the Dodd-Frank Act established a new council of "systemic risk" regulators, 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. The Dodd-Frank Act also established the Consumer Financial Protection Bureau (CFPB) and authorized 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 is subject to examinations by the CFPB, which 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.

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 classifies

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institutions under a risk-based assessment system based on their perceived risk to the federal deposit insurance funds. The current assessment base is defined as average total assets minus average tangible equity, with other adjustments for heavy use of unsecured liabilities, secured liabilities, brokered deposits, and holdings of unsecured bank debt. For banks with more than $10 billion in assets, the FDIC uses 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 Company's FDIC insurance expense was $11.6 million in 2014, $11.2 million in 2013, and $10.4 million in 2012.

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. The current capital adequacy guidelines generally require bank holding companies to maintain a minimum Tier I risk-based capital ratio of 4% and a total risk-based capital ratio of 8%, based on total risk-adjusted assets and off-balance sheet items. 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 and certain off-balance sheet items 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, 2014, the Company was "well-capitalized" under regulatory capital adequacy standards, as further discussed on page 93.

In July 2013 the FDIC, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System approved a final rule to implement in the United States the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. A key goal of the Basel III agreement is to strengthen the capital resources of banking organizations during normal and challenging business environments. The Basel III final rule increases minimum requirements for both the quantity and quality of capital held by banking organizations. The rule includes a new minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rule also adjusted the methodology for calculating risk-weighted assets to enhance risk sensitivity. Beginning January 1, 2015, the Company must be compliant with revised minimum regulatory capital ratios and will begin the transitional period for definitions of regulatory capital and regulatory capital adjustments and deductions established under the final rule. Compliance with the risk-weighted asset calculations is also required on January 1, 2015. Management believes that as of December 31, 2014, the Company's capital levels are well above minimum requirements and would be considered "well-capitalized" under the new rules.

Significant Regulation Affecting the Company
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 the Company, conduct stress tests on an annual basis. The initial stress test had an as-of date of September 30, 2013 using scenarios provided by the Federal Reserve in November 2013 (projected nine months out). The Company submitted its first regulatory report on its stress test results to the Federal Reserve in March 2014. This process will be repeated annually. In June 2015, the Company will be required to make public disclosures of the results of the 2015 stress tests performed under the severely adverse scenario.

The Volcker Rule of the Dodd-Frank Act, effective on April 1, 2014, places trading restrictions on financial institutions and separates investment banking, private equity and proprietary trading (hedge fund) sections of financial institutions from their consumer lending arms. Key provisions restrict banks from simultaneously entering into advisory and creditor roles with their clients, such as with private equity firms. The Volcker Rule also restricts financial institutions from investing in and sponsoring

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certain types of investments, which must be divested by July 21, 2016. The Company does not believe it will be significantly affected by the Volcker Rule provisions.

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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Item 1a. RISK FACTORS
Making or continuing an investment in securities issued by Commerce Bancshares, Inc., including its common and preferred 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 may affect the Company's industry.
The concentration of the Company's banking business in the United States particularly exposes it to downturns in the U.S. economy. While current economic conditions are favorable, there remain risks in that environment.
In particular, the Company may face the following risks in connection with market conditions:

- In the current environment, accelerated job growth, lower unemployment levels, and improving credit conditions are expected to continue. However, adverse changes in this environment 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 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 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.

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- 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.
- The U.S. economy is also affected by foreign economic events and conditions. Although the Company does not hold foreign debt, global economic conditions and political tensions 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.

Significant changes in banking laws and regulations could materially affect the Company's business.
Over the past several years, a significant increase in bank regulation has occurred. A number of new laws and regulations have already been implemented, including those which reduced overdraft fees and credit card revenues, and eliminated the student loan business. Other major changes involved lending transparency, risk-based FDIC insurance assessments, and derivative clearing processes. These regulations generally resulted in lower revenues and higher compliance burdens. Regulatory focus continues today with emphasis on stress-testing and Basel III regulatory capital reform.

Future 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 in its expansion markets in Oklahoma, Colorado and other surrounding states. As the Company does not have a significant banking presence in other parts of the country, a prolonged economic downturn 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 interest rates 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 in general, 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

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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. While the Company maintains rigorous risk management practices over bonds issued by municipalities, credit deterioration in these bonds could occur and result in losses. Certain mortgage and asset-backed securities (which are collateralized by residential mortgages, credit cards, automobiles, mobile homes or other assets) may decline in value due to actual or expected deterioration in the underlying collateral. 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 been stable in 2014 and 2013, an unforeseen deterioration of financial market conditions could result in larger 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 59% of total revenue at December 31, 2014. 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 financial crisis of 2008, there has been significant growth in deposits from both consumers and businesses, and much of this growth has been invested in the investment securities portfolio. For the past several years, the Federal Reserve has maintained interest rates at unprecedented low levels, and as the securities portfolio has grown, interest margins have been pressured. The securities portfolio, which has averaged 45% of total earning assets over the past three years, generally carries lower rates than loans, Furthermore the Company attempts to diversify its securities 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. Loan demand has recently strengthened, growing 10% on average in 2013 and 9% in 2014, versus just 2% in 2012. During 2014, growth in loans was mainly funded by maturities of investment securities, and growth in deposits were mostly reinvested in the securities portfolio. At December 31, 2014, the Company's loan to deposit rate was 60%, a sign of strong liquidity.

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While further loan growth is expected under a strengthening economy, it is expected that interest margins will continue to be pressured if rates remain low. 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, and has numerous competitors including other banks and insurance companies, securities dealers, brokers, trust and investment companies and mortgage bankers. Consolidation among financial service providers and new changes in technology, product offerings and regulation continue to challenge the Company's marketplace position. As consolidation occurs, larger regional banks may enter 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. Similarly, because the Company is an issuer of both debit and credit cards, it is periodically exposed to losses related to security breaches which occur at retailers that are unaffiliated with Company (e.g., customer card data being compromised at retail stores). These include, but are not limited to, costs and expenses for card reissuance as well as losses resulting from fraudulent card transactions.

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

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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	82	39
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 190 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 20, Commitments, Contingencies and Guarantees on page 107.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

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Executive Officers of the Registrant

The following are the executive officers of the Company as of February 24, 2015, 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, 60	Controller of the Company since December 1995. He is also Controller of the Company's subsidiary bank, Commerce Bank.
Kevin G. Barth, 54	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, 56	Senior Vice President of the Company since February 2013. Executive Vice President of Commerce Bank since November 2007.
Daniel D. Callahan, 58	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, 54	Executive Vice President of the Company since February 2012 and Senior Vice President of the Company since February 1998.
David W. Kemper, 64	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 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, 37	President and Chief Operating Officer of the Company since February 2013, and Executive Vice President and Chief Administrative Officer of the Company prior thereto. President of Commerce Bank since March 2013 and Senior Vice President of Commerce Bank prior thereto. 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, 61	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, 54	

	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, 64	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, 58	Senior Vice President of the Company since April 1995. Prior thereto, he was Vice President of the Company.
Robert J. Rauscher, 57	Senior Vice President of the Company since October 1997. Senior Vice President of Commerce Bank prior thereto.
V. Raymond Stranghoener, 63	Executive Vice President of the Company since July 2005 and Senior Vice President of the Company prior thereto.

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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 2014).

	Quarter	High	Low	Cash Dividends	
2014	First	$45.06	$39.68	$.214	
	Second	45.19	40.09	.214	
	Third	45.38	42.23	.214	
	Fourth	44.30	38.10	.214	
2013	First	$37.09	$32.11	$.204	
	Second	40.47	34.88	.204	
	Third	43.10	38.13	.204	
	Fourth	43.59	38.86	.204	
2012	First	$35.66	$32.45	$.199	
	Second	35.42	31.25	.199	
	Third	36.92	32.58	.199	
	Fourth	35.10	31.46	1.494	*

* Includes a special dividend of $1.295 per share

Commerce Bancshares, Inc. common shares are listed on the Nasdaq Global Select Market (NASDAQ) under the symbol CBSH. The Company had 4,051 common shareholders of record as of December 31, 2014.

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Performance Graph

The following graph presents a comparison of Company (CBSH) performance to the indices named below. It assumes $100 invested on December 31, 2009 with dividends invested on a cumulative total shareholder return basis.

	2009	2010	2011	2012	2013	2014
Commerce (CBSH)	100.00	110.33	113.80	116.78	160.33	166.24
NASDAQ OMX Global-Bank	100.00	111.35	83.04	111.88	152.85	170.93
S&P 500	100.00	115.06	117.49	136.29	180.44	205.14

The following table sets forth information about the Company's purchases of its $5 par value common stock, its only class of common stock registered pursuant to Section 12 of the Exchange Act, during the fourth quarter of 2014.

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, 2014	40,262	$42.63	40,262	1,902,865
November 1—30, 2014	3,145	$45.33	3,145	1,899,720
December 1—31, 2014	1,713	$43.95	1,713	1,898,007
Total	45,120	$42.87	45,120	1,898,007

The Company's stock purchases shown above were made under authorizations by the Board of Directors. Under the most recent authorization in June 2014 of 5,000,000 shares, 1,898,007 shares remained available for purchase at December 31, 2014.

Item 6. SELECTED FINANCIAL DATA

The required information is set forth below in Item 7.

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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 Commerce Bancshares, Inc. and its subsidiaries (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; failure of litigation settlement agreements to become final in accordance with their terms; and competition with other entities that offer financial services.

Overview

The Company operates as a super-community bank and offers a broad range of financial products to consumer and commercial customers, delivered with a focus on high-quality, personalized 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 over 350 locations in Missouri, Kansas, Illinois, Oklahoma and Colorado and commercial offices throughout the nation's midsection. A variety of delivery platforms are utilized, including 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 in which it operates, its offering of competitive, sophisticated financial products, and its concentration on relationship banking and high touch service. In order to enhance shareholder value, the Company targets core revenue growth. To achieve this growth, the Company focuses on strategies that will expand new and existing customer relationships, offer opportunities for controlled expansion in additional markets, utilize improved technology, and enhance 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 earnings per share — Net income attributable to Commerce Bancshares, Inc. was $261.8 million, an increase of .3% compared to the previous year. The return on average assets was 1.15% in 2014, and the return on average common equity was 11.65%. Diluted earnings per share increased .8% in 2014 compared to 2013.
- Total revenue — Total revenue is comprised of net interest income and non-interest income. Total revenue in 2014 increased $18.4 million over 2013, mainly from growth in non-interest income of $17.6 million. Growth in non-interest income was driven by increases in trust fees, bank card transaction fees, and brokerage fees, partly offset by a decline in capital market fees. Net interest income increased slightly over 2013 due in part to higher average earning assets, including average loan growth of 9.2%. However, low interest rates continued to pressure the net interest margin, which declined to 3.00% in 2014, an 11 basis point decline from 2013.
- Non-interest expense — Total non-interest expense grew 4.5% this year compared to 2013 as a result of higher costs for salaries and employee benefits and an increase in other operating costs, including higher foreclosed property costs (higher gains on sales were recorded in 2013) and an increase in certain credit card operational expenses. Costs for

occupancy, equipment, supplies and communication, and data processing and software showed little change from the previous year.

- Asset quality — Net loan charge-offs in 2014 increased $3.2 million over those recorded in 2013 and averaged .31% of loans compared to .30% in the previous year. Total non-performing assets, which include non-accrual loans and foreclosed real estate, amounted to $46.3 million at December 31, 2014, a decrease of $9.2 million from balances at the previous year end, and represented .40% of loans outstanding.

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- Shareholder return — Total shareholder return, including the change in stock price and dividend reinvestment, was 3.7% over the past year. Shareholder return over the past 10 years was 6.2%. During 2014, the Company paid cash dividends of $.857 per share, representing an increase of 5% over the previous year. The Company also issued a 5% stock dividend.

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

	2014		2013		2012		2011		2010	
(Based on average balances)										
Return on total assets	1.15	%	1.19	%	1.30	%	1.32	%	1.22	%
Return on common equity	11.65		11.99		12.00		12.15		11.15	
Equity to total assets	10.10		9.95		10.84		10.87		10.91	
Loans to deposits (1)	59.91		57.12		55.80		59.15		70.02	
Non-interest bearing deposits to total deposits	33.73		33.01		32.82		30.26		28.65	
Net yield on interest earning assets (tax equivalent basis)	3.00		3.11		3.41		3.65		3.89	
(Based on end of period data)										
Non-interest income to revenue (2)	41.28		40.32		38.44		37.82		38.54	
Efficiency ratio (3)	62.08		60.49		59.26		59.10		59.71	
Tier I risk-based capital ratio	13.74		14.06		13.60		14.71		14.38	
Tier I common capital ratio (4)	12.81		14.06		13.60		14.70		14.38	
Total risk-based capital ratio	14.86		15.28		14.93		16.04		15.75	
Tier I leverage ratio	9.36		9.43		9.14		9.55		10.17	
Tangible common equity to tangible assets ratio (4)	8.55		9.00		9.25		9.91		10.27	
Common cash dividend payout ratio	32.69		31.46		78.57		30.87		35.29	

(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 Tier I common capital to risk-weighted assets ratio and the tangible common equity to tangible assets ratio are measurements which management believes are useful indicators of capital adequacy and utilization. They provide meaningful bases for period to period and company to company comparisons, and also assist regulators, investors and analysts in analyzing the financial position of the Company. Tier I common capital, tangible common equity and tangible assets are non-GAAP measures and should not be viewed as substitutes for, or superior to, data prepared in accordance with GAAP.

The following table is a reconciliation of the GAAP financial measure of Tier I risk-based capital to the non-GAAP measure of Tier I common capital.

(Dollars in thousands)	2014	2013	2012	2011	2010
Tier I risk-based capital	$2,131,169	$2,061,761	$1,906,203	$1,928,690	$1,828,965
Less qualifying non-controlling interest	321	315	321	330	319
Less preferred stock	144,784	—	—	—	—
Tier I common capital (a)	$1,986,064	$2,061,446	$1,905,882	$1,928,360	$1,828,646
Total risk-weighted assets (b)	$15,509,144	$14,660,536	$14,015,648	$13,115,261	$12,717,868

Tier I common capital to risk-weighted assets ratio (a)/(b)	12.81 %	14.06 %	13.60 %	14.70 %	14.38 %

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

(Dollars in thousands)	2014	2013	2012	2011	2010
Total equity	$2,334,246	$2,214,397	$2,171,574	$2,170,361	$2,023,464
Less non-controlling interest	4,053	3,755	4,447	4,314	1,477
Less preferred stock	144,784	—	—	—	—
Less goodwill	138,921	138,921	125,585	125,585	125,585
Less core deposit premium	6,572	8,489	4,828	6,970	9,612
Total tangible common equity (a)	$2,039,916	$2,063,232	$2,036,714	$2,033,492	$1,886,790
Total assets	$23,994,280	$23,072,036	$22,159,589	$20,649,367	$18,502,339
Less goodwill	138,921	138,921	125,585	125,585	125,585
Less core deposit premium	6,572	8,489	4,828	6,970	9,612
Total tangible assets (b)	$23,848,787	$22,924,626	$22,029,176	$20,516,812	$18,367,142
Tangible common equity to tangible assets ratio (a)/(b)	8.55 %	9.00 %	9.25 %	9.91 %	10.27 %

Selected Financial Data

(In thousands, except per share data)	2014	2013	2012	2011	2010
Net interest income	$620,204	$619,372	$639,906	$646,070	$645,932
Provision for loan losses	29,531	20,353	27,287	51,515	100,000
Non-interest income	435,978	418,386	399,630	392,917	405,111
Investment securities gains (losses), net	14,124	(4,425)	4,828	10,812	(1,785)
Non-interest expense	657,775	629,633	618,469	617,249	631,134
Net income attributable to Commerce Bancshares, Inc.	261,754	260,961	269,329	256,343	221,710
Net income available to common shareholders	257,704	260,961	269,329	256,343	221,710
Net income per common share-basic*	2.62	2.60	2.64	2.45	2.09
Net income per common share-diluted*	2.61	2.59	2.63	2.44	2.08
Cash dividends on common stock	84,241	82,104	211,608	79,140	78,231
Cash dividends per common share*	.857	.816	2.090	.757	.737
Market price per common share*	43.49	42.77	31.80	32.93	32.69
Book value per common share*	22.73	22.00	21.55	21.08	19.22
Common shares outstanding*	96,327	100,675	100,784	102,973	105,292
Total assets	23,994,280	23,072,036	22,159,589	20,649,367	18,502,339
Loans, including held for sale	11,469,238	10,956,836	9,840,211	9,208,554	9,474,733
Investment securities	9,645,792	9,042,997	9,669,735	9,358,387	7,409,534
Deposits	19,475,778	19,047,348	18,348,653	16,799,883	15,085,021
Long-term debt	104,058	455,310	503,710	511,817	512,273
Equity	2,334,246	2,214,397	2,171,574	2,170,361	2,023,464
Non-performing assets	46,251	55,439	64,863	93,803	97,320

*Restated for the 5% stock dividend distributed in December 2014.

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Results of Operations

(Dollars in thousands)	2014	2013	2012	$ Change '14-'13	$ Change '13-'12	% Change '14-'13	% Change '13-'12
Net interest income	$620,204	$619,372	$639,906	$832	$(20,534)	.1%	(3.2)%
Provision for loan losses	(29,531)	(20,353)	(27,287)	9,178	(6,934)	45.1	(25.4)
Non-interest income	435,978	418,386	399,630	17,592	18,756	4.2	4.7
Investment securities gains (losses), net	14,124	(4,425)	4,828	18,549	(9,253)	N.M.	N.M.
Non-interest expense	(657,775)	(629,633)	(618,469)	28,142	11,164	4.5	1.8
Income taxes	(120,216)	(122,230)	(127,169)	(2,014)	(4,939)	(1.6)	(3.9)
Non-controlling interest expense	(1,030)	(156)	(2,110)	874	(1,954)	N.M.	(92.6)
Net income attributable to Commerce Bancshares, Inc.	261,754	260,961	269,329	793	(8,368)	.3	(3.1)
Preferred stock dividends	(4,050)	—	—	(4,050)	—	N.M.	N.M.
Net income available to common shareholders	$257,704	$260,961	$269,329	$(3,257)	$(8,368)	(1.2)%	(3.1)%

Net income attributable to Commerce Bancshares, Inc. for 2014 was $261.8 million, an increase of $793 thousand, or .3%, compared to $261.0 million in 2013. Diluted income per share was $2.61 in 2014 compared to $2.59 in 2013. The increase in net income resulted from increases of $17.6 million in non-interest income and $18.5 million in investment securities gains. These increases in net income were partly offset by a $28.1 million increase in non-interest expense, as well as an increase of $9.2 million in the provision for loan losses. The return on average assets was 1.15% in 2014 compared to 1.19% in 2013, and the return on average common equity was 11.65% compared to 11.99% in 2013. At December 31, 2014, the ratio of tangible common equity to assets was 8.55% compared to 9.00% at year end 2013.

During 2014, net interest income increased $832 thousand compared to 2013. This slight increase reflected growth of $8.1 million in loan interest income, due to higher loan balances which were partly offset by lower rates earned, coupled with a decline in deposit interest expense of $3.2 million due to lower rates paid. These increases were mostly offset by an $8.6 million decline in interest income on long-term securities purchased under agreements to resell. The provision for loan losses increased $9.2 million over the previous year, totaling $29.5 million in 2014, and was $5.0 million lower than net loan charge-offs. Net charge-offs increased by $3.2 million in 2014 compared to 2013, mainly in consumer, construction and business loans.

Non-interest income for 2014 was $436.0 million, an increase of $17.6 million, or 4.2%, compared to $418.4 million in 2013. This increase resulted mainly from continued growth in trust fees and bank card fees, which increased $9.6 million and $9.2 million, respectively. Bank card fees included a $7.2 million increase in corporate card fees, a product line upon which the Company has placed significant focus during the past few years and which continues to show good growth. Consumer brokerage services revenue increased $1.0 million due to growth in advisory fees, while capital market fees declined $1.5 million as sales volume remained lower.

During 2014, investment securities net gains totaled $14.1 million, compared to net losses of $4.4 million during 2013. Gains and losses in both years resulted mainly from activity in the private equity investment portfolio, and included fair value adjustments and gains/losses realized upon sale or disposition. Gains in 2014 included $19.6 million related to the sale of a private equity investment, partly offset by a loss of $5.2 million on the sale of U.S. Treasury inflation-protected bonds.

Non-interest expense for 2014 was $657.8 million, an increase of $28.1 million over $629.6 million in 2013. The increase in non-interest expense included a $17.2 million increase in salaries and benefits expense, due to higher

full-time salaries expense and medical costs. Expense for occupancy, supplies and communication, equipment and data processing were all well controlled during 2014, with growth of 1% or less in each of those categories. Non-interest expense also increased due to a $1.5 million increase in marketing expense, as well as several other items which included higher bank card rewards cost and lower gains on sales of foreclosed property. Income tax expense was $120.2 million in 2014 compared to $122.2 million in 2013, resulting in effective tax rates of 31.5% in 2014 and 31.9% in 2013.

Net income attributable to Commerce Bancshares, Inc. for 2013 was $261.0 million, a decrease of $8.4 million, or 3.1%, compared to $269.3 million in 2012. Diluted income per share was $2.59 in 2013 compared to $2.63 in 2012. The decrease in net income resulted from a $20.5 million decrease in net interest income, as well as an increase of $11.2 million in non-interest expense and a decrease of $9.3 million in net securities gains. These decreases to net income were partly offset by an increase in non-interest income of $18.8 million and a decline of $6.9 million in the provision for loan losses. The return on average assets

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was 1.19% in 2013 compared to 1.30% in 2012, and the return on average common equity was 11.99% compared to 12.00% in 2012. At December 31, 2013, the ratio of tangible common equity to assets was 9.00% compared to 9.25% at year end 2012.

During 2013, net interest income decreased $20.5 million, or 3.2%, compared to 2012. This decrease was largely due to lower rates earned on the investment security and loan portfolios, partly offset by higher loan balances and lower rates paid on deposits. The provision for loan losses decreased $6.9 million from the previous year, totaling $20.4 million in 2013, and was $11.0 million lower than net loan charge-offs in 2013. Net charge-offs declined by $7.9 million in 2013 compared to 2012, mainly in construction, business real estate, consumer, and revolving home equity loans.

Non-interest income for 2013 was $418.4 million, an increase of $18.8 million, or 4.7%, compared to $399.6 million in 2012. This increase resulted mainly from growth of $7.9 million in trust fees and $12.4 million in bank card fees. Capital market fees declined $6.9 million due to weak demand from correspondent and commercial customers.

Non-interest expense for 2013 was $629.6 million, an increase of $11.2 million over $618.5 million in 2012. The increase in non-interest expense included a $6.0 million increase in salaries and benefits expense, as well as a $4.4 million increase in data processing and software expense. Occupancy, supplies and communications, marketing and deposit insurance expense increased on a combined basis by only $94 thousand. Partly offsetting these increases in non-interest expense during 2013 was a $1.7 million decrease in equipment expense. Income tax expense was $122.2 million in 2013 compared to $127.2 million in 2012, resulting in effective tax rates of 31.9% in 2013 and 32.1% in 2012.

In September 2013, the Company acquired Summit Bancshares, Inc., an Oklahoma-based franchise with $261.6 million in assets and branch locations in Tulsa and Oklahoma City. In July 2014, the Company sold certain loans, deposits, and premises of three banking branches located in eastern Missouri. These transactions are further discussed in Note 2 to the consolidated financial statements.

In June 2014, the Company issued $150.0 million in perpetual preferred stock with a 6% dividend; its first issuance of preferred stock. The proceeds were used to repurchase common shares. During 2014, the Company purchased $211.0 million in shares of its common stock. The Company also distributed a 5% stock dividend for the 21st consecutive year on December 15, 2014. All per share and average share data in this report has been restated to reflect the 2014 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.

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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 16 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 93.5% of the available for sale portfolio at December 31, 2014, and were classified as Level 2 measurements. The Company also holds $95.1 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, 2014, certain non-agency guaranteed mortgage-backed securities with a fair value of $54.6 million were identified as other-than-temporarily impaired. The cumulative credit-related impairment loss recorded on these securities amounted to $13.7 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 $60.2 million at December 31, 2014. 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.

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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.

	2014			2013		
	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	$34,572	$(25,530)	$9,042	$42,759	$(49,138)	$(6,379)
Loans held for sale	(176)	—	(176)	(194)	9	(185)
Investment securities:						
U.S. government and federal agency obligations	2,105	2,870	4,975	2,538	(6,023)	(3,485)
Government-sponsored enterprise obligations	5,100	(547)	4,553	3,556	(551)	3,005
State and municipal obligations	3,533	(462)	3,071	9,459	(4,993)	4,466
Mortgage-backed securities	(5,677)	(1,617)	(7,294)	(18,553)	(1,451)	(20,004)
Asset-backed securities	(2,047)	(452)	(2,499)	1,484	(5,949)	(4,465)
Other securities	(2,376)	(916)	(3,292)	1,671	(3,099)	(1,428)
Federal funds sold and short-term securities purchased under agreements to resell	31	(36)	(5)	41	(17)	24
Long-term securities purchased under agreements to resell	(3,409)	(5,237)	(8,646)	6,062	(4,117)	1,945
Interest earning deposits with banks	162	6	168	51	(3)	48
Total interest income	31,818	(31,921)	(103)	48,874	(75,332)	(26,458)
Interest expense						
Interest bearing deposits:						
Savings	54	35	89	72	(108)	(36)
Interest checking and money market	442	(1,364)	(922)	1,245	(5,536)	(4,291)
Time open and C.D.’s of less than $100,000	(530)	(1,335)	(1,865)	(557)	(1,359)	(1,916)
Time open and C.D.’s of $100,000 and over	688	(1,145)	(457)	571	(1,362)	(791)
Federal funds purchased and securities sold under agreements to repurchase	(74)	284	210	144	(143)	1
Other borrowings	328	(208)	120	(160)	43	(117)
Total interest expense	908	(3,733)	(2,825)	1,315	(8,465)	(7,150)
Net interest income, fully taxable equivalent basis	$30,910	$(28,188)	$2,722	$47,559	$(66,867)	$(19,308)

Net interest income totaled $620.2 million in 2014, increasing slightly compared to $619.4 million in 2013. On a tax equivalent basis, net interest income totaled $648.6 million in 2014 and increased $2.7 million over the previous year. This increase was mainly the result of higher interest earned on loans, due to higher loan balances, and lower rates paid on deposits. In addition, inflation-adjusted interest on the Company's holdings of U.S. Treasury inflation-protected securities (TIPS) was higher by $4.3 million compared to 2013, while interest earned on long-term securities purchased under agreements to resell declined $8.6 million due to lower balances and lower rates earned.

The net yield on earning assets (tax equivalent) was 3.00% in 2014 compared with 3.11% in the previous year.

During 2014, tax equivalent interest income on loans grew $9.0 million over 2013 due to an increase of $948.6 million, or 9.2%, in average balances, partly offset by a 28 basis point decrease in average rates earned. The average tax equivalent rate earned on the loan portfolio was 4.04% in 2014 compared to 4.32% in 2013. The higher average balances contributed interest income of $34.6 million; however, the lower rates depressed interest income by $25.5 million, which together resulted in a $9.0 million net increase in interest income. The largest increase occurred in business loan interest, which was higher by $7.9 million as a result of growth in average balances of $552.9 million, or 16.4%, partly offset by a decline in rates of 22 basis points. Interest on personal real estate loans grew $2.7 million due to a $123.2 million increase in average balances coupled with an 11 basis point decrease in average rates. Higher levels of interest were earned on consumer and construction and land loans, which increased $1.1 million and $790 thousand, respectively. These increases were due to higher average balances, which increased 12.5% in consumer and 10.5% in construction and land loans, partly offset by lower average rates earned. Average consumer loan balances increased $179.8 million, which was mainly the result of increases of $180.8 million in loans secured by passenger vehicles and

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$33.5 million in fixed rate home equity loans. These increases were partially offset by a $67.2 million decrease in marine and recreational vehicle (RV) loans as that portfolio continues to pay down. Interest earned on consumer credit card loans increased by $1.5 million due to a 16 basis point increase in the average rate earned and a slight increase in average balances. Partially offsetting the increases in interest earned was lower interest earned on business real estate loans. Interest on these loans decreased $4.3 million due to a 28 basis point decline in rates, partly offset by growth in average balances of $49.7 million, or 2.2%.

Tax equivalent interest income on total investment securities during 2014 was flat compared to 2013, as the total average balance and the average rate earned in 2014 were relatively unchanged from 2013. The average rate earned on the total investment securities portfolio was 2.30% and the total portfolio balance averaged $9.1 billion in both 2014 and 2013. Interest income on the Company's portfolio of U.S. government securities, which consist mainly of TIPS, increased $5.0 million over 2013, largely due to growth of $4.3 million in inflation-adjusted interest earned on these securities. Interest income on state and municipal obligations and government-sponsored enterprise obligations increased $3.1 million and $4.6 million, respectively, due to higher average invested balances, partly offset by declines in rates earned. State and municipal average balances rose $97.7 million, or 6.0%, partly offset by a rate decline of 3 basis points. Average balances of government-sponsored enterprise obligations rose $294.8 million, or 59.0%, offset by a rate decline of 7 basis points. Interest income on mortgage-backed securities decreased $7.3 million in 2014 mainly due to a $206.4 million, or 6.5%, decline in average balances, in addition to a rate decline of 6 basis points. Interest income on asset-backed securities was down by $2.5 million, largely due to a 7.4% decline in average balances. Other declines occurred in interest on corporate debt issues and non-marketable private equity investments, which declined $1.7 million and $1.5 million, respectively, due to lower average balances and lower rates earned. Interest on long-term securities purchased under resell agreements decreased $8.6 million in 2014 compared to the prior year due to a $189.4 million decrease in the average balances of these instruments, coupled with a decrease in the average rate earned from 1.80% in the previous year to 1.27% in 2014.

During 2014, interest expense on deposits declined $3.2 million from 2013. This was largely due to lower overall rates paid on total deposits, which declined 3 basis points in 2014 to .19% The average rate paid on total certificates of deposit declined 7 basis points. Total average certificates of deposit declined $107.1 million, or 4.4%, but included an increase in long-term jumbo certificate of deposit balances of $159.4 million, which carry higher rates. Average rates paid on money market accounts also declined, partly offset by the impact of higher average balances, which increased $371.9 million, or 4.3% over 2013. Interest expense on borrowings increased $330 thousand, as the average rate paid grew by 3 basis points. The average rate paid on total interest bearing liabilities fell to .20% in 2014, compared to .23% in 2013.

During 2013, tax equivalent loan interest income declined $6.4 million from 2012 due to a 50 basis point decrease in average rates earned, offset by a $932.3 million, or 9.9%, increase in average loan balances. The average tax equivalent rate earned on the loan portfolio was 4.32% in 2013 compared to 4.82% in 2012. The lower rates depressed interest income by $49.1 million; however, the higher average balances contributed interest income of $42.8 million, which together resulted in a $6.4 million net decrease in interest income. The largest decline occurred in business real estate loan interest, which decreased $6.1 million as a result of a decline in rates of 39 basis points, partly offset by a $57.8 million, or 2.6% increase in average balances. Interest on revolving home equity loans decreased $1.8 million due to a $21.8 million decline in average balances coupled with a 21 basis point decrease in average rates. Higher levels of interest were earned on business, personal real estate and consumer loans, which increased $834 thousand, $711 thousand, and $897 thousand, respectively. These increases were due to higher average balances, which increased 13.6% in business, 12.7% in personal real estate and 21.7% in consumer loans, partly offset by lower average rates earned. Average consumer loan balances increased $256.7 million, which was mainly the result of increases of $196.2 million in passenger vehicle loans and $88.7 million in fixed rate home equity loans. These increases were partially offset by an $82.9 million decrease in marine and RV loans. Interest earned on consumer credit card loans decreased by $809 thousand due to a 44 basis point decrease in the average rate earned, partly offset by the impact of a $21.8 million increase in average balances.

Tax equivalent interest income on investment securities decreased by $21.9 million in 2013 due to a 25 basis point decrease in average rates earned on these investments, while total average balances increased only slightly. The average rate earned on the total investment securities portfolio declined from 2.55% in 2012 to 2.30% in 2013. Interest income on mortgage-backed securities decreased $20.0 million in 2013 mainly due to a $665.0 million, or 17.3%, decline in average balances. Other declines occurred in interest on asset-backed securities (down $4.5 million) and U.S. government and federal agency obligations (down $3.5 million)due to rate declines, partly offset by higher average balances. The decline in interest on U.S. government obligations was largely due to a decrease of $3.2 million in inflation-adjusted interest on TIPS. Interest income on state and municipal obligations and government-sponsored enterprise obligations increased $4.5 million and $3.0 million, respectively, due to higher average invested balances, partly offset by declines in rates earned. State and municipal average balances rose $240.9 million, or 17.5%, offset by a rate decline of 31 basis points. Government-sponsored enterprise obligations rose $193.3 million, or 63.0%, offset by a rate decline of 11 basis points. Interest on long-term securities purchased under agreements to resell increased $1.9 million in 2013 compared to the prior year due to a $282.0 million increase in average balances, partly offset by a decrease in the average rate earned of 35 basis points.

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During 2013, interest expense on deposits decreased $7.0 million compared to 2012. This was the result of lower overall rates paid on total deposits, which declined 8 basis points in 2013 to .22%. Average rates paid on money market accounts declined 7 basis points, and rates paid on certificates of deposit declined 15 basis points. The resulting declines in interest expense were partly offset by the impact of higher average balances of money market accounts, which increased $579.1 million, or 7.1% over 2012. Interest expense on borrowings declined slightly due to lower average rates paid. The average rate paid on total interest bearing liabilities decreased to .23% compared to .30% in 2012.

Provision for Loan Losses

The provision for loan losses totaled $29.5 million in 2014, which represented an increase of $9.2 million over the 2013 provision of $20.4 million. Net loan charge-offs for the year totaled $34.5 million compared with $31.4 million in 2013, or an increase of $3.2 million. The increase in net loan charge-offs over the previous year was mainly the result of higher construction, business, and consumer loan losses, which increased $3.2 million, $1.3 million and $1.3 million, respectively. These increases were partly offset by lower losses on revolving home equity, personal real estate, and business real estate loans. The allowance for loan losses totaled $156.5 million at December 31, 2014, a decrease of $5.0 million compared to the prior year, and represented 1.36% 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

				% Change	
(Dollars in thousands)	2014	2013	2012	'14-'13	'13-'12
Bank card transaction fees	$175,806	$166,627	$154,197	5.5 %	8.1 %
Trust fees	112,158	102,529	94,679	9.4	8.3
Deposit account charges and other fees	78,680	79,017	79,485	(.4)	(.6)
Capital market fees	12,667	14,133	21,066	(10.4)	(32.9)
Consumer brokerage services	12,006	11,006	10,162	9.1	8.3
Loan fees and sales	5,108	5,865	6,037	(12.9)	(2.8)
Other	39,553	39,209	34,004	.9	15.3
Total non-interest income	$435,978	$418,386	$399,630	4.2 %	4.7 %
Non-interest income as a % of total revenue*	41.3 %	40.3 %	38.4 %		
Total revenue per full-time equivalent employee	$222.6	$219.5	$220.8		

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

Non-interest income totaled $436.0 million, an increase of $17.6 million, or 4.2%, compared to $418.4 million in 2013. Bank card fees increased $9.2 million, or 5.5%, over the prior year, as a result of a $7.2 million, or 8.9%, increase in corporate card fees, which totaled $87.8 million this year. Debit card fees grew $1.7 million, or 4.8%, to $37.2 million, while credit card fees increased 2.3% over last year and totaled $24.0 million. Trust fee income increased $9.6 million, or 9.4%, as a result of continued solid growth in both personal and institutional trust fees. The market value of total customer trust assets (on which fees are charged) totaled $39.0 billion at year end 2014 and grew 10.8% over year end 2013. Deposit account fees declined $337 thousand, or .4%, due to lower overdraft and return item fees of $1.3 million, mostly offset by higher account service charges and corporate cash management fees of $635 thousand and $332 thousand, respectively. Overdraft fees comprised 37.7% of total deposit fees in 2014, down from 39.2% in 2013, while corporate cash management fees comprised 42.6% of total deposit fees in 2014, compared to 42.0% in 2013. Capital market fees decreased $1.5 million, or 10.4%, as a result of continued weak demand, while loan fees and sales declined $757 thousand, or 12.9%, due to lower loan commitment fees. Consumer brokerage services revenue increased $1.0 million, or 9.1%, due to growth in advisory fees. Other income increased $344

thousand and included a gain of $2.1 million on the sale of three retail branches in the third quarter of 2014, coupled with higher operating lease revenue and other fee revenue related to the settlement of certain litigation. These increases were partly offset by lower net gains on bank properties sold or held for sale during the period, in addition to lower tax credit sales revenue.

During 2013, non-interest income increased $18.8 million, or 4.7%, over 2012 to $418.4 million. Bank card fees increased $12.4 million, or 8.1%, over 2012, as a result of continued growth in corporate card fees of $9.9 million, or 13.9%. In addition, higher transaction volumes resulted in growth of 3.3% in merchant fees, while credit card fees also increased by 3.8%. Corporate card, merchant card and credit card fees for 2013 totaled $80.6 million, $27.1 million and $23.4 million, respectively. Trust fee income increased $7.9 million, or 8.3%, resulting mainly from growth in personal and institutional trust fees. The market value of total customer trust assets totaled $35.2 billion at year end 2013 and grew 16.4% over year end 2012. Deposit account fees decreased $468 thousand, or .6%, primarily due to a decline in overdraft and return item fees of $3.4 million. This decline was mainly the result of a new posting routine on debit card transactions which took effect in February 2013. Partly offsetting this effect was an increase of $3.0 million in various other deposit fees and cash management fees. Capital market fees decreased $6.9

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million, or 32.9%, compared to 2012 as customer demand for fixed-income securities was weak in 2013. Consumer brokerage services revenue increased $844 thousand, or 8.3%, due to higher advisory fee income, while loan fees and sales revenue decreased $172 thousand, or 2.8%, due to a decline in loan commitment fees. Other non-interest income increased by $5.2 million, or 15.3%, as a result of a $3.0 million fair value loss recorded in 2012 on an office building which was held for sale, and net gains of $1.4 million were recorded during 2013 on sales of five retail branch facilities no longer in use. In addition, higher swap and foreign exchange fees were recorded in 2013.

Investment Securities Gains (Losses), Net

(In thousands)	2014	2013	2012
Available for sale:			
Common stock	$1,570	$1,375	$—
U.S. government bonds	(5,197)	—	—
Municipal bonds	—	126	16
Agency mortgage-backed bonds	—	—	342
OTTI losses on non-agency mortgage-backed bonds	(1,365)	(1,284)	(1,490)
Non-marketable:			
Private equity investments	19,116	(4,642)	5,960
Total investment securities gains (losses), net	$14,124	$(4,425)	$4,828

Net gains and losses on investment securities during 2014, 2013 and 2012 are shown in the table above. 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 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. The portions of the gains and losses that are attributable to minority interests are reported as non-controlling interest in the consolidated statements of income, and resulted in expense of $180 thousand in 2014, income of $1.1 million in 2013 and expense of $1.3 million 2012.

Net securities gains of $14.1 million were recorded in 2014, which included $19.1 million in gains relating to the private equity investment portfolio. These gains included $19.6 million related to the sale of an investment which had been held by the Company for many years, partly offset by fair value losses on other investments in this portfolio. During 2014, the Company also sold $36.2 million of U.S. Treasury inflation-protected bonds, realizing a loss of $5.2 million, and recorded a $1.6 million gain upon the donation of appreciated common stock. Also included in net losses were credit-related impairment losses of $1.4 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 $54.6 million at December 31, 2014, compared to $70.4 million at December 31, 2013.

Net securities losses of $4.4 million were recorded in 2013, compared to net gains of $4.8 million in 2012. In both years, these gains and losses were comprised mainly of fair value adjustments in the private equity investment portfolio, coupled with losses in the available for sale portfolio relating to other-than-temporary impairment (OTTI). In 2013, a gain of $1.4 million relating to the donation of appreciated common stock was also recorded.

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Non-Interest Expense

(Dollars in thousands)	2014	2013	2012	% Change '14-'13	'13-'12
Salaries	$322,631	$310,179	$302,675	4.0 %	2.5 %
Employee benefits	61,469	56,688	58,224	8.4	(2.6)
Net occupancy	45,825	45,639	45,534	.4	.2
Equipment	18,375	18,425	20,147	(.3)	(8.5)
Supplies and communication	22,432	22,511	22,321	(.4)	.9
Data processing and software	78,980	78,245	73,798	.9	6.0
Marketing	15,676	14,176	15,106	10.6	(6.2)
Deposit insurance	11,622	11,167	10,438	4.1	7.0
Other	80,765	72,603	70,226	11.2	3.4
Total non-interest expense	$657,775	$629,633	$618,469	4.5 %	1.8 %
Efficiency ratio	62.1 %	60.5 %	59.3 %		
Salaries and benefits as a % of total non-interest expense	58.4 %	58.3 %	58.4 %		
Number of full-time equivalent employees	4,744	4,727	4,708		

Non-interest expense was $657.8 million in 2014, an increase of $28.1 million, or 4.5%, over the previous year. Salaries and benefits expense increased $17.2 million, or 4.7%, mainly due to higher full-time salaries expense and medical plan costs, which the Company self insures. Growth in salaries expense resulted partly from staffing additions in commercial banking, wealth, commercial card and IT departments. Full-time equivalent employees totaled 4,744 at December 31, 2014, an increase of .4% over 2013. Occupancy expense increased $186 thousand, or .4%, while equipment expense and supplies and communication expense both declined slightly. Data processing and software expense increased $735 thousand, or .9%, mainly due to higher software licensing and bank card processing expense. Marketing expense increased $1.5 million, or 10.6%, mainly due to lower advertising activities during 2013, and deposit insurance expense increased $455 thousand, or 4.1% due to higher deposit balances. Other non-interest expense increased $8.2 million, or 11.2% over the prior year. The increase resulted from a $2.1 million increase in bank card rewards costs and higher costs for operating lease depreciation, coupled with a prior year $2.0 million reimbursement from the Company's bank card processor and gains of $3.1 million on sales of foreclosed properties during 2013. These effects were partly offset by the current year recovery of $1.7 million from the settlement of past litigation and letter of credit provisions in the prior year totaling $2.8 million. The Summit acquisition in September 2013 also contributed to the overall increase in total non-interest expense, as costs relating to those operations rose $1.7 million in 2014 (the first full year of such costs) compared to 2013.

In 2013, non-interest expense was $629.6 million, an increase of $11.2 million, or 1.8%, over 2012. Salaries and benefits expense increased by $6.0 million, or 1.7%, mainly due to higher full-time salaries expense, partly offset by lower medical and incentives expense. Growth in salaries expense resulted partly from staffing costs associated with the Summit acquisition, coupled with staffing additions in commercial banking, wealth and commercial card. Full-time equivalent employees totaled 4,727 at December 31, 2013, an increase of .4%. Occupancy expense increased $105 thousand, or .2%, while supplies and communication expense increased $190 thousand, or .9%. Equipment expense decreased $1.7 million, or 8.5%, due to lower depreciation expense. Data processing and software expense increased $4.4 million, or 6.0%, mainly due to higher bank card processing expense and data processing termination fees relating to the Summit acquisition. Marketing expense declined $930 thousand, or 6.2%, while deposit insurance increased $729 thousand, or 7.0%. Other non-interest expense increased $2.4 million, or 3.4%, over 2012, resulting mainly from an increase of $4.0 million in legal and professional fees, provisions of $2.8 million on letter of credit exposures, contribution expense of $1.5 million on appreciated stock, and higher travel and entertainment expense. These expense increases were partly offset by gains of $3.1 million on sales of foreclosed

property in 2013, in addition to a 2012 charge of $5.2 million related to certain Visa-related interchange litigation that did not reoccur in 2013.

Income Taxes

Income tax expense was $120.2 million in 2014, compared to $122.2 million in 2013 and $127.2 million in 2012. The effective tax rate, including the effect of non-controlling interest, was 31.5% in 2014 compared to 31.9% in 2013 and 32.1% in 2012. 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. Additional information about income tax expense is provided in Note 9 to the consolidated financial statements.

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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 52.

	Balance at December 31				
(In thousands)	2014	2013	2012	2011	2010
Commercial:					
Business	$3,969,952	$3,715,319	$3,134,801	$2,808,265	$2,957,043
Real estate — construction and land	403,507	406,197	355,996	386,598	460,853
Real estate — business	2,288,215	2,313,550	2,214,975	2,180,100	2,065,837
Personal banking:					
Real estate — personal	1,883,092	1,787,626	1,584,859	1,428,777	1,440,386
Consumer	1,705,134	1,512,716	1,289,650	1,114,889	1,164,327
Revolving home equity	430,873	420,589	437,567	463,587	477,518
Consumer credit card	782,370	796,228	804,245	788,701	831,035
Overdrafts	6,095	4,611	9,291	6,561	13,983
Total loans	$11,469,238	$10,956,836	$9,831,384	$9,177,478	$9,410,982

The contractual maturities of loan categories at December 31, 2014, 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	$2,077,663	$1,510,400	$381,889	$3,969,952
Real estate — construction and land	237,429	130,794	35,284	403,507
Real estate — business	491,885	1,457,858	338,472	2,288,215
Real estate — personal	151,947	501,513	1,229,632	1,883,092
Total business and real estate loans	$2,958,924	$3,600,565	$1,985,277	8,544,766
Consumer (1)				1,705,134
Revolving home equity (2)				430,873
Consumer credit card (3)				782,370
Overdrafts				6,095
Total loans				$11,469,238
Loans with fixed rates	$640,670	$2,167,369	$1,142,800	$3,950,839
Loans with floating rates	2,318,254	1,433,196	842,477	4,593,927
Total business and real estate loans	$2,958,924	$3,600,565	$1,985,277	$8,544,766

(1) Consumer loans with floating rates totaled $216.7 million.

(2) Revolving home equity loans with floating rates totaled $430.8 million.

(3) Consumer credit card loans with floating rates totaled $668.6 million.

Total loans at December 31, 2014 were $11.5 billion, an increase of $512.4 million, or 4.7%, over balances at December 31, 2013. The growth in loans during 2014 occurred in business, personal real estate and consumer loan categories, while declines occurred in business real estate and consumer credit card loan categories. Business loans increased $254.6 million, or 6.9%, reflecting growth in commercial and industrial loans, lease loans, corporate card loans and tax-advantaged lending. Business real estate loans decreased $25.3 million, or 1.1%, due to lower totals of

owner-occupied loans during 2014. Construction loans decreased slightly due to a decline in commercial construction loans, mostly offset by increased activity in residential construction. Personal real estate loans increased $95.5 million, or 5.3%, as an improved economy and continued low rates helped spur demand. Consumer loans were higher by $192.4 million, or 12.7%, as demand for automobile and other consumer loans remained solid,

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while marine and recreational vehicle loan balances continued to run off during the year. Revolving home equity loan balances saw a moderate increase of $10.3 million, or 2.4%. Consumer credit card loans decreased by $13.9 million, or 1.7%, as borrowers remained conservative in their use of these card plans.

The Company currently generates approximately 29% of its loan portfolio in the St. Louis market, 28% in the Kansas City market, and 43% 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. At December 31, 2014, the balance of SNC loans totaled approximately $508.0 million, with an additional $1.2 billion in unfunded commitments, compared to $406.3 million in loans and $1.2 billion in commitments at December 31, 2013.

Commercial Loans

Business

Total business loans amounted to $4.0 billion at December 31, 2014 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 $727.5 million at December 31, 2014, which was a 3.2% increase over December 31, 2013 balances, and comprised 6.3% of the Company's total loan portfolio. The business loan portfolio also includes direct financing and sales type leases totaling $413.0 million, which are used by commercial customers to finance capital purchases ranging from computer equipment to office and transportation equipment. These leases increased $44.2 million, or 12.0%, over 2013 and comprised 3.6% of the Company’s total loan portfolio. Also included in this portfolio are corporate card loans, which totaled $212.2 million at December 31, 2014. These loans, which increased by $22.6 million, or 11.9% in 2014, are made in conjunction with the Company’s corporate card business, and assist businesses in 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 charge-offs in this category totaled $465 thousand in 2014, while net loan recoveries of $867 thousand were recorded in 2013. Non-accrual business loans were $11.6 million (.3% of business loans) at both December 31, 2014 and 2013.

Real Estate-Construction and Land

The portfolio of loans in this category amounted to $403.5 million at December 31, 2014 and comprised 3.5% of the Company’s total loan portfolio. These loans are predominantly made to businesses in local markets. Commercial construction and land development loans totaled $213.4 million, or 52.9% of total construction loans at December 31, 2014. 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, 2014 totaled $190.1 million, or 47.1% of total construction loans. The largest percentage of residential construction and land development loans is for projects located in the Kansas City and St. Louis metropolitan areas. A stable market has contributed to improved loss trends, with net loan recoveries of $1.5 million and $4.7 million recorded in 2014 and 2013, respectively. Construction and land loans on non-accrual status declined to $5.2 million at year end 2014 compared to $10.2 million at year end 2013.

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Real Estate-Business

Total business real estate loans were $2.3 billion at December 31, 2014 and comprised 20.0% 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 lending (44.4% of this portfolio), which presents 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 33. At December 31, 2014, non-accrual balances amounted to $17.9 million, or .8% of the loans in this category, down from $19.8 million at year end 2013. The Company experienced net charge-offs of $427 thousand in 2014 compared to net charge-offs of $952 thousand in 2013.

Personal Banking Loans

Real Estate-Personal

At December 31, 2014, there were $1.9 billion in outstanding personal real estate loans, which comprised 16.4% 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 traditionally retained adjustable rate mortgage loans, and in recent years retained all fixed rate loans as directed by its Asset/Liability Management Committee. 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, 2014, 32% of the portfolio was comprised of adjustable rate loans while 68% was comprised of fixed rate loans. Levels of mortgage loan origination activity decreased in 2014 compared to 2013, with originations of $344 million in 2014 compared with $410 million in 2013, as refinance activity declined. However, the 2014 originations outpaced slowing prepayment speeds, resulting in overall growth of 5.3%. 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 2014 amounted to $527 thousand, compared to $1.2 million in the previous year. The non-accrual balances of loans in this category increased to $6.2 million at December 31, 2014, compared to $5.1 million at year end 2013.

Consumer

Consumer loans consist of auto, marine, tractor/trailer, recreational vehicle (RV), fixed rate home equity, and other consumer installment loans. These loans totaled $1.7 billion at year end 2014. Approximately 60% of consumer loans outstanding were originated indirectly from auto and other dealers, while the remaining 40% were direct loans made to consumers. Approximately 56% of the consumer portfolio consists of loans secured by passenger vehicles, 17% in fixed rate home equity loans, and 11% in marine and RV loans. As mentioned above, total consumer loans increased by $192.4 million in 2014, mainly the result of growth in loans collateralized by passenger vehicles (mainly automobiles) of $208.3 million, or 28%. Growth of $38.0 million in other consumer loans and $7.0 million in fixed rate home equity loans was offset by the run-off of $60.9 million in marine and RV loans. Net charge-offs on consumer loans were $8.8 million in 2014 compared to $7.5 million in 2013. Net charge-offs were .5% of average consumer loans in both 2014 and 2013. Consumer loan net charge-offs included marine and RV loan net charge-offs of $2.4 million, which were 1.1% of average marine and RV loans in 2014, compared to 1.3% in 2013.

Revolving Home Equity

Revolving home equity loans, of which 99% are adjustable rate loans, totaled $430.9 million at year end 2014. An additional $681.5 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 only $40 thousand in 2014, compared to $986 thousand in 2013.

Consumer Credit Card

Total consumer credit card loans amounted to $782.4 million at December 31, 2014 and comprised 6.8% 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 58% of the households in Missouri that own a Commerce credit card product also maintain a deposit relationship with the subsidiary bank. At December 31, 2014, approximately 85% of the outstanding credit card loan balances had a floating interest rate, compared to 82% in the prior year. Net charge-offs amounted to $24.7 million in 2014, a decrease of $399 thousand from $25.1 million in 2013. The ratio of credit card loan net charge-offs to total average credit card loans was 3.3% in both 2014 and 2013. These ratios mirror bank industry averages, which are at the lowest levels in 8 years.

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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 and collateral. For collateral dependent loans, appraisals of 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 for both personal banking and commercial loans use methods which consider historical and current loss trends, loss emergence periods, delinquencies, industry concentrations and unique risks. Economic conditions throughout the Company's market place, as monitored by Company credit officers, are also considered in the allowance determination process.
The Company’s estimate of the allowance for loan losses and the corresponding provision for loan losses rest 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 delinquencies, 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, 2014, the allowance for loan losses was $156.5 million compared to $161.5 million at December 31, 2013. Total loans delinquent 90 days or more and still accruing were $13.7 million at December 31, 2014, a decrease of $308 thousand compared to year end 2013. Non-accrual loans at December 31, 2014 were $40.8 million, a decrease of $8.0 million from the prior year. The 2014 year end balance was comprised of $17.9 million of business real estate loans, $11.6 million of business loans, $6.2 million of personal real estate loans and $5.2 million of construction loans. The percentage of allowance to loans decreased to 1.36% at December 31, 2014 compared to 1.47% at year end 2013 as a result of loan growth and a decline of $5.0 million in the allowance. The percentage of allowance to non-accrual loans was 384% at December 31, 2014, compared to 331% at December 31, 2013.

Net loan charge-offs totaled $34.5 million in 2014, representing a $3.2 million increase compared to net charge-offs of $31.4 million in 2013. Net charge-offs on business loans were $465 thousand in 2014, an increase of $1.3 million compared to net recoveries of $867 thousand in 2013. Net charge-offs on consumer loans increased $1.3 million to $8.8 million in 2014, compared to net charge-offs of $7.5 million in 2013. Net recoveries on construction and land loans declined $3.2 million to $1.5 million in 2014, compared to $4.7 million in 2013. These increases in net

charge-offs were partly offset by charge-off declines in other loan categories. Net charge-offs on business real estate loans decreased to $427 thousand in 2014, compared to net charge-offs of $952 thousand in 2013. Net charge-offs on consumer credit card loans decreased $399 thousand to $24.7 million in 2014, compared to $25.1 million in 2013, and consumer credit card net charge-offs declined to 3.28% of average consumer credit card loans in 2014 compared to 3.34% in 2013. Consumer credit card loan charge-offs as a percentage of total net charge-offs declined to 71.6% in 2014 compared to 80.1% in 2013, as slightly lower consumer credit card charge-offs offset higher overall net charge-offs in other loan categories. Lower net charge-offs also occurred in revolving home equity and personal real estate loans, which declined $946 thousand and $700 thousand respectively.

The ratio of net charge-offs to total average loans outstanding in 2014 was .31% compared to .30% in 2013 and .42% in 2012. The provision for loan losses in 2014 was $29.5 million, compared to provisions of $20.4 million in 2013 and $27.3 million in 2012.

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The Company considers the allowance for loan losses of $156.5 million adequate to cover losses inherent in the loan portfolio at December 31, 2014.

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)	2014	2013	2012	2011	2010
Loans outstanding at end of year[(A)]	$11,469,238	$10,956,836	$9,831,384	$9,177,478	$9,410,982
Average loans outstanding[(A)]	$11,260,233	$10,311,654	$9,379,316	$9,222,568	$9,698,670
Allowance for loan losses:					
Balance at beginning of year	$161,532	$172,532	$184,532	$197,538	$194,480
Additions to allowance through charges to expense	29,531	20,353	27,287	51,515	100,000
Loans charged off:					
Business	2,646	1,869	2,809	6,749	8,550
Real estate — construction and land	794	621	1,244	7,893	15,199
Real estate — business	1,108	2,680	7,041	4,176	4,780
Real estate — personal	844	1,570	2,416	3,217	2,484
Consumer	12,214	11,029	12,288	16,052	24,587
Revolving home equity	783	1,200	2,044	1,802	2,014
Consumer credit card	32,424	33,206	33,098	39,242	54,287
Overdrafts	1,960	2,024	2,221	2,254	2,672
Total loans charged off	52,773	54,199	63,161	81,385	114,573
Recoveries of loans previously charged off:					
Business	2,181	2,736	5,306	1,761	3,964
Real estate — construction and land	2,323	5,313	1,527	943	193
Real estate — business	681	1,728	1,933	613	722
Real estate — personal	317	343	990	445	428
Consumer	3,409	3,489	4,161	3,896	4,108
Revolving home equity	743	214	240	135	39
Consumer credit card	7,702	8,085	8,623	7,625	6,556
Overdrafts	886	938	1,094	1,446	1,621
Total recoveries	18,242	22,846	23,874	16,864	17,631
Net loans charged off	34,531	31,353	39,287	64,521	96,942
Balance at end of year	$156,532	$161,532	$172,532	$184,532	$197,538
Ratio of allowance to loans at end of year	1.36 %	1.47 %	1.75 %	2.01 %	2.10 %
Ratio of provision to average loans outstanding	.26 %	.20 %	.29 %	.56 %	1.03 %

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

	Years Ended December 31				
	2014	2013	2012	2011	2010
Ratio of net charge-offs (recoveries) to average loans outstanding, by loan category:					
Business	.01 %	(.03)%	(.08)%	.17 %	.16 %
Real estate — construction and land	(.37)	(1.24)	(.08)	1.66	2.69
Real estate — business	.02	.04	.23	.17	.20

Real estate — personal	.03	.07	.09	.19	.14
Consumer	.54	.52	.69	1.09	1.64
Revolving home equity	.01	.23	.40	.36	.41
Consumer credit card	3.28	3.34	3.35	4.23	6.28
Overdrafts	21.97	18.04	18.40	11.62	14.42
Ratio of total net charge-offs to total average loans outstanding	.31 %	.30 %	.42 %	.70 %	1.00 %

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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)	2014		2013		2012		2011		2010	
	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	$40,881	34.6 %	$43,146	33.9 %	$47,729	31.9 %	$49,217	30.5 %	$47,534	31.4 %
RE — construction and land	13,584	3.5	18,617	3.7	20,555	3.6	28,280	4.2	21,316	4.9
RE — business	35,157	20.0	32,426	21.1	37,441	22.5	45,000	23.8	51,096	22.0
RE — personal	7,343	16.4	4,490	16.3	3,937	16.1	3,701	15.6	4,016	15.3
Consumer	16,822	14.9	15,440	13.8	15,165	13.1	15,369	12.1	19,449	12.4
Revolving home equity	2,472	3.7	3,152	3.8	4,861	4.5	2,220	5.1	2,502	5.1
Consumer credit card	39,541	6.8	43,360	7.3	41,926	8.2	39,703	8.6	50,532	8.8
Overdrafts	732	.1	901	.1	918	.1	1,042	.1	1,093	.1
Total	$156,532	100.0 %	$161,532	100.0 %	$172,532	100.0 %	$184,532	100.0 %	$197,538	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.

	December 31				
(Dollars in thousands)	2014	2013	2012	2011	2010
Total non-accrual loans	$40,775	$48,814	$51,410	$75,482	$85,275
Real estate acquired in foreclosure	5,476	6,625	13,453	18,321	12,045
Total non-performing assets	$46,251	$55,439	$64,863	$93,803	$97,320
Non-performing assets as a percentage of total loans	.40 %	.51 %	.66 %	1.02 %	1.03 %
Non-performing assets as a percentage of total assets	.19 %	.24 %	.29 %	.45 %	.53 %
Total past due 90 days and still accruing interest	$13,658	$13,966	$15,347	$14,958	$20,466

The table below shows the effect on interest income in 2014 of loans on non-accrual status at year end.

(In thousands)	
Gross amount of interest that would have been recorded at original rate	$3,879
Interest that was reflected in income	272
Interest income not recognized	$3,607

Non-accrual loans, which are also classified as impaired, totaled $40.8 million at year end 2014, a decrease of $8.0 million from the balance at year end 2013. At December 31, 2014, non-accrual loans were comprised primarily of business real estate loans (43.8%) and business loans (28.4%). Foreclosed real estate decreased $1.1 million to a total of $5.5 million at year end 2014. Total non-performing assets remain low compared to the overall banking industry in 2014, with the non-performing loans to total loans ratio at .36% at December 31, 2014. Loans past due 90 days and still accruing interest decreased $308 thousand at

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year end 2014 compared to 2013. 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 3 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 $81.2 million at December 31, 2014 compared with $98.3 million at December 31, 2013, resulting in a decrease of $17.2 million, or 17.4%. The change in potential problem loans was largely due to decreases of $13.2 million in construction and land real estate loans and $5.2 million in business real estate loans.

	December 31	
(In thousands)	2014	2013
Potential problem loans:		
Business	$23,919	$23,691
Real estate – construction and land	8,654	21,812
Real estate – business	45,140	50,349
Real estate – personal	3,469	2,486
Total potential problem loans	$81,182	$98,338

At December 31, 2014, there were approximately $64.4 million loans outstanding whose terms had 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, and are further discussed in the "Troubled debt restructurings" section in Note 3 to the consolidated financial statements. This balance includes certain commercial loans totaling $21.8 million which are classified as substandard and included in the table above because of this classification.

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 3 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 because of the impact that low rates and the economy can have on real estate value, and because of the potential volatility of the real estate 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 3.5% of total loans outstanding at December 31, 2014.

(Dollars in thousands)	December 31, 2014	% of Total	% of Total Loans	December 31, 2013	% of Total	% of Total Loans
Residential land and land development	$82,072	20.3 %	.7 %	$79,273	19.5 %	.7 %
Residential construction	108,058	26.8	1.0	86,043	21.2	.8
Commercial land and land development	62,379	15.5	.5	77,444	19.1	.7
Commercial construction	150,998	37.4	1.3	163,437	40.2	1.5
Total real estate – construction and land loans	$403,507	100.0 %	3.5 %	$406,197	100.0 %	3.7 %

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Real Estate – Business Loans

Total business real estate loans were $2.3 billion at December 31, 2014 and comprised 20.0% 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 44% of these loans were for owner-occupied real estate properties, which present lower risk profiles.

(Dollars in thousands)	December 31, 2014	% of Total	% of Total Loans	December 31, 2013	% of Total	% of Total Loans
Owner-occupied	$1,017,099	44.4 %	8.9 %	$1,074,074	46.4 %	9.8 %
Retail	305,296	13.3	2.7	271,228	11.7	2.5
Office	230,798	10.1	2.1	265,352	11.5	2.4
Multi-family	200,295	8.8	1.7	178,524	7.7	1.6
Hotels	158,348	6.9	1.4	151,483	6.5	1.4
Farm	151,788	6.6	1.3	138,842	6.0	1.3
Industrial	94,266	4.2	.8	89,045	3.9	.8
Other	130,325	5.7	1.1	145,002	6.3	1.3
Total real estate - business loans	$2,288,215	100.0 %	20.0 %	$2,313,550	100.0 %	21.1 %

Real Estate - Personal Loans

The Company’s $1.9 billion personal real estate loan portfolio is composed of first mortgages on residential real estate. The majority of this portfolio is comprised of approximately $1.6 billion of loans made to the retail customer base and includes both adjustable rate and fixed rate mortgage loans. As shown in Note 3 to the consolidated financial statements, 4.5% of the retail-based portfolio has FICO scores of less than 660, and delinquency levels have been low. Loans of approximately $17.2 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 $244.3 million at December 31, 2014.

The following table presents information about the retail-based personal real estate loan portfolio for 2014 and 2013.

(Dollars in thousands)	2014 Principal Outstanding at December 31	% of Loan Portfolio	2013 Principal Outstanding at December 31	% of Loan Portfolio
Loans with interest only payments	$17,159	1.0 %	$15,849	1.0 %
Loans with no insurance and LTV:				
Between 80% and 90%	80,897	4.9	80,431	5.2
Between 90% and 95%	27,707	1.7	27,158	1.8
Over 95%	35,233	2.1	38,518	2.5
Over 80% LTV with no insurance	143,837	8.7	146,107	9.5
Total loan portfolio from which above loans were identified	1,643,227		1,546,768	

Revolving Home Equity Loans

The Company also has revolving home equity loans that are generally collateralized by residential real estate. Most of these loans (94.1%) 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 following tables, 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. The weighted average FICO score for the total current portfolio balance is 769. 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. Over the next three years, approximately 44% of the Company's current outstanding balances are expected to mature. Of these balances, 84% have a FICO score above 700. The Company does not expect a significant increase in losses as these loans mature, due to their high FICO scores, low LTVs, and low historical loss levels.

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(Dollars in thousands)	Principal Outstanding at December 31, 2014	*		New Lines Originated During 2014	*		Unused Portion of Available Lines at December 31, 2014	*		Balances Over 30 Days Past Due	*	
Loans with interest only payments	$405,298	94.1	%	$156,286	36.3	%	$664,160	154.1	%	$1,798	.4	%
Loans with LTV:												
Between 80% and 90%	40,301	9.4		18,257	4.2		38,592	9.0		238	.1	
Over 90%	22,799	5.2		14,353	3.4		9,246	2.1		81	—	
Over 80% LTV	63,100	14.6		32,610	7.6		47,838	11.1		319	.1	
Total loan portfolio from which above loans were identified	430,873			166,397			688,541					

* Percentage of total principal outstanding of $430.9 million at December 31, 2014.

(Dollars in thousands)	Principal Outstanding at December 31, 2013	*		New Lines Originated During 2013	*		Unused Portion of Available Lines at December 31, 2013	*		Balances Over 30 Days Past Due	*	
Loans with interest only payments	$394,714	93.8	%	$147,645	35.1	%	$656,679	156.1	%	$4,284	1.0	%
Loans with LTV:												
Between 80% and 90%	42,162	10.0		10,767	2.6		36,274	8.6		284	.1	
Over 90%	12,212	2.9		1,941	.4		10,312	2.5		163	—	
Over 80% LTV	54,374	12.9		12,708	3.0		46,586	11.1		447	.1	
Total loan portfolio from which above loans were identified	420,589			157,197			686,105					

* Percentage of total principal outstanding of $420.6 million at December 31, 2013.

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 $291.9 million and $284.9 million at December 31, 2014 and 2013, respectively. At times, these loans are written with interest only monthly payments and a balloon payoff at maturity; however, less than 2% of this portfolio was comprised of interest only loans at both December 31, 2014 and 2013. The delinquency history on this product has been low, as balances over 30 days past due totaled only $1.3 million, or .4% of the portfolio, at year end 2014 and $3.5 million, or 1.2% of the portfolio, at year end 2013.

(Dollars in thousands)	2014 Principal Outstanding at December 31	*		New Loans Originated	*		2013 Principal Outstanding at December 31	*		New Loans Originated	*	
Loans with interest only payments	$3,400	1.2	%	$2,015	.7	%	$5,246	1.8	%	$6,530	2.3	%

Loans with LTV:								
Between 80% and 90%	60,924	20.9	23,397	8.0	52,355	18.4	30,893	10.8
Over 90%	19,472	6.6	6,129	2.1	20,589	7.2	11,652	4.1
Over 80% LTV	80,396	27.5	29,526	10.1	72,944	25.6	42,545	14.9
Total loan portfolio from which above loans were identified	291,891				284,867			

* Percentage of total principal outstanding of $291.9 million and $284.9 million at December 31, 2014 and 2013, respectively.

Management does not believe these loans collateralized by real estate (fixed rate home equity, personal real estate, and revolving home equity) represent any unusual concentrations of risk, as evidenced by net charge-offs in 2014 of $909 thousand, $527 thousand and $40 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, which are characterized as new loans to customers with FICO scores below 660. The Company does not purchase brokered loans.

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Other Consumer Loans

Within the consumer loan portfolio are several direct and indirect product lines comprised mainly of loans secured by passenger vehicles, marine, and RVs. During 2014, $617.0 million of new vehicle loans were originated, compared to $507.7 million during 2013. Marine and RV loan production has been significantly curtailed in recent years with few new originations. The loss ratios experienced for marine and RV loans have been higher than for other consumer loan products, at 1.1% and 1.3% in 2014 and 2013, respectively. Balances over 30 days past due for marine and RV loans decreased $1.5 million at year end 2014 compared to 2013. The table below provides the total outstanding principal and other data for this group of direct and indirect lending products at December 31, 2014 and 2013.

	2014			2013		
(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	$958,270	$616,994	$8,801	$749,970	$507,678	$7,220
Marine	49,722	810	2,049	68,162	2,765	2,860
RV	142,492	1,445	3,612	184,969	11	4,317
Total	$1,150,484	$619,249	$14,462	$1,003,101	$510,454	$14,397

Additionally, the Company offers low promotional rates on selected consumer credit card products. Out of a portfolio at December 31, 2014 of $782.4 million in consumer credit card loans outstanding, approximately $163.7 million, or 20.9%, carried a low promotional rate. Within the next six months, $42.6 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 2014, total investment securities increased $506.7 million, or 5.6%, to $9.5 billion (excluding unrealized gains/losses) compared to $9.0 billion at the previous year end. During 2014, securities of $2.5 billion were purchased in the available for sale and non-marketable portfolios, which included $1.3 billion in asset-backed securities. Total sales, maturities and pay downs in these portfolios were $2.0 billion during 2014. During 2015, maturities and pay downs of approximately $1.8 billion are expected to occur. The average tax equivalent yield earned on total investment securities was 2.30% in both 2014 and 2013.

At December 31, 2014, the fair value of available for sale securities was $9.5 billion, including a net unrealized gain in fair value of $137.3 million, compared to a net unrealized gain of $41.1 million at December 31, 2013. The overall unrealized gain in fair value at December 31, 2014 included gains of $70.3 million in agency mortgage-backed securities, $24.0 million in state and municipal obligations, $9.8 million in non-agency mortgage-backed securities, and $34.3 million in equity securities held by the Parent.

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

	December 31	
(In thousands)	2014	2013
Amortized Cost		
U.S. government and federal agency obligations	$497,336	$498,226
Government-sponsored enterprise obligations	968,574	766,802
State and municipal obligations	1,789,215	1,624,195
Agency mortgage-backed securities	2,523,377	2,743,803
Non-agency mortgage-backed securities	372,911	236,595
Asset-backed securities	3,090,174	2,847,368
Other debt securities	140,784	147,581
Equity securities	3,931	9,970
Total available for sale investment securities	$9,386,302	$8,874,540
Fair Value		
U.S. government and federal agency obligations	$501,407	$505,696
Government-sponsored enterprise obligations	963,127	741,766
State and municipal obligations	1,813,201	1,619,171
Agency mortgage-backed securities	2,593,708	2,772,338
Non-agency mortgage-backed securities	382,744	246,983
Asset-backed securities	3,091,993	2,844,071
Other debt securities	139,161	141,757
Equity securities	38,219	43,898
Total available for sale investment securities	$9,523,560	$8,915,680

The available for sale portfolio includes 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 $382.7 million, at fair value, at December 31, 2014, and included Alt-A type mortgage-backed securities of $60.9 million and prime/jumbo loan type securities of $67.4 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 4 to the consolidated financial statements.

At December 31, 2014, U.S. government obligations included $501.3 million in U.S. Treasury inflation-protected securities, and state and municipal obligations included $95.1 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 $37.4 million at December 31, 2014.

The types of debt securities held in the available for sale security portfolio at year end 2014 are presented in the table below. Additional detail by maturity category is provided in Note 4 to the consolidated financial statements.

	December 31, 2014		
	Percent of Total Debt Securities	Weighted Average Yield	Estimated Average Maturity*
Available for sale debt securities:			
U.S. government and federal agency obligations	5.3 %	1.14 %	4.1 years
Government-sponsored enterprise obligations	10.2	1.82	5.4
State and municipal obligations	19.1	2.35	5.5
Agency mortgage-backed securities	27.3	2.69	3.3
Non-agency mortgage-backed securities	4.0	3.05	3.8

Asset-backed securities	32.6	.87	2.1
Other debt securities	1.5	2.20	5.3

*Based on call provisions and estimated prepayment speeds.

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Non-marketable securities, which totaled $106.9 million at December 31, 2014, included $32.4 million in Federal Reserve Bank stock and $14.2 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 $57.6 million at December 31, 2014. In addition to investments held by its private equity subsidiaries, the Parent directly holds investments in several private equity concerns, which totaled $1.8 million at year end 2014. 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. Most of the private equity investments are held by a subsidiary qualified as a Small Business Investment Company.

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

	December 31	
(In thousands)	2014	2013
Debt securities	$32,793	$28,485
Equity securities	74,082	78,839
Total non-marketable investment securities	$106,875	$107,324

In addition to its holdings in the investment securities portfolio, the Company invests in long-term securities purchased under agreements to resell, which totaled $1.1 billion at December 31, 2014 and $1.2 billion at December 31, 2013. These investments mature in 2015 through 2017, 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 $1.1 billion in marketable investment securities at December 31, 2014. The average rate earned on these agreements during 2014 was 1.03%.

The Company also holds offsetting repurchase and resell agreements totaling $450.0 million and $300.0 million at December 31, 2014 and 2013, respectively, which are further discussed in Note 19 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. The agreements mature in 2015 through 2016 and earned an average of 59 basis points during 2014.

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 $19.5 billion at December 31, 2014, compared to $19.0 billion last year, reflecting an increase of $428.4 million, or 2.2%. Most of this growth occurred in the fourth quarter of 2014.

Average deposits grew by $734.5 million, or 4.1%, in 2014 compared to 2013 with most of this growth occurring in business demand deposits, which increased $360.5 million, or 8.1%, and in money market deposits, which grew $371.9 million, or 4.3%. Total certificates of deposit fell on average by $107.1 million, or 4.4%, but included an increase of $159.4 million, or 25.9%, in long-term jumbo certificates of deposit.

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

December 31

	2014		2013	
Non-interest bearing	35.0	%	35.4	%
Savings, interest checking and money market	54.1		53.1	
Time open and C.D.'s of less than $100,000	4.5		5.2	
Time open and C.D.'s of $100,000 and over	6.4		6.3	
Total deposits	100.0	%	100.0	%

Core deposits, which include non-interest bearing, interest checking, savings, and money market deposits, supported 76% of average earning assets in 2014 and 75% in 2013. Average balances by major deposit category for the last six years appear on page 52. A maturity schedule of time deposits outstanding at December 31, 2014 is included in Note 7 on Deposits in the consolidated financial statements.

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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. Total balances of federal funds purchased and repurchase agreements outstanding at year end 2014 were $1.9 billion, a $516.0 million increase over the $1.3 billion balance outstanding at year end 2013, primarily driven by higher balances of short-term repurchase agreements with several large customers. On an average basis, these borrowings decreased $37.0 million, or 2.9%, during 2014, with a decrease of $80.3 million in federal funds purchased partly offset with an increase of $43.3 million in repurchase agreements. The average rate paid on total federal funds purchased and repurchase agreements was .08% during 2014 and .06% during 2013.

The Company’s long-term debt is currently comprised of fixed rate advances from the FHLB. These borrowings decreased to $104.1 million at December 31, 2014, from $105.3 million outstanding at December 31, 2013. The average rate paid on FHLB advances was 3.51% and 3.56% during 2014 and 2013, respectively. Most of the remaining balance outstanding at December 31, 2014 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 has taken numerous steps to address liquidity risk and has developed a variety of liquidity sources which it believes will provide the necessary funds for future growth. The Company manages 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.

During 2014, the Company continued to see more growth in average loans (up 9.2%) than in deposits (up 4.1%). As a result, the Company’s average loans to deposits ratio, one measure of liquidity, increased to 59.9% in 2014 from 57.1% in 2013.

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, 2014 and 2013, such assets were as follows:

(In thousands)	2014	2013
Available for sale investment securities	$9,523,560	$8,915,680
Federal funds sold	32,485	43,845
Long-term securities purchased under agreements to resell	1,050,000	1,150,000
Balances at the Federal Reserve Bank	600,744	707,249
Total	$11,206,789	$10,816,774

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Federal funds sold are funds lent to the Company's correspondent bank customers with overnight maturities, and totaled $32.5 million at December 31, 2014. At December 31, 2014, the Company had lent funds totaling $1.1 billion under long-term resell agreements to other large financial institutions. The agreements mature in years 2015 through 2017. Under these agreements, the Company holds marketable securities, safekept by a third-party custodian, as collateral. This collateral totaled $1.1 billion in fair value at December 31, 2014. Interest earning balances at the Federal Reserve Bank, which have overnight maturities and are used for general liquidity purposes, totaled $600.7 million at December 31, 2014. The Company's available for sale investment portfolio includes scheduled maturities and expected pay downs of approximately $1.8 billion during 2015, and these funds offer substantial resources to meet either new loan demand or help offset 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, 2014 and 2013, total investment securities pledged for these purposes were as follows:

(In thousands)	2014	2013
Investment securities pledged for the purpose of securing:		
Federal Reserve Bank borrowings	$362,920	$505,690
FHLB borrowings and letters of credit	40,978	58,445
Repurchase agreements	2,389,093	1,684,748
Other deposits	1,861,001	1,646,562
Total pledged securities	4,653,992	3,895,445
Unpledged and available for pledging	3,107,968	3,469,398
Ineligible for pledging	1,761,600	1,550,837
Total available for sale securities, at fair value	$9,523,560	$8,915,680

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, 2014, such deposits totaled $17.4 billion and represented 89.1% 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. Total core deposits increased $494.7 million at year end 2014 over 2013, with growth of $246.0 million in consumer and $201.9 million in private banking, and decline of $57.6 million in corporate core deposits. Much of overall deposit growth tends to occur in the fourth quarter, reflecting seasonal patterns. While the Company considers core consumer and private banking deposits less volatile, corporate deposits could decline further if interest rates increase significantly or if corporate customers increase investing activities and reduce deposit balances. If these corporate deposits decline, the Company's funding needs can be met by liquidity supplied by the investment security portfolio, totaling $1.8 billion as noted above. In addition, as shown on page 40, the Company has borrowing capacity of $3.3 billion through advances from the FHLB and the Federal Reserve.

(In thousands)	2014	2013
Core deposit base:		
Non-interest bearing	$6,811,959	$6,750,674
Interest checking	1,352,759	1,113,110
Savings and money market	9,188,842	8,995,126
Total	$17,353,560	$16,858,910

Time open and certificates of deposit of $100,000 or greater totaled $1.2 billion at December 31, 2014. These deposits are normally considered more volatile and higher costing, and comprised 6.4% of total deposits at December 31, 2014.

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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)	2014	2013
Borrowings:		
Federal funds purchased	$3,840	$24,795
Repurchase agreements	1,858,678	1,321,763
FHLB advances	104,058	105,310
Total	$1,966,576	$1,451,868

Federal funds purchased, which totaled $3.8 million at December 31, 2014, 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 at December 31, 2014 were comprised of non-insured customer funds totaling $1.9 billion. 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 Company's former longer term structured repurchase agreements, borrowed from an upstream financial institution, were repaid in 2014. The Company also borrows on a secured basis through advances from the FHLB, and those borrowings totaled $104.1 million at December 31, 2014. All of the FHLB advances have fixed interest rates, with the majority maturing in 2017. The overall long-term debt position of the Company is small relative to its 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. Additionally, 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, 2014.

	December 31, 2014		
(In thousands)	FHLB	Federal Reserve	Total
Total collateral value pledged	$2,381,248	$1,206,421	$3,587,669
Advances outstanding	(104,058)	—	(104,058)
Letters of credit issued	(233,085)	—	(233,085)
Available for future advances	$2,044,105	$1,206,421	$3,250,526

The Company's average loans to deposits ratio was 59.9% at December 31, 2014, 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
Preferred stock	BBB-	Baa1

Commerce Bank		
Issuer rating	A	Aa3
Bank financial strength rating		B
Rating outlook	Stable	Stable

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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. The Company issued $150.0 million in liquidation value of preferred stock in June 2014, which funded, in part, a $200.0 million accelerated repurchase of its common stock. This transaction is further discussed in Note 14 to the consolidated financial statements.

The cash flows from the operating, investing and financing activities of the Company resulted in a net decrease in cash and cash equivalents of $168.8 million in 2014, as reported in the consolidated statements of cash flows on page 60 of this report. Operating activities, consisting mainly of net income adjusted for certain non-cash items, provided cash flow of $360.8 million and has historically been a stable source of funds. Investing activities used total cash of $1.1 billion in 2014 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 $560.9 million. Activity in the investment securities portfolio used cash of $519.5 million, net repayments of long-term resell agreements provided cash of $100.0 million, and cash of $43.8 million was paid in the sale of several bank branches. 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 $533.0 million, primarily resulting from a $224.3 million increase in deposits and a net increase of $516.0 million in borrowings of federal funds purchased and repurchase agreements. These increases to cash were partly offset by cash dividend payments of $84.2 million and $4.1 million for common and preferred stock, respectively. The Company received net proceeds of $144.8 million from the issuance of preferred stock and entered into an accelerated stock repurchase agreement as mentioned above, resulting in a net outflow of $55.2 million. Other treasury stock purchases during 2014 totaled $71.0 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 and preferred stock were as follows:

(In millions)	2014	2013	2012
Exercise of stock-based awards	$8.7	$9.4	$14.8
Purchases of treasury stock	(211.0)	(69.4)	(104.9)
Accelerated stock repurchase forward contract	(60.0)	—	—
Common cash dividends paid	(84.2)	(82.1)	(211.6)
Issuance of preferred stock	144.8	—	—
Preferred cash dividends paid	(4.1)	—	—
Cash used	$(205.8)	$(142.1)	$(301.7)

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)	2014	2013	2012
Dividends received from subsidiaries	$234.0	$200.4	$235.0

Management fees	25.8	20.7	23.7
Total	$259.8	$221.1	$258.7

These sources of funds are used mainly to pay cash dividends on outstanding stock, pay general operating expenses, and purchase treasury stock. At December 31, 2014, the Parent’s available for sale investment securities totaled $52.1 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 2014 or 2013.

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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:

	2014	2013	2012	Well-Capitalized Regulatory Guidelines
Regulatory risk-based capital ratios:				
Tier I capital	13.74 %	14.06 %	13.60 %	6.00 %
Total capital	14.86	15.28	14.93	10.00
Leverage ratio	9.36	9.43	9.14	5.00
Tangible common equity to tangible assets	8.55	9.00	9.25	
Dividend payout ratio	32.69	31.46	78.57	

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)	2014	2013	2012
Regulatory risk-based capital:			
Tier I capital	$2,131,169	$2,061,761	$1,906,203
Tier II capital	173,037	177,875	185,938
Total capital	2,304,206	2,239,636	2,092,141
Total risk-weighted assets	15,509,144	14,660,536	14,015,648

The Company must comply with new capital requirements mandated by U.S. Basel III rules which are effective January 1, 2015. Generally, these new rules change the components of regulatory capital and change the way in which risk ratings are assigned to various categories of bank assets. Also, a new Tier I common risk-based ratio is defined. Based on its preliminary review and evaluation of these new rules, the Company believes that these rules will result in only minor changes to its Tier I and Total risk-based capital, but will increase risk-weighted assets as a result of higher risk weightings for short-term commitments, certain asset-backed securities, and construction loans. The capital requirements under Basel III are further discussed in Note 15 to the consolidated financial statements.

The Company's estimated common equity Tier I capital to risk-weighted assets under Basel III at December 31, 2014 is shown below. Under fully phased-in Basel III, the minimum capital requirement for Tier I common equity, including the capital conservation buffer, is 7.0%.

Dollars in thousands	
Tier 1 common equity under existing Basel I	$1,986,064
Estimated equity adjustments	253
Estimated Tier 1 common equity under fully phased-in Basel III (a)	$1,986,317
Risk weighted assets	$15,509,144
Estimated risk weighted asset adjustments	1,060,580
Estimated risk weighted assets under fully phased-in Basel III (b)	$16,569,724

Estimated Tier 1 common equity under fully phased-in Basel III (a)/(b)	11.99	%

The Company maintains a treasury stock buyback program under authorizations by its Board of Directors and normally purchases stock in the open market. In June 2014, the Company entered into the accelerated share repurchase agreement mentioned above, whose final settlement is expected by June 2015. Pending that settlement, the Company's purchases have been limited to minimal amounts to meet stock-based compensation plan activity. The Company currently estimates that at settlement it will

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receive shares in the range of 1.5 to 1.6 million. At December 31, 2014, 1,898,007 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. Per share cash dividends paid by the Company increased 5% in 2014 compared with 2013. The Company also distributed its 21st consecutive annual 5% stock dividend in December 2014.

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 $3.5 billion in unused approved credit card lines) and the contractual amount of standby letters of credit totaling $324.8 million at December 31, 2014. 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, 2014 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*	$192	$103,866	$—	$—	$104,058
Operating lease obligations	5,652	9,457	5,709	14,802	35,620
Purchase obligations	69,624	122,229	85,324	24,234	301,411
Time open and C.D.'s *	1,638,332	382,047	99,324	2,515	2,122,218
Total	$1,713,800	$617,599	$190,357	$41,551	$2,563,307

* Includes principal payments only.

As of December 31, 2014, the Company had unrecognized tax benefits of $1.3 million. This liability for unrecognized tax benefits represents an estimate of tax positions that the Company has taken in its tax returns which may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the table above. Further information about these benefits is located in Note 9 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. No contributions were made to the plan in 2014, and the Company is not required nor does it expect to make a contribution in 2015.

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, federal (and sometimes state) 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, 2014, the funded investments totaled $16.7 million and are recorded as other assets in the Company's consolidated balance sheet. Additional unfunded commitments, which are recorded as liabilities, amounted to $13.6 million at December 31, 2014.

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 2014, purchases and sales of tax credits amounted to $33.5 million and $29.6 million, respectively. At December 31, 2014, the Company had outstanding purchase commitments totaling $61.7 million that it expects to fund in 2015.

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 following table 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.

	December 31, 2014		September 30, 2014		December 31, 2013	
(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	$5.4	.87 %	($.3)	(.04)%	($5.0)	(.81)%
200 basis points rising	8.3	1.34	4.4	.72	1.0	.17
100 basis points rising	8.9	1.43	7.0	1.14	3.4	.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 analyses 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 analyses also help management understand the price sensitivity of non-marketable bank products under different rate environments.

The table above shows the effects of gradual rising rates over a 12 month period on the Company's net interest income. Three rising rate scenarios were selected as shown in the table and net interest income was calculated and compared to a base scenario in which assets, liabilities and rates remained constant over a 12 month period. For each of the three scenarios, interest rates applicable to each interest earning asset or interest bearing liability were ratably increased during the year (by either 100, 200 or 300 basis points). The balances contained in the balance sheet were assumed not to change over the 12 month period, except that it was assumed certain non-maturity type deposits would decline as a result of higher interest rates and would be replaced with short-term federal funds borrowings. Under the

100, 200 and 300 basis point rising rate scenarios at December 31, 2014, total average deposits were projected to decline by 4.8%, 6.9% and 7.5%, respectively. The Company uses these assumptions on deposit activities, both for monitoring interest rate risk and liquidity planning purposes, to analyze the large deposit inflows since 2009 that could run off under rising rate conditions.

Under the above scenarios at December 31, 2014, a gradual increase in interest rates of 100 basis points is expected to increase net interest income from the base calculation by $8.9 million, or 1.43%, and a rise of 200 basis points is expected to increase net interest income by $8.3 million, or 1.34%. Under a 300 basis points rising rate scenario, net interest income would increase by $5.4 million, or .87%. 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, 2014 for the three scenarios shown was higher than projections made at September 30, 2014, largely due to a change in the mix of both interest earning assets and interest bearing liabilities. The change in the mix of interest earning assets is primarily due to investment securities purchases of variable rate bonds and an increase in bonds and resell agreements maturing in the next 12 months that could be reinvested. There were also increases in demand and money market deposits, which are less rate-sensitive, while balances of short-term certificates of deposit,

which are generally more rate-sensitive, declined from the previous quarter. This change resulted in a more asset-sensitive risk pattern and improving income projections. As shown in the above scenarios, as rates rise faster, the effect on projected net interest income generally declines. This occurs because, in the higher rate scenarios, the non-contractual deposits are modeled to become more rate sensitive, resulting in margin compression. Also, these scenarios project deposit run-off which is replaced by higher costing short-term borrowings. Rising rates also tend to slow prepayments of both residential mortgage loans and mortgage-backed securities, which also negatively affects net interest income.

For comparative purposes, the Company also ran three rising rate scenarios assuming average deposits would decrease by .8%, 1.5% and 2.1% (for the 100, 200 and 300 basis point rising rate scenarios at December 31, 2014). These increases were at a much slower pace than in the scenarios above. The table below reflects the results of these projections.

(Dollars in millions)	December 31, 2014 $ Change in Net Interest Income	December 31, 2014 % Change in Net Interest Income	September 30, 2014 $ Change in Net Interest Income	September 30, 2014 % Change in Net Interest Income
300 basis points rising	$25.4	4.11 %	$18.5	3.04 %
200 basis points rising	22.1	3.57	17.5	2.90
100 basis points rising	14.8	2.39	12.7	2.08

Under these alternate scenarios, net interest income rises strongly and is higher than previous scenarios due to the fact that average balances of short-term federal funds borrowings (which re-price quickly) are less than in the previously described scenarios, and projected interest expense does not grow as much. While the future effects of rising rates on deposit balances cannot be known, the Company maintains a practice of running multiple rate scenarios to better understand interest rate risk and their effect on the Company's performance.

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. 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, 2014 was $641.7 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, 2014 mature within six months.

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.

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The following table summarizes the notional amounts and estimated fair values of the Company’s derivative instruments at December 31, 2014 and 2013. 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.

(In thousands)	2014 Notional Amount	Positive Fair Value	Negative Fair Value	2013 Notional Amount	Positive Fair Value	Negative Fair Value
Interest rate swaps	$647,709	$10,144	$(10,166)	$596,933	$11,428	$(11,729)
Interest rate caps	53,587	62	(62)	9,736	1	(1)
Credit risk participation agreements	75,943	3	(226)	52,456	4	(69)
Foreign exchange contracts	19,791	248	(494)	81,207	1,547	(1,530)
Total at December 31	$797,030	$10,457	$(10,948)	$740,332	$12,980	$(13,329)

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 13 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.

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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, 2014:						
Net interest income	$270,081	$287,244	$40,128	$597,453	$ 22,751	$620,204
Provision for loan losses	(35,209)	559	372	(34,278)	4,747	(29,531)
Non-interest income	113,245	190,594	128,203	432,042	3,936	435,978
Investment securities gains, net	—	—	—	—	14,124	14,124
Non-interest expense	(267,931)	(250,964)	(98,589)	(617,484)	(40,291)	(657,775)
Income before income taxes	$80,186	$227,433	$70,114	$377,733	$ 5,267	$383,000
Year ended December 31, 2013:						
Net interest income	$268,221	$280,128	$40,185	$588,534	$ 30,838	$619,372
Provision for loan losses	(34,277)	3,772	(688)	(31,193)	10,840	(20,353)
Non-interest income	112,819	186,446	117,323	416,588	1,798	418,386
Investment securities losses, net	—	—	—	—	(4,425)	(4,425)
Non-interest expense	(270,209)	(235,396)	(96,530)	(602,135)	(27,498)	(629,633)
Income before income taxes	$76,554	$234,950	$60,290	$371,794	$ 11,553	$383,347
2014 vs 2013						
Increase (decrease) in income before income taxes:						
Amount	$3,632	$(7,517)	$9,824	$5,939	$ (6,286)	$(347)
Percent	4.7%	(3.2)%	16.3%	1.6%	(54.4)%	(.1)%
Year ended December 31, 2012:						
Net interest income	$274,844	$290,968	$39,498	$605,310	$ 34,596	$639,906
Provision for loan losses	(35,496)	(2,824)	(695)	(39,015)	11,728	(27,287)
Non-interest income	114,003	179,824	108,776	402,603	(2,973)	399,630
Investment securities gains, net	—	—	—	—	4,828	4,828
Non-interest expense	(266,740)	(226,935)	(90,659)	(584,334)	(34,135)	(618,469)
Income before income taxes	$86,611	$241,033	$56,920	$384,564	$ 14,044	$398,608
2013 vs 2012						
Increase (decrease) in income before income taxes:						
Amount	$(10,057)	$(6,083)	$3,370	$(12,770)	$ (2,491)	$(15,261)
Percent	(11.6)%	(2.5)%	5.9%	(3.3)%	(17.7)%	(3.8)%

Consumer

The Consumer segment includes consumer deposits, consumer finance, and consumer debit and credit cards. For 2014, income before income taxes for the Consumer segment increased $3.6 million, or 4.7%, compared to 2013. This

increase was mainly due to growth of $1.9 million in net interest income and a decline in non-interest expense of $2.3 million, or .8%. These increases to income were partly offset by an increase of $932 thousand in the provision for loan losses. Net interest income increased due to a $2.9 million decrease in deposit interest expense, party offset by a $1.6 million decline in net allocated funding credits assigned to the Consumer segment's loan and deposit portfolios. Non-interest income increased $426 thousand due to growth in bank card fees (mainly debit and credit card), partly offset by a decline in mortgage banking revenue. Non-interest expense decreased from the prior year due to lower salaries and benefits expense (mainly full-time salaries and incentives) and allocated servicing costs. These decreases were partly offset by higher bank card rewards expense. The provision for loan losses totaled $35.2 million, a $932 thousand increase over the prior year, which was mainly due to higher losses on fixed rate home equity and other consumer loans, partly offset by lower marine and RV loan net charge-offs. Total average loans in this segment increased $129.5 million, or 5.0%, in 2014 compared to the prior year due to growth in auto lending, partly offset by declines in marine and RV and other consumer loans. Average deposits increased $220.2 million, or 2.4%, over the prior year, resulting from continuing growth in interest checking and money market deposit accounts, partly offset by a decline in certificates of deposit less than $100,000.

Pre-tax profitability for 2013 was $76.6 million, a decrease of $10.1 million, or 11.6%, from 2012. This decrease was mainly due to a decline of $6.6 million, or 2.4%, in net interest income, coupled with an increase of $3.5 million, or 1.3%, in non-interest

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expense. In addition, non-interest income decreased $1.2 million, while the provision for loan losses decreased $1.2 million, or 3.4%. Net interest income declined due to a $4.7 million decrease in loan interest income and a $7.3 million decrease in net allocated funding credits, partly offset by a decline of $5.3 million in deposit interest expense. Non-interest income decreased mainly due to a declines overdraft charges, mortgage banking revenue and ATM fees, but the declines were partly offset by growth in bank card fees. Non-interest expense increased over the prior year due to higher corporate management fees, bank card related expense, building rent expense and credit card fraud losses, partly offset by lower incentive compensation expense and allocated building security expense. The provision for loan losses totaled $34.3 million, a $1.2 million decrease from 2012, which was mainly due to lower losses on marine and RV loans. Total average loans in this segment increased $170.8 million, or 7.1%, in 2013 compared to the prior year due to growth in auto loan originations, partly offset by repayments of marine and RV loans. Average deposits rose 5.7% over 2012, due to higher interest checking and money market deposit accounts, partly offset by lower certificates of deposit under $100,000.

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 2014 decreased $7.5 million, or 3.2%, compared to the prior year, mainly due to increases in non-interest expense and the provision for loan losses, partly offset by higher net interest income and non-interest income. Net interest income increased $7.1 million, or 2.5%, due to growth of $5.3 million in loan interest income. The provision for loan losses increased $3.2 million over last year, as construction and business loan net recoveries were lower by $3.2 million and $1.0 million, respectively. Non-interest income increased $4.1 million, or 2.2%, over the previous year due to growth in bank card fees (mainly corporate card) and operating lease income, partly offset by lower capital market fees and tax credit sales income. Non-interest expense increased $15.6 million, or 6.6%, during 2014, mainly due to higher full-time salary costs, foreclosed property expense and lease depreciation expense, in addition to bank card processor reimbursements received in the previous year. Allocated costs for information technology, credit administration and commercial banking support also rose. These increases were partly offset by the non-recurrence of a letter of credit provision recorded in 2013. Average segment loans increased $658.6 million, or 10.8%, compared to 2013, with most of the growth in commercial and industrial loans, lease loans, and tax-advantaged loans. Average deposits increased $479.6 million, or 7.0.%, due to growth in business demand, interest checking and money market deposit accounts.

In 2013, pre-tax profitability for the Commercial segment decreased $6.1 million, or 2.5%, compared to 2012, mainly due to higher non-interest expense and a decline in net interest income, partly offset by higher non-interest income and a decline in the provision for loan losses. Net interest income decreased $10.8 million, due to a $5.7 million decline in loan interest income and lower net allocated funding credits of $5.6 million. Non-interest income increased by $6.6 million, or 3.7%, over 2012 due to growth in corporate card fees, partly offset by lower capital market fees. Growth was also seen in corporate cash management fees and tax credit sales fees. Non-interest expense increased $8.5 million, or 3.7%, over 2012, mainly due to higher full-time salaries expense, a provision recorded on a letter of credit exposure, and higher bank card related expense. These expense increases were partly offset by higher gains on sales of foreclosed property, lower incentive compensation, and lower processing costs. The provision for loan losses declined $6.6 million from 2012, as business real estate loan net charge-offs declined $4.2 million and construction and land loan net recoveries increased $4.4 million, while business loan recoveries decreased by $1.6 million. Average segment loans increased $476.0 million, or 8.4%, compared to 2012 as a result of growth in all commercial loan categories. Average deposits increased $542.7 million, or 8.7%, due to growth in non-interest bearing accounts and certificates of deposit over $100,000.

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, 2014, the Trust group managed investments with a market value of $22.5 billion and administered an additional $16.6 billion in non-managed assets. It also provides investment management services to The Commerce Funds, a series of mutual funds with $2.0 billion in total assets at December 31, 2014. Wealth segment pre-tax profitability for 2014 was $70.1 million, compared to $60.3 million in 2013, an increase of $9.8 million, or 16.3%. Net interest income decreased slightly, due to a $1.6 million decline in net allocated funding credits, partly offset by an $885 thousand increase in loan interest income and a decline of $622 thousand in deposit interest expense. Non-interest income increased $10.9 million, or 9.3%, over the prior year due to growth in personal and institutional trust fees and brokerage advisory fees. Non-interest expense increased $2.1 million, or 2.1%, resulting from higher full-time salary costs and incentive compensation, partly offset by recoveries of past litigation. The provision for loan losses decreased $1.1 million, mainly due to lower losses on revolving home equity loans. Average assets increased $75.7 million, or 8.8%, during 2014 mainly due to higher loan balances (mainly Private Banking consumer and personal real estate loans) originated in this segment. Average deposits also increased

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$25.6 million, or 1.4%, due to growth in interest checking and business demand deposit accounts, partly offset by a decline in money market deposit accounts.

In 2013, pre-tax income for the wealth segment was $60.3 million, compared to $56.9 million in 2012, an increase of $3.4 million, or 5.9%. Net interest income increased $687 thousand, or 1.7%, mainly due to a $1.2 million decline in deposit interest expense and an increase of $529 thousand in loan interest income, which were partly offset by a $1.1 million decrease in net allocated funding credits. Non-interest income increased $8.5 million, or 7.9%, over 2012 due to higher trust and brokerage fees. Non-interest expense increased $5.9 million, or 6.5%, mainly due to higher full-time salary costs, incentive compensation and processing costs. Average assets increased $112.4 million, or 15.1%, during 2013 mainly due to growth in consumer and personal real estate loans. Average deposits also increased $195.9 million, or 11.6%, due to growth in money market and interest checking deposit accounts.

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 2014, the pre-tax income in this category was $5.3 million, compared to $11.6 million in 2013. This decrease was due to higher unallocated non-interest expense of $12.8 million, in addition to lower unallocated net interest income of $8.1 million. Also, the unallocated loan loss provision increased $6.1 million, due to a decline in the excess of total net charge-offs over total provision in 2014. Partly offsetting these effects were higher unallocated securities gains of $18.5 million.

Impact of Recently Issued Accounting Standards

Investment Companies In June 2013, the FASB issued ASU 2013-08, "Amendments to the Scope, Measurement, and Disclosure Requirements" for investment companies. The amendments changed the assessment of whether an entity is an investment company by requiring an entity to possess certain fundamental characteristics, while allowing judgment in assessing other typical characteristics. The ASU was effective January 1, 2014, and the Company did not change the status of any subsidiary or the accounting applied to a subsidiary under the new guidelines.

Investments - Equity Method and Joint Ventures The FASB issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects", in January 2014. These amendments allow investors in low income housing tax credit entities to account for the investments using a proportional amortization method, provided that certain conditions are met, and recognize amortization of the investment as a component of income tax expense. In addition, disclosures are required that will enable users to understand the nature of the investments, and the effect of the measurement of the investments and the related tax credits on the investor's financial statements. This ASU is effective for interim and annual periods beginning January 1, 2015 and should be applied retrospectively to all periods presented. The Company adopted the practical expedient to the proportional amortization method on January 1, 2015. The effect of the adoption, including the retrospective application to prior periods, was not significant to the consolidated financial statements.

Troubled Debt Restructurings by Creditors The FASB issued ASU 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure", in January 2014. These amendments require companies to disclose the amount of foreclosed residential real estate property held and the recorded investment in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction. The ASU also defines when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan and thus when a loan is transferred to foreclosed property. The amendments are effective for interim and annual periods beginning January 1, 2015. The adoption did not have a significant effect on the Company's consolidated

financial statements.

The FASB issued ASU 2014-14, "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure", in August 2014. The amendments provide guidance on how to classify and measure foreclosed loans that are government-guaranteed. The objective of the update is to reduce diversity in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs. These disclosures are required in interim and annual periods beginning January 1, 2015. The adoption did not have a significant effect on the Company's consolidated financial statements.

Discontinued Operations and Disposals The FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", in April 2014. The ASU changes the criteria for reporting discontinued operations, limiting this reporting to disposals of components of an entity that represent strategic shifts with major effects on financial results. The ASU requires new disclosures for disposals reported as discontinued operations, and for disposals of significant components

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that do not qualify for discontinued operations reporting. The amendments are effective for interim and annual periods beginning January 1, 2015 and must be applied prospectively. The adoption did not have a significant effect on the Company's consolidated financial statements.

Revenue from Contracts with Customers The FASB issued ASU 2014-09, "Revenue from Contracts with Customers", in May 2014. The ASU supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply in order to achieve this principle. The amendments are effective for interim and annual periods beginning January 1, 2017 and must be applied retrospectively. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Transfers and Servicing The FASB issued ASU 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures", in June 2014. The amendments require that repurchase-to-maturity transactions and repurchase agreements that are part of financing arrangements be accounted for as secured borrowings. The amendments also require additional disclosures for certain transfers accounted for as sales. The accounting changes and the disclosures on sales are required to be presented in interim and annual periods beginning January 1, 2015. The ASU also requires disclosures about types of collateral, contractual tenor and potential risks for transactions accounted for as secured borrowings. These disclosures are required in interim and annual periods beginning April 1, 2015. The adoption is not expected to have a significant effect on the Company's consolidated financial statements.

Derivatives The FASB issued ASU 2014-16, "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity", in November 2014. The ASU provides guidance relating to certain hybrid financial instruments when determining whether the characteristics of the embedded derivative feature are clearly and closely related to the host contract. In making that evaluation, the characteristics of the entire hybrid instrument should be considered, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. The amendments are effective January 1, 2016; however, early adoption is permitted. 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.

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SUMMARY OF QUARTERLY STATEMENTS OF INCOME

Year ended December 31, 2014	For the Quarter Ended			
(In thousands, except per share data)	12/31/2014	9/30/2014	6/30/2014	3/31/2014
Interest income	$158,916	$161,811	$167,567	$159,998
Interest expense	(6,987)	(7,095)	(7,074)	(6,932)
Net interest income	151,929	154,716	160,493	153,066
Non-interest income	112,302	112,286	108,763	102,627
Investment securities gains (losses), net	3,650	2,995	(2,558)	10,037
Salaries and employee benefits	(99,526)	(95,462)	(94,849)	(94,263)
Other expense	(70,792)	(66,724)	(68,082)	(68,077)
Provision for loan losses	(4,664)	(7,652)	(7,555)	(9,660)
Income before income taxes	92,899	100,159	96,212	93,730
Income taxes	(29,157)	(31,138)	(30,312)	(29,609)
Non-controlling interest	(1,017)	(836)	631	192
Net income attributable to Commerce Bancshares, Inc.	$62,725	$68,185	$66,531	$64,313
Net income per common share — basic*	$.62	$.69	$.67	$.64
Net income per common share — diluted*	$.62	$.69	$.66	$.64
Weighted average shares — basic*	95,181	95,104	98,206	99,511
Weighted average shares — diluted*	95,525	95,516	98,609	99,953
Year ended December 31, 2013	For the Quarter Ended			
(In thousands, except per share data)	12/31/2013	9/30/2013	6/30/2013	3/31/2013
Interest income	$162,141	$162,144	$167,255	$158,745
Interest expense	(7,276)	(7,438)	(7,797)	(8,402)
Net interest income	154,865	154,706	159,458	150,343
Non-interest income	109,522	106,311	102,676	99,877
Investment securities gains (losses), net	(1,342)	650	(1,568)	(2,165)
Salaries and employee benefits	(95,012)	(91,405)	(89,569)	(90,881)
Other expense	(66,306)	(64,907)	(67,397)	(64,156)
Provision for loan losses	(5,543)	(4,146)	(7,379)	(3,285)
Income before income taxes	96,184	101,209	96,221	89,733
Income taxes	(30,359)	(32,764)	(30,182)	(28,925)
Non-controlling interest	90	(221)	(234)	209
Net income attributable to Commerce Bancshares, Inc.	$65,915	$68,224	$65,805	$61,017
Net income per common share — basic*	$.66	$.68	$.65	$.61
Net income per common share — diluted*	$.65	$.68	$.65	$.61
Weighted average shares — basic*	99,585	99,229	98,987	99,458
Weighted average shares — diluted*	100,087	99,724	99,400	99,715
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*	$.66	$.65	$.69	$.64
Net income per common share — diluted*	$.66	$.64	$.69	$.64
Weighted average shares — basic*	100,134	100,591	101,181	102,127
Weighted average shares — diluted*	100,326	100,936	101,491	102,514

* Restated for the 5% stock dividend distributed in 2014.

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AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

	Years Ended December 31								
	2014			2013			2012		
(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)	$3,919,421	$110,791	2.83 %	$3,366,564	$102,847	3.05 %	$2,962,699	$102,013	3.44 %
Real estate – construction and land	418,702	15,826	3.78	378,896	15,036	3.97	356,425	15,146	4.25
Real estate – business	2,300,855	88,206	3.83	2,251,113	92,555	4.11	2,193,271	98,693	4.50
Real estate – personal	1,818,125	69,054	3.80	1,694,955	66,353	3.91	1,503,357	65,642	4.37
Consumer	1,617,039	68,434	4.23	1,437,270	67,299	4.68	1,180,538	66,402	5.62
Revolving home equity	426,720	16,188	3.79	424,358	16,822	3.96	446,204	18,586	4.17
Student(C)	—	—	—	—	—	—	—	—	—
Consumer credit card	754,482	86,298	11.44	752,478	84,843	11.28	730,697	85,652	11.72
Overdrafts	4,889	—	—	6,020	—	—	6,125	—	—
Total loans	11,260,233	454,797	4.04	10,311,654	445,755	4.32	9,379,316	452,134	4.82
Loans held for sale	—	—	—	4,488	176	3.92	9,688	361	3.73
Investment securities:									
U.S. government & federal agency obligations	497,271	13,750	2.77	401,162	8,775	2.19	332,382	12,260	3.69
Government-sponsored enterprise obligations	794,752	13,211	1.66	499,947	8,658	1.73	306,676	5,653	1.84
State & municipal obligations(B)	1,715,493	61,593	3.59	1,617,814	58,522	3.62	1,376,872	54,056	3.93
Mortgage-backed securities	2,981,225	80,229	2.69	3,187,648	87,523	2.75	3,852,616	107,527	2.79
Asset-backed securities	2,834,013	24,976	.88	3,061,415	27,475	.90	2,925,249	31,940	1.09
Other marketable securities(B)	150,379	3,928	2.61	182,323	5,625	3.09	139,499	6,556	4.70
Trading securities(B)	18,423	411	2.23	20,986	472	2.25	25,107	637	2.54
Non-marketable securities(B)	104,211	10,692	10.26	116,557	12,226	10.49	118,879	12,558	10.56
Total investment securities	9,095,767	208,790	2.30	9,087,852	209,276	2.30	9,077,280	231,187	2.55
Federal funds sold and short-term securities purchased under agreements to resell	31,817	101	.32	24,669	106	.43	16,393	82	.50
Long-term securities purchased under agreements to resell	985,205	12,473	1.27	1,174,589	21,119	1.80	892,624	19,174	2.15
Interest earning deposits with banks	220,876	555	.25	155,885	387	.25	135,319	339	.25

Total interest earning assets	21,593,898	676,716	3.13		20,759,137	676,819	3.26		19,510,620	703,277	3.60	
Allowance for loan losses	(160,828)				(166,846)				(178,934)			
Unrealized gain on investment securities	126,314				157,910				257,511			
Cash and due from banks	382,207				382,500				369,020			
Land, buildings and equipment - net	354,899				357,544				357,336			
Other assets	376,433				383,739				385,125			
Total assets	$22,672,923				$21,873,984				$20,700,678			
LIABILITIES AND EQUITY												
Interest bearing deposits:												
Savings	$670,650	855	.13		$625,517	766	.12		$574,336	802	.14	
Interest checking and money market	9,477,947	12,667	.13		9,059,524	13,589	.15		8,430,559	17,880	.21	
Time open & C.D.'s of less than $100,000	935,387	4,137	.44		1,034,991	6,002	.58		1,117,236	7,918	.71	
Time open & C.D.'s of $100,000 and over	1,372,509	5,926	.43		1,380,003	6,383	.46		1,181,426	7,174	.61	
Total interest bearing deposits	12,456,493	23,585	.19		12,100,035	26,740	.22		11,303,557	33,774	.30	
Borrowings:												
Federal funds purchased and securities sold under agreements to repurchase	1,257,660	1,019	.08		1,294,691	809	.06		1,185,978	808	.07	
Other borrowings	104,896	3,484	3.32		103,901	3,364	3.24		108,916	3,481	3.20	
Total borrowings	1,362,556	4,503	.33		1,398,592	4,173	.30		1,294,894	4,289	.33	
Total interest bearing liabilities	13,819,049	28,088	.20	%	13,498,627	30,913	.23	%	12,598,451	38,063	.30	%
Non-interest bearing deposits	6,339,183				5,961,116				5,522,991			
Other liabilities	225,554				237,130				334,684			
Equity	2,289,137				2,177,111				2,244,552			
Total liabilities and equity	$22,672,923				$21,873,984				$20,700,678			
Net interest margin (T/E)		$648,628				$645,906				$665,214		
Net yield on interest earning assets			3.00	%			3.11	%			3.41	%
Percentage increase (decrease) in net interest margin (T/E) compared to the prior year			.42	%			(2.90	)%			(.64)	%

(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 $7,640,000 in 2014, $6,673,000 in 2013, $5,803,000 in 2012, $5,538,000 in 2011, $4,620,000 in 2010, and

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AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS
Years Ended December 31

2011			2010			2009			
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
$2,910,668	$ 104,624	3.59 %	$2,887,427	$ 110,792	3.84 %	$3,119,778	$ 116,686	3.74 %	4.67 %
419,905	18,831	4.48	557,282	22,384	4.02	739,896	26,746	3.61	(10.76)
2,117,031	101,988	4.82	2,029,214	102,451	5.05	2,143,675	108,107	5.04	1.43
1,433,869	69,048	4.82	1,476,031	76,531	5.18	1,585,273	87,085	5.49	2.78
1,118,700	70,127	6.27	1,250,076	84,204	6.74	1,464,170	101,761	6.95	2.01
468,718	19,952	4.26	484,878	20,916	4.31	495,629	21,456	4.33	(2.95)
—	—	—	246,395	5,783	2.35	344,243	9,440	2.74	NM
746,724	84,479	11.31	760,079	89,225	11.74	727,422	89,045	12.24	.73
6,953	—	—	7,288	—	—	9,781	—	—	(12.95)
9,222,568	469,049	5.09	9,698,670	512,286	5.28	10,629,867	560,326	5.27	1.16
47,227	1,115	2.36	358,492	6,091	1.70	397,583	8,219	2.07	NM
357,861	17,268	4.83	439,073	9,673	2.20	169,214	6,754	3.99	24.06
253,020	5,781	2.28	203,593	4,591	2.25	137,928	4,219	3.06	41.94
1,174,751	51,988	4.43	966,694	45,469	4.70	873,607	43,882	5.02	14.45
3,556,106	114,405	3.22	2,821,485	113,222	4.01	2,802,532	136,921	4.89	1.24
2,443,901	30,523	1.25	1,973,734	38,559	1.95	937,435	30,166	3.22	24.76
171,409	8,455	4.93	183,328	8,889	4.85	179,847	9,793	5.45	(3.52)
20,011	552	2.76	21,899	671	3.06	16,927	506	2.99	1.71
107,501	8,283	7.71	113,326	7,216	6.37	136,911	6,398	4.67	(5.31)
8,084,560	237,255	2.93	6,723,132	228,290	3.40	5,254,401	238,639	4.54	11.60
10,690	55	.51	6,542	48	.73	43,811	222	.51	(6.20)
768,904	13,455	1.75	150,235	2,549	1.70	—	—	—	NM
194,176	487	.25	171,883	427	.25	325,744	807	.25	(7.48)
18,328,125	721,416	3.94	17,108,954	749,691	4.38	16,651,406	808,213	4.85	5.34
(191,311)			(195,870)			(181,417)			(2.38)
162,984			149,106			24,105			39.27
348,875			368,340			364,579			.95
377,200			395,108			411,366			(2.91)
378,642			410,361			349,164			1.52
$19,404,515			$18,235,999			$17,619,203			5.17
$525,371	852	.16	$478,592	622	.13	$438,748	642	.15	8.86
7,702,901	25,004	.32	6,785,299	28,676	.42	5,807,753	30,789	.53	10.29
1,291,165	11,352	.88	1,660,462	22,871	1.38	2,055,952	51,982	2.53	(14.57)
1,409,740	9,272	.66	1,323,952	13,847	1.05	1,858,543	35,371	1.90	(5.88)
10,929,177	46,480	.43	10,248,305	66,016	.64	10,160,996	118,784	1.17	4.16

1,035,007	1,741	.17		1,085,121	2,584	.24		968,643	3,699	.38		5.36	
112,107	3,680	3.28		452,810	14,948	3.30		920,467	31,527	3.43		(35.23	)
1,147,114	5,421	.47		1,537,931	17,532	1.14		1,889,110	35,226	1.86		(6.33	)
12,076,291	51,901	.43	%	11,786,236	83,548	.71	%	12,050,106	154,010	1.28	%	2.78	
4,742,033				4,114,664				3,660,166				11.61	
476,249				346,312				176,676				5.01	
2,109,942				1,988,787				1,732,255				5.73	
$19,404,515				$18,235,999				$17,619,203				5.17	%
	$ 669,515				$ 666,143				$ 654,203				
		3.65	%			3.89	%			3.93	%		
		.51	%			1.83	%			7.48	%		

$3,922,000 in 2009. Investment securities interest income includes tax equivalent adjustments of $20,784,000 in 2014, $19,861,000 in 2013, $19,505,000 in 2012, $17,907,000 in 2011, $15,593,000 in 2010 and $14,779,000 in 2009 . 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.

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QUARTERLY AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

	Year ended December 31, 2014							
	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)]	$3,927	2.75 %	$3,964	2.81 %	$3,941	2.85 %	$3,844	2.90 %
Real estate – construction and land	401	3.80	422	3.78	432	3.76	420	3.77
Real estate – business	2,302	3.77	2,286	3.80	2,293	3.86	2,323	3.90
Real estate – personal	1,868	3.76	1,835	3.77	1,791	3.80	1,779	3.86
Consumer	1,685	4.14	1,645	4.16	1,602	4.24	1,533	4.41
Revolving home equity	435	3.65	429	3.77	420	3.93	424	3.82
Consumer credit card	759	11.43	755	11.47	746	11.42	757	11.43
Overdrafts	5	—	4	—	5	—	5	—
Total loans	11,382	3.98	11,340	4.01	11,230	4.05	11,085	4.12
Investment securities:								
U.S. government & federal agency obligations	499	(.25)	499	3.10	494	6.55	497	1.71
Government-sponsored enterprise obligations	851	1.70	764	1.63	790	1.66	775	1.66
State & municipal obligations[(A)]	1,800	3.83	1,787	3.42	1,665	3.41	1,606	3.69
Mortgage-backed securities	2,873	2.60	2,954	2.68	3,080	2.69	3,019	2.80
Asset-backed securities	2,818	.86	2,804	.89	2,860	.89	2,854	.89
Other marketable securities[(A)]	151	3.09	148	2.43	150	2.42	153	2.50
Trading securities[(A)]	16	2.12	20	2.35	19	2.14	19	2.28
Non-marketable securities[(A)]	102	8.24	95	7.74	110	18.12	110	6.42
Total investment securities	9,110	2.13	9,071	2.25	9,168	2.56	9,033	2.24
Federal funds sold and short-term securities purchased under agreements to resell	42	.20	37	.32	24	.40	25	.43
Long-term securities purchased under agreements to resell	949	1.13	924	1.15	969	1.22	1,102	1.53
Interest earning deposits with banks	465	.25	114	.25	141	.25	161	.25
Total interest earning assets	21,948	3.00	21,486	3.12	21,532	3.26	21,406	3.16
Allowance for loan losses	(161)		(161)		(161)		(161)	
Unrealized gain on investment securities	149		150		122		83	
Cash and due from banks	394		381		369		385	

Land, buildings and equipment – net	363			353			352			352		
Other assets	370			373			382			381		
Total assets	$23,063			$22,582			$22,596			$22,446		
LIABILITIES AND EQUITY												
Interest bearing deposits:												
Savings	$672	.13		$675	.14		$685	.12		$649	.12	
Interest checking and money market	9,594	.13		9,356	.13		9,488	.13		9,474	.13	
Time open & C.D.'s under $100,000	890	.42		923	.43		954	.45		976	.47	
Time open & C.D.'s $100,000 & over	1,273	.45		1,428	.42		1,450	.42		1,340	.44	
Total interest bearing deposits	12,429	.19		12,382	.19		12,577	.19		12,439	.19	
Borrowings:												
Federal funds purchased and securities sold under agreements to repurchase	1,321	.08		1,329	.09		1,170	.09		1,209	.07	
Other borrowings	104	3.34		105	3.32		105	3.34		105	3.28	
Total borrowings	1,425	.32		1,434	.32		1,275	.36		1,314	.33	
Total interest bearing liabilities	13,854	.20	%	13,816	.20	%	13,852	.20	%	13,753	.20	%
Non-interest bearing deposits	6,592			6,294			6,231			6,238		
Other liabilities	288			185			230			198		
Equity	2,329			2,287			2,283			2,257		
Total liabilities and equity	$23,063			$22,582			$22,596			$22,446		
Net interest margin (T/E)	$159			$162			$168			$160		
Net yield on interest earning assets		2.88	%		2.99	%		3.13	%		3.03	%

(A) Includes tax equivalent calculations.

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QUARTERLY AVERAGE BALANCE SHEETS — AVERAGE RATES AND YIELDS

	Year ended December 31, 2013							
	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)]	$3,635	3.04 %	$3,415	2.96 %	$3,253	3.07 %	$3,157	3.17 %
Real estate – construction and land	391	3.98	399	4.07	373	3.94	352	3.87
Real estate – business	2,300	4.02	2,257	4.12	2,217	4.14	2,230	4.17
Real estate – personal	1,783	3.80	1,729	3.83	1,665	3.97	1,600	4.08
Consumer	1,500	4.52	1,472	4.53	1,431	4.69	1,343	5.03
Revolving home equity	421	3.88	422	3.94	426	3.96	429	4.08
Consumer credit card	760	11.20	753	11.33	742	11.20	755	11.38
Overdrafts	7	—	6	—	6	—	5	—
Total loans	10,797	4.22	10,453	4.26	10,113	4.34	9,871	4.49
Loans held for sale	—	—	—	—	9	4.05	9	3.79
Investment securities:								
U.S. government & federal agency obligations	405	1.12	402	3.04	400	5.15	398	(.59)
Government-sponsored enterprise obligations	663	1.63	427	1.74	439	1.74	469	1.86
State & municipal obligations[(A)]	1,629	3.53	1,605	3.54	1,634	3.61	1,603	3.79
Mortgage-backed securities	2,944	2.78	3,028	2.86	3,273	2.77	3,514	2.59
Asset-backed securities	2,844	.87	3,000	.87	3,200	.91	3,207	.93
Other marketable securities[(A)]	168	3.25	180	2.92	188	2.97	194	3.21
Trading securities[(A)]	18	2.44	16	2.41	22	2.40	28	1.90
Non-marketable securities[(A)]	114	11.65	114	7.10	119	16.92	119	6.20
Total investment securities	8,785	2.26	8,772	2.31	9,275	2.52	9,532	2.12
Federal funds sold and short-term securities purchased under agreements to resell	35	.39	32	.44	23	.48	9	.42
Long-term securities purchased under agreements to resell	1,150	1.51	1,170	1.73	1,200	1.94	1,178	2.01
Interest earning deposits with banks	260	.25	115	.24	117	.26	130	.24
Total interest earning assets	21,027	3.20	20,542	3.25	20,737	3.36	20,729	3.23
Allowance for loan losses	(163)		(165)		(167)		(172)	
Unrealized gain on investment securities	89		60		229		256	

Cash and due from banks	404			384			366			376		
Land, buildings and equipment – net	353			357			359			361		
Other assets	389			374			397			375		
Total assets	$22,099			$21,552			$21,921			$21,925		
LIABILITIES AND EQUITY												
Interest bearing deposits:												
Savings	$628	.12		$631	.14		$640	.11		$604	.12	
Interest checking and money market	9,199	.14		8,964	.15		8,933	.14		9,142	.17	
Time open & C.D.'s under $100,000	998	.48		1,021	.54		1,053	.63		1,069	.66	
Time open & C.D.'s $100,000 & over	1,287	.46		1,432	.43		1,464	.46		1,337	.52	
Total interest bearing deposits	12,112	.20		12,048	.21		12,090	.22		12,152	.25	
Borrowings:												
Federal funds purchased and securities sold under agreements to repurchase	1,186	.05		1,248	.05		1,544	.07		1,201	.07	
Other borrowings	106	3.27		104	3.27		103	3.23		103	3.19	
Total borrowings	1,292	.31		1,352	.30		1,647	.27		1,304	.32	
Total interest bearing liabilities	13,404	.22	%	13,400	.22	%	13,737	.23	%	13,456	.25	%
Non-interest bearing deposits	6,271			5,873			5,768			5,929		
Other liabilities	210			145			229			366		
Equity	2,214			2,134			2,187			2,174		
Total liabilities and equity	$22,099			$21,552			$21,921			$21,925		
Net interest margin (T/E)	$162			$161			$166			$157		
Net yield on interest earning assets		3.06	%		3.11	%		3.21	%		3.07	%

(A) Includes tax equivalent calculations.

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Item 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is set forth on pages 44 through 46 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, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, and changes in equity for each of the years in the three-year period ended December 31, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Kansas City, Missouri
February 24, 2015

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31	
	2014	2013
	(In thousands)	
ASSETS		
Loans	$11,469,238	$10,956,836
Allowance for loan losses	(156,532)	(161,532)
Net loans	11,312,706	10,795,304
Investment securities:		
Available for sale ($467,143,000 and $687,680,000 pledged at December 31, 2014 and 2013, respectively, to secure swap and repurchase agreements)	9,523,560	8,915,680
Trading	15,357	19,993
Non-marketable	106,875	107,324
Total investment securities	9,645,792	9,042,997
Federal funds sold and short-term securities purchased under agreements to resell	32,485	43,845
Long-term securities purchased under agreements to resell	1,050,000	1,150,000
Interest earning deposits with banks	600,744	707,249
Cash and due from banks	467,488	518,420
Land, buildings and equipment – net	357,871	349,654
Goodwill	138,921	138,921
Other intangible assets – net	7,450	9,268
Other assets	380,823	316,378
Total assets	$23,994,280	$23,072,036
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$6,811,959	$6,750,674
Savings, interest checking and money market	10,541,601	10,108,236
Time open and C.D.'s of less than $100,000	878,433	983,689
Time open and C.D.'s of $100,000 and over	1,243,785	1,204,749
Total deposits	19,475,778	19,047,348
Federal funds purchased and securities sold under agreements to repurchase	1,862,518	1,346,558
Other borrowings	104,058	107,310
Other liabilities	217,680	356,423
Total liabilities	21,660,034	20,857,639
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, $1 par value		
Authorized 2,000,000 shares; issued 6,000 shares at December 31, 2014 and none at December 31, 2013	144,784	—
Common stock, $5 par value		
Authorized 120,000,000 shares at December 31, 2014 and 100,000,000 shares at December 31, 2013; issued 96,830,977 shares at December 31, 2014 and 96,244,762 shares at December 31, 2013	484,155	481,224
Capital surplus	1,229,075	1,279,948
Retained earnings	426,648	449,836
Treasury stock of 367,487 shares at December 31, 2014 and 235,986 shares at December 31, 2013, at cost	(16,562)	(10,097)
Accumulated other comprehensive income	62,093	9,731
Total Commerce Bancshares, Inc. stockholders' equity	2,330,193	2,210,642

Non-controlling interest	4,053	3,755
Total equity	2,334,246	2,214,397
Total liabilities and equity	$23,994,280	$23,072,036

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31		
(In thousands, except per share data)	2014	2013	2012
INTEREST INCOME			
Interest and fees on loans	$447,157	$439,082	$446,331
Interest on loans held for sale	—	176	361
Interest on investment securities	188,006	189,415	211,682
Interest on federal funds sold and short-term securities purchased under agreements to resell	101	106	82
Interest on long-term securities purchased under agreements to resell	12,473	21,119	19,174
Interest on deposits with banks	555	387	339
Total interest income	648,292	650,285	677,969
INTEREST EXPENSE			
Interest on deposits:			
Savings, interest checking and money market	13,522	14,355	18,682
Time open and C.D.'s of less than $100,000	4,137	6,002	7,918
Time open and C.D.'s of $100,000 and over	5,926	6,383	7,174
Interest on federal funds purchased and securities sold under agreements to repurchase	1,019	809	808
Interest on other borrowings	3,484	3,364	3,481
Total interest expense	28,088	30,913	38,063
Net interest income	620,204	619,372	639,906
Provision for loan losses	29,531	20,353	27,287
Net interest income after provision for loan losses	590,673	599,019	612,619
NON-INTEREST INCOME			
Bank card transaction fees	175,806	166,627	154,197
Trust fees	112,158	102,529	94,679
Deposit account charges and other fees	78,680	79,017	79,485
Capital market fees	12,667	14,133	21,066
Consumer brokerage services	12,006	11,006	10,162
Loan fees and sales	5,108	5,865	6,037
Other	39,553	39,209	34,004
Total non-interest income	435,978	418,386	399,630
INVESTMENT SECURITIES GAINS (LOSSES), NET			
Change in fair value of other-than-temporarily impaired securities	(2,091)	278	11,223
Portion recognized in other comprehensive income	726	(1,562)	(12,713)
Net impairment losses recognized in earnings	(1,365)	(1,284)	(1,490)
Realized gains (losses) on sales and fair value adjustments	15,489	(3,141)	6,318
Investment securities gains (losses), net	14,124	(4,425)	4,828
NON-INTEREST EXPENSE			
Salaries and employee benefits	384,100	366,867	360,899
Net occupancy	45,825	45,639	45,534
Equipment	18,375	18,425	20,147
Supplies and communication	22,432	22,511	22,321
Data processing and software	78,980	78,245	73,798
Marketing	15,676	14,176	15,106
Deposit insurance	11,622	11,167	10,438
Other	80,765	72,603	70,226

Total non-interest expense	657,775	629,633	618,469
Income before income taxes	383,000	383,347	398,608
Less income taxes	120,216	122,230	127,169
Net income	262,784	261,117	271,439
Less non-controlling interest expense	1,030	156	2,110
Net income attributable to Commerce Bancshares, Inc.	261,754	260,961	269,329
Less preferred stock dividends	4,050	—	—
Net income available to common shareholders	$257,704	$260,961	$269,329
Net income per common share - basic	$2.62	$2.60	$2.64
Net income per common share - diluted	$2.61	$2.59	$2.63

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31		
(In thousands)	2014	2013	2012
Net income	$262,784	$261,117	$271,439
Other comprehensive income (loss):			
Net unrealized gains (losses) on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	(412)	958	7,566
Net unrealized gains (losses) on other securities	60,007	(138,960)	24,126
Change in pension loss	(7,233)	11,389	(5,886)
Other comprehensive income (loss)	52,362	(126,613)	25,806
Comprehensive income	315,146	134,504	297,245
Less non-controlling interest expense	1,030	156	2,110
Comprehensive income attributable to Commerce Bancshares, Inc.	$314,116	$134,348	$295,135

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31		
(In thousands)	2014	2013	2012
OPERATING ACTIVITIES			
Net income	$262,784	$261,117	$271,439
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	29,531	20,353	27,287
Provision for depreciation and amortization	42,303	41,944	43,448
Amortization of investment security premiums, net	23,211	30,419	36,238
Deferred income tax (benefit) expense	(540)	9,201	16,234
Investment securities (gains) losses, net	(14,124)	4,425	(4,828)
Net gains on sales of loans held for sale	—	—	(376)
Proceeds from sales of loans held for sale	—	—	22,720
Net (increase) decrease in trading securities	16,005	1,358	(9,645)
Stock-based compensation	8,829	6,427	5,001
(Increase) decrease in interest receivable	(2,185)	3,234	3,149
Decrease in interest payable	(230)	(1,569)	(1,272)
Increase (decrease) in income taxes payable	344	(1,663)	(13,395)
Net tax benefit related to equity compensation plans	(1,850)	(1,003)	(2,094)
Other changes, net	(3,242)	(12,494)	(10,026)
Net cash provided by operating activities	360,836	361,749	383,880
INVESTING ACTIVITIES			
Cash and cash equivalents received in acquisition	—	47,643	—
Cash paid in sales of branches	(43,827)	—	—
Proceeds from sales of investment securities	64,442	16,299	16,875
Proceeds from maturities/pay downs of investment securities	1,914,105	2,542,123	3,080,664
Purchases of investment securities	(2,498,090)	(2,411,153)	(3,182,857)
Net increase in loans	(560,890)	(938,223)	(693,193)
Long-term securities purchased under agreements to resell	(450,000)	(125,000)	(575,000)
Repayments of long-term securities purchased under agreements to resell	550,000	175,000	225,000
Purchases of land, buildings and equipment	(43,658)	(23,841)	(34,969)
Sales of land, buildings and equipment	5,236	3,492	2,643
Net cash used in investing activities	(1,062,682)	(713,660)	(1,160,837)
FINANCING ACTIVITIES			
Net increase in non-interest bearing, savings, interest checking and money market deposits	282,276	801,211	1,777,058
Net decrease in time open and C.D.'s	(57,956)	(82,013)	(257,586)
Repayment of long-term securities sold under agreements to repurchase	(350,000)	(50,000)	—
Net increase (decrease) in federal funds purchased and short-term securities sold under agreements to repurchase	865,960	313,008	(172,531)
Repayment of other long-term borrowings	(1,252)	(1,578)	(8,107)
Net increase (decrease) in other short-term borrowings	(2,000)	2,000	—
Proceeds from issuance of preferred stock	144,784	—	—
Purchases of treasury stock	(210,974)	(69,353)	(104,909)
Accelerated stock repurchase agreement	(60,000)	—	—
Issuance of stock under equity compensation plans	8,652	9,426	14,820
Net tax benefit related to equity compensation plans	1,850	1,003	2,094

Cash dividends paid on common stock	(84,241)	(82,104)	(211,608)
Cash dividends paid on preferred stock	(4,050)	—	—
Net cash provided by financing activities	533,049	841,600	1,039,231
Increase (decrease) in cash and cash equivalents	(168,797)	489,689	262,274
Cash and cash equivalents at beginning of year	1,269,514	779,825	517,551
Cash and cash equivalents at end of year	$1,100,717	$1,269,514	$779,825
Income tax payments, net	$120,172	$114,336	$119,166
Interest paid on deposits and borrowings	$28,218	$32,432	$39,335
Loans transferred to foreclosed real estate	$5,074	$8,747	$8,167
Loans transferred from held for sale to held for investment category	$—	$8,941	$—

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Commerce Bancshares, Inc. Shareholders							
(In thousands, except per share data)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total
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)
Purchases of treasury stock					(104,909)			(104,909)
Cash dividends paid on common stock ($2.090 per share)				(211,608)				(211,608)
Net tax benefit related to equity compensation plans			2,094					2,094
Stock-based compensation			5,001					5,001
Issuance under stock purchase and equity compensation plans, net			(16,905)		32,493			15,588
5% stock dividend, net		12,259	70,252	(155,930)	73,198			(221)
Balance, December 31, 2012	—	458,646	1,102,507	477,210	(7,580)	136,344	4,447	2,171,574
Net income				260,961			156	261,117
Other comprehensive loss						(126,613)		(126,613)
Acquisition of Summit Bancshares Inc.		1,001	11,125		31,071			43,197
Distributions to non-controlling interest							(848)	(848)
Purchases of treasury stock					(69,353)			(69,353)
Cash dividends paid on common stock ($.816 per share)				(82,104)				(82,104)
Net tax benefit related to equity compensation plans			1,003					1,003
Stock-based compensation			6,427					6,427
			(14,824)		25,066			10,242

Issuance under stock purchase and equity compensation plans, net								
5% stock dividend, net		21,577	173,710	(206,231)	10,699			(245)
Balance, December 31, 2013	—	481,224	1,279,948	449,836	(10,097)	9,731	3,755	2,214,397
Net income				261,754			1,030	262,784
Other comprehensive income						52,362		52,362
Distributions to non-controlling interest							(732)	(732)
Issuance of preferred stock	144,784							144,784
Purchases of treasury stock					(210,974)			(210,974)
Accelerated share repurchase forward contract			(60,000)					(60,000)
Cash dividends paid on common stock ($.857 per share)				(84,241)				(84,241)
Cash dividends paid on preferred stock ($.675 per share)				(4,050)				(4,050)
Net tax benefit related to equity compensation plans			1,850					1,850
Stock-based compensation			8,829					8,829
Issuance under stock purchase and equity compensation plans, net			(14,703)		24,209			9,506
5% stock dividend, net		2,931	13,151	(196,651)	180,300			(269)
Balance, December 31, 2014	$144,784	$484,155	$1,229,075	$426,648	$(16,562)	$62,093	$4,053	$2,334,246

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries
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 350 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", "Federal funds sold and short-term 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.

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.

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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.

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. 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, loss emergence periods, 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.

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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 in the consolidated statements of income. 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, 2014, the Company had

entered into $1.1 billion of long-term agreements to resell and had accepted securities valued at $1.1 billion as collateral.

Securities sold under agreements to repurchase are offered to cash management customers as an automated, collateralized investment account and totaled $1.9 billion at December 31, 2014. From time to time, securities sold may also be used by the Bank to obtain additional borrowed funds at favorable rates. As of December 31, 2014, the Company had pledged $1.9 billion of available for sale securities as collateral for these 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 19, Balance Sheet Offsetting.

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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.

Goodwill is assessed for impairment on an annual basis or more frequently in certain circumstances. When testing for goodwill impairment, the Company may initially perform a qualitative assessment. Based on the results of this qualitative assessment, if the Company concludes it is more likely than not that a reporting unit's fair value is less than its carrying amount, a quantitative analysis is performed. Quantitative valuation methodologies include a combination of formulas using current market multiples, based on recent sales of financial institutions within the Company's geographic marketplace. If the fair value of a reporting unit is less than the carrying amount, additional analysis is required to measure the amount of impairment. The Company has not recorded 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 fair value.

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. Impairment is indicated if the sum of the undiscounted estimated future net cash flows is less than the carrying value of the intangible asset. The Company has not recorded other-than-temporary impairment losses on these intangible assets.

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.

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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. At the present time, the Company's application of hedge accounting is not significant.

Most of the derivatives held by the Company do not qualify for hedge accounting, and gains and losses on these derivatives 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.

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

Additional information about derivatives held by the Company and valuation methods employed is provided in Note 16, Fair Value Measurements and Note 18, Derivative Instruments.

Pension Plan
The Company’s pension plan is described in Note 10, 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 11, 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 2014.

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2. Acquisition and Disposition

On September 1, 2013, the Company acquired Summit Bancshares Inc. (Summit). Summit's results of operations are included in the Company's consolidated financial results beginning on that date. The transaction was accounted for using the acquisition method of accounting, and as such, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair value on the acquisition date. In this transaction, the Company acquired all of the outstanding stock of Summit in exchange for shares of Company stock valued at $43.2 million. The Company's acquisition of Summit added $261.6 million in assets (including $207.4 million in loans), $232.3 million in deposits and two branch locations in Tulsa and Oklahoma City, Oklahoma. Intangible assets recognized as a result of the transaction consisted of approximately $13.3 million in goodwill and $5.6 million in core deposit premium. Most of the goodwill was assigned to the Company's Commercial segment. None of the goodwill recognized is deductible for income tax purposes.
On July 25, 2014, the Company sold banking branches in Farmington, Desloge and Bonne Terre, Missouri. The sale included approximately $13.3 million in loans, $60.3 million in deposits, and various bank premises. The Company recognized a $2.1 million gain on the sale.

3. Loans and Allowance for Loan Losses
Major classifications within the Company’s held to maturity loan portfolio at December 31, 2014 and 2013 are as follows:

(In thousands)	2014	2013
Commercial:		
Business	$3,969,952	$3,715,319
Real estate — construction and land	403,507	406,197
Real estate — business	2,288,215	2,313,550
Personal Banking:		
Real estate — personal	1,883,092	1,787,626
Consumer	1,705,134	1,512,716
Revolving home equity	430,873	420,589
Consumer credit card	782,370	796,228
Overdrafts	6,095	4,611
Total loans	$11,469,238	$10,956,836

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

(In thousands)	
Balance at January 1, 2014	$44,728
Additions	402,428
Amounts collected	(381,737)
Amounts written off	—
Balance, December 31, 2014	$65,419

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. The activity in the table above includes draws and repayments on several lines of credit with business entities. There were no outstanding loans at December 31, 2014 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, 2014, unfunded loan

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commitments totaled $8.4 billion (which included $3.5 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, 2014, loans totaling $3.6 billion were pledged at the FHLB as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of $1.3 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

The Company has a net investment in direct financing and sales type leases of $413.0 million and $368.8 million at December 31, 2014 and 2013, respectively, which is included in business loans on the Company's consolidated balance sheets. This investment includes deferred income of $26.4 million and $25.1 million at December 31, 2014 and 2013, respectively. The net investment in operating leases amounted to $22.8 million and $24.4 million at December 31, 2014 and 2013, 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 previous three years follows:

(In thousands)	Commercial	Personal Banking	Total
Balance at December 31, 2011	$122,497	$62,035	$184,532
Provision for loan losses	(14,444)	41,731	27,287
Deductions:			
Loans charged off	11,094	52,067	63,161
Less recoveries	8,766	15,108	23,874
Net loans charged off	2,328	36,959	39,287
Balance at December 31, 2012	105,725	66,807	172,532
Provision for loan losses	(16,143)	36,496	20,353
Deductions:			
Loans charged off	5,170	49,029	54,199
Less recoveries	9,777	13,069	22,846
Net loans charged off (recoveries)	(4,607)	35,960	31,353
Balance at December 31, 2013	94,189	67,343	161,532
Provision for loan losses	(5,204)	34,735	29,531
Deductions:			
Loans charged off	4,548	48,225	52,773
Less recoveries	5,185	13,057	18,242
Net loans charged off (recoveries)	(637)	35,168	34,531
Balance at December 31, 2014	$89,622	$66,910	$156,532

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The following table shows the balance in the allowance for loan losses and the related loan balance at December 31, 2014 and 2013, 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, 2014				
Commercial	$4,527	$55,551	$85,095	$6,606,123
Personal Banking	2,314	25,537	64,596	4,782,027
Total	$6,841	$81,088	$149,691	$11,388,150
December 31, 2013				
Commercial	$8,476	$78,516	$85,713	$6,356,550
Personal Banking	2,424	29,120	64,919	4,492,650
Total	$10,900	$107,636	$150,632	$10,849,200

Impaired loans

The table below shows the Company’s investment in impaired loans at December 31, 2014 and 2013. 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 73.

(In thousands)	2014	2013
Non-accrual loans	$40,775	$48,814
Restructured loans (accruing)	40,313	58,822
Total impaired loans	$81,088	$107,636

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The following table provides additional information about impaired loans held by the Company at December 31, 2014 and 2013, 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, 2014			
With no related allowance recorded:			
Business	$9,237	$11,532	$—
Real estate – construction and land	4,552	8,493	—
Real estate – business	13,453	17,258	—
Real estate – personal	1,227	1,384	—
	$28,469	$38,667	$—
With an allowance recorded:			
Business	$12,326	$13,846	$1,844
Real estate – construction and land	8,148	9,610	1,081
Real estate – business	7,835	15,025	1,602
Real estate – personal	9,096	12,465	1,441
Consumer	4,244	4,244	50
Revolving home equity	529	529	9
Consumer credit card	10,441	10,441	814
	$52,619	$66,160	$6,841
Total	$81,088	$104,827	$6,841
December 31, 2013			
With no related allowance recorded:			
Business	$7,969	$9,000	$—
Real estate – construction and land	8,766	16,067	—
Real estate – business	4,089	6,417	—
Revolving home equity	2,191	2,741	—
	$23,015	$34,225	$—
With an allowance recorded:			
Business	$19,266	$22,597	$3,037
Real estate – construction and land	17,632	19,708	2,174
Real estate – business	20,794	29,287	3,265
Real estate – personal	10,425	13,576	1,361
Consumer	4,025	4,025	85
Revolving home equity	666	666	2
Consumer credit card	11,813	11,813	976
	$84,621	$101,672	$10,900
Total	$107,636	$135,897	$10,900

Total average impaired loans during 2014 and 2013 are shown in the table below.

	2014			2013		
(In thousands)	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Average impaired loans:						
Non-accrual loans	$38,114	$7,132	$45,246	$35,900	$5,329	$41,229
Restructured loans (accruing)	33,156	20,040	53,196	40,251	24,134	64,385
Total	$71,270	$27,172	$98,442	$76,151	$29,463	$105,614

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The table below shows interest income recognized during the years ended December 31, 2014, 2013 and 2012 for impaired loans held at the end of each respective period. This interest relates to accruing restructured loans, as discussed previously.

	For the Year Ended December 31		
(In thousands)	2014	2013	2012
Interest income recognized on impaired loans:			
Business	$344	$509	$1,184
Real estate – construction and land	361	758	655
Real estate – business	153	215	246
Real estate – personal	208	263	376
Consumer	286	346	415
Revolving home equity	27	36	37
Consumer credit card	993	1,116	1,341
Total	$2,372	$3,243	$4,254

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, 2014 and 2013.

(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, 2014					
Commercial:					
Business	$3,946,144	$11,152	$1,096	$11,560	$3,969,952
Real estate – construction and land	397,488	827	35	5,157	403,507
Real estate – business	2,266,688	3,661	—	17,866	2,288,215
Personal Banking:					
Real estate – personal	1,868,606	6,618	1,676	6,192	1,883,092
Consumer	1,687,285	16,053	1,796	—	1,705,134
Revolving home equity	428,478	1,552	843	—	430,873
Consumer credit card	764,599	9,559	8,212	—	782,370
Overdrafts	5,721	374	—	—	6,095
Total	$11,365,009	$49,796	$13,658	$40,775	$11,469,238
December 31, 2013					
Commercial:					
Business	$3,697,589	$5,467	$671	$11,592	$3,715,319
Real estate – construction and land	386,423	9,601	—	10,173	406,197
Real estate – business	2,292,385	1,340	47	19,778	2,313,550
Personal Banking:					
Real estate – personal	1,771,231	9,755	1,560	5,080	1,787,626
Consumer	1,492,960	17,482	2,274	—	1,512,716
Revolving home equity	416,614	1,082	702	2,191	420,589
Consumer credit card	777,564	9,952	8,712	—	796,228
Overdrafts	4,315	296	—	—	4,611
Total	$10,839,081	$54,975	$13,966	$48,814	$10,956,836

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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, 2014				
Pass	$3,871,569	$385,831	$2,184,541	$6,441,941
Special mention	62,904	3,865	40,668	107,437
Substandard	23,919	8,654	45,140	77,713
Non-accrual	11,560	5,157	17,866	34,583
Total	$3,969,952	$403,507	$2,288,215	$6,661,674
December 31, 2013				
Pass	$3,618,120	$372,515	$2,190,344	$6,180,979
Special mention	61,916	1,697	53,079	116,692
Substandard	23,691	21,812	50,349	95,852
Non-accrual	11,592	10,173	19,778	41,543
Total	$3,715,319	$406,197	$2,313,550	$6,435,066

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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 section on "Delinquent and non-accrual loans". 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 personal real estate loans for which FICO scores are not obtained because the loans are related to commercial activity. These totaled $244.3 million, or less than 6.0% of the Personal Banking portfolio, at both December 31, 2014 and December 31, 2013. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at December 31, 2014 and 2013 by FICO score.

	Personal Banking Loans % of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
December 31, 2014				
FICO score:				
Under 600	1.4 %	5.2 %	1.8 %	4.1 %
600 – 659	3.1	10.2	4.4	11.8
660 – 719	9.9	22.9	13.7	32.4
720 – 779	26.7	28.0	32.8	27.8
780 and over	58.9	33.7	47.3	23.9
Total	100.0 %	100.0 %	100.0 %	100.0 %
December 31, 2013				
FICO score:				
Under 600	1.7 %	5.4 %	2.1 %	4.1 %
600 – 659	3.3	10.1	7.3	11.7
660 – 719	10.3	23.4	15.0	32.9
720 – 779	25.8	28.3	28.5	27.9
780 and over	58.9	32.8	47.1	23.4
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 $64.4 million at December 31, 2014. 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 $24.1 million at December 31, 2014. Other performing restructured loans totaled $40.3 million at December 31, 2014. These 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 $21.8 million and $38.2 million at December 31, 2014 and 2013, 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 $10.4 million at December 31, 2014 and $11.8 million at December 31, 2013. Modifications to credit card loans generally involve removing the available line of credit, placing loans on amortizing status, and lowering the contractual interest rate. The Company also classifies certain loans as troubled debt restructurings because they were not reaffirmed by the borrower in bankruptcy proceedings. These loans, which are comprised of personal real estate, revolving home equity and

consumer loans, totaled $8.1 million and $8.8 million at December 31, 2014 and 2013, respectively. Interest on these loans is being recognized on an accrual basis, as the borrowers are continuing to make payments.

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The table below shows the outstanding balance of loans classified as troubled debt restructurings at December 31, 2014, 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, 2014	Balance 90 days past due at any time during previous 12 months
Commercial:		
Business	$18,321	$7,464
Real estate – construction and land	12,249	3,285
Real estate – business	12,634	22
Personal Banking:		
Real estate – personal	6,000	84
Consumer	4,271	47
Revolving home equity	529	40
Consumer credit card	10,441	890
Total restructured loans	$64,445	$11,832

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 $1.1 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 $6.9 million at December 31, 2014 to lend additional funds to borrowers with restructured loans.

The Company’s holdings of foreclosed real estate totaled $5.5 million and $6.6 million at December 31, 2014 and 2013, respectively. Personal property acquired in repossession, generally autos and marine and recreational vehicles, totaled $2.4 million and $2.8 million at December 31, 2014 and 2013, respectively. These assets are carried at the lower of the amount recorded at acquisition date or the current fair value less estimated selling costs.

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4. Investment Securities

Investment securities, at fair value, consisted of the following at December 31, 2014 and 2013.

(In thousands)	2014	2013
Available for sale:		
U.S. government and federal agency obligations	$501,407	$505,696
Government-sponsored enterprise obligations	963,127	741,766
State and municipal obligations	1,813,201	1,619,171
Agency mortgage-backed securities	2,593,708	2,772,338
Non-agency mortgage-backed securities	382,744	246,983
Asset-backed securities	3,091,993	2,844,071
Other debt securities	139,161	141,757
Equity securities	38,219	43,898
Total available for sale	9,523,560	8,915,680
Trading	15,357	19,993
Non-marketable	106,875	107,324
Total investment securities	$9,645,792	$9,042,997

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 $46.6 million and $46.5 million at December 31, 2014 and December 31, 2013, 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 $60.2 million and $60.7 million at December 31, 2014 and December 31, 2013, 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, 2014 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, 2014. 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, and does not hold any trust preferred securities.

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(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield
U.S. government and federal agency obligations:			
Within 1 year	$104,791	$104,782	1.56*%
After 1 but within 5 years	198,166	204,838	1.57*
After 5 but within 10 years	141,179	142,575	.64*
After 10 years	53,200	49,212	.01*
Total U.S. government and federal agency obligations	497,336	501,407	1.14*
Government-sponsored enterprise obligations:			
Within 1 year	53,022	53,567	1.82
After 1 but within 5 years	425,884	426,591	1.54
After 5 but within 10 years	423,873	417,331	2.03
After 10 years	65,795	65,638	2.22
Total government-sponsored enterprise obligations	968,574	963,127	1.82
State and municipal obligations:			
Within 1 year	178,463	180,247	2.87
After 1 but within 5 years	688,284	708,764	2.47
After 5 but within 10 years	808,478	813,479	2.23
After 10 years	113,990	110,711	1.61
Total state and municipal obligations	1,789,215	1,813,201	2.35
Mortgage and asset-backed securities:			
Agency mortgage-backed securities	2,523,377	2,593,708	2.69
Non-agency mortgage-backed securities	372,911	382,744	3.05
Asset-backed securities	3,090,174	3,091,993	.87
Total mortgage and asset-backed securities	5,986,462	6,068,445	1.77
Other debt securities:			
Within 1 year	11,248	11,249	
After 1 but within 5 years	50,091	50,344	
After 5 but within 10 years	79,445	77,568	
Total other debt securities	140,784	139,161	
Equity securities	3,931	38,219	
Total available for sale investment securities	$9,386,302	$9,523,560	

* 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 $501.3 million, at fair value, at December 31, 2014. 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 $95.1 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 $37.4 million, at fair value, at December 31, 2014.

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

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
U.S. government and federal agency obligations	$497,336	$9,095	$(5,024)	$501,407
Government-sponsored enterprise obligations	968,574	2,593	(8,040)	963,127
State and municipal obligations	1,789,215	32,340	(8,354)	1,813,201
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,523,377	75,923	(5,592)	2,593,708
Non-agency mortgage-backed securities	372,911	11,061	(1,228)	382,744
Asset-backed securities	3,090,174	6,922	(5,103)	3,091,993
Total mortgage and asset-backed securities	5,986,462	93,906	(11,923)	6,068,445
Other debt securities	140,784	420	(2,043)	139,161
Equity securities	3,931	34,288	—	38,219
Total	$9,386,302	$172,642	$(35,384)	$9,523,560
December 31, 2013				
U.S. government and federal agency obligations	$498,226	$20,614	$(13,144)	$505,696
Government-sponsored enterprise obligations	766,802	2,245	(27,281)	741,766
State and municipal obligations	1,624,195	28,321	(33,345)	1,619,171
Mortgage and asset-backed securities:				
Agency mortgage-backed securities	2,743,803	54,659	(26,124)	2,772,338
Non-agency mortgage-backed securities	236,595	12,008	(1,620)	246,983
Asset-backed securities	2,847,368	6,872	(10,169)	2,844,071
Total mortgage and asset-backed securities	5,827,766	73,539	(37,913)	5,863,392
Other debt securities	147,581	671	(6,495)	141,757
Equity securities	9,970	33,928	—	43,898
Total	$8,874,540	$159,318	$(118,178)	$8,915,680

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, 2014, the fair value of securities on this watch list was $123.9 million compared to $188.8 million at December 31, 2013.

As of December 31, 2014, 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 $54.6 million. The cumulative credit-related portion of the impairment on these securities, which was recorded in earnings, totaled $13.7 million. The Company does not intend to sell these securities and believes it is not likely that it will be required to sell the securities before the recovery of their amortized cost.

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

Significant Inputs	Range		
Prepayment CPR	2%	-	25%
Projected cumulative default	20%	-	58%
Credit support	0%	-	18%
Loss severity	23%	-	77%

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

(In thousands)	2014	2013	2012
Cumulative OTTI credit losses at January 1	$12,499	$11,306	$9,931
Credit losses on debt securities for which impairment was previously recognized	1,365	1,284	1,490
Increase in expected cash flows that are recognized over remaining life of security	(130)	(91)	(115)
Cumulative OTTI credit losses at December 31	$13,734	$12,499	$11,306

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

	Less than 12 months		12 months or longer		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
U.S. government and federal agency obligations	$90,261	$818	$32,077	$4,206	$122,338	$5,024
Government-sponsored enterprise obligations	224,808	922	224,779	7,118	449,587	8,040
State and municipal obligations	172,980	646	215,702	7,708	388,682	8,354
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	55,128	429	381,617	5,163	436,745	5,592
Non-agency mortgage-backed securities	141,655	609	43,659	619	185,314	1,228
Asset-backed securities	1,424,457	2,009	159,098	3,094	1,583,555	5,103
Total mortgage and asset-backed securities	1,621,240	3,047	584,374	8,876	2,205,614	11,923
Other debt securities	16,434	55	80,203	1,988	96,637	2,043
Total	$2,125,723	$5,488	$1,137,135	$29,896	$3,262,858	$35,384
December 31, 2013						
U.S. government and federal agency obligations	$96,172	$243	$59,677	$12,901	$155,849	$13,144
Government-sponsored enterprise obligations	487,317	18,155	93,654	9,126	580,971	27,281
State and municipal obligations	478,818	15,520	178,150	17,825	656,968	33,345
Mortgage and asset-backed securities:						
Agency mortgage-backed securities	717,778	26,124	—	—	717,778	26,124
Non-agency mortgage-backed securities	53,454	918	22,289	702	75,743	1,620
Asset-backed securities	1,088,556	9,072	58,398	1,097	1,146,954	10,169
Total mortgage and asset-backed securities	1,859,788	36,114	80,687	1,799	1,940,475	37,913
Other debt securities	90,028	5,604	9,034	891	99,062	6,495
Total	$3,012,123	$75,636	$421,202	$42,542	$3,433,325	$118,178

The total available for sale portfolio consisted of approximately 1,900 individual securities at December 31, 2014. The portfolio included 363 securities, having an aggregate fair value of $3.3 billion, that were in a loss position at December 31, 2014, compared to 507 securities, with a fair value of $3.4 billion, at December 31, 2013. The total

amount of unrealized loss on these securities decreased $82.8 million to $35.4 million. At December 31, 2014, the fair value of securities in an unrealized loss position for 12 months or longer totaled $1.1 billion, or 11.9% of the total portfolio value, and did not include any securities identified as other-than-temporarily impaired.

The Company’s holdings of state and municipal obligations included gross unrealized losses of $8.4 million at December 31, 2014. Of these losses, $5.6 million related to auction rate securities and $2.7 million related to other state and municipal obligations. This portfolio, excluding auction rate securities, totaled $1.7 billion at fair value, or 18.0% of total available for sale securities. The Company has processes and procedures in place to monitor its state and municipal holdings, identify signs of financial distress and, if necessary, exit its positions in a timely manner. 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 following table.

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	% of Portfolio	Average Life (in years)	Average Rating (Moody's)
At December 31, 2014			
Texas	11.0 %	4.7	Aa2
Florida	9.3	4.1	Aa3
New York	7.3	6.5	Aa2
Ohio	6.0	5.1	Aa2
Washington	5.7	5.3	Aa2
General obligation	35.2 %	4.9	Aa2
Lease	15.6	4.8	Aa2
Housing	12.9	3.9	Aa1
Transportation	12.5	4.7	A1
Limited tax	9.1	6.1	Aa2

The credit ratings (Moody's rating or equivalent) at December 31, 2014 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	9.3 %
Aa	74.6
A	15.4
Not rated	.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)	2014	2013	2012
Proceeds from sales of available for sale securities	$30,998	$7,076	$5,231
Proceeds from sales of non-marketable securities	33,444	9,223	11,644
Total proceeds	$64,442	$16,299	$16,875
Available for sale:			
Gains realized on sales	$—	$126	$358
Losses realized on sales	(5,197)	—	—
Gain realized on donation	1,570	1,375	—
Other-than-temporary impairment recognized on debt securities	(1,365)	(1,284)	(1,490)
Non-marketable:			
Gains realized on sales	1,629	1,808	1,655
Losses realized on sales	(134)	(2,979)	(200)
Fair value adjustments, net	17,621	(3,471)	4,505
Investment securities gains (losses), net	$14,124	$(4,425)	$4,828

Investment securities with a fair value of $4.7 billion and $3.9 billion were pledged at December 31, 2014 and 2013, respectively, 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 $467.1 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.

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5. Land, Buildings and Equipment

Land, buildings and equipment consist of the following at December 31, 2014 and 2013:

(In thousands)	2014	2013
Land	$106,599	$106,005
Buildings and improvements	535,039	529,842
Equipment	244,239	227,467
Total	885,877	863,314
Less accumulated depreciation and amortization	528,006	513,660
Net land, buildings and equipment	$357,871	$349,654

Depreciation expense of $29.8 million, $30.7 million and $32.2 million for 2014, 2013 and 2012, respectively, was included in occupancy expense and equipment expense in the consolidated income statements. Repairs and maintenance expense of $16.5 million, $16.8 million and $17.3 million for 2014, 2013 and 2012, respectively, was included in occupancy expense and equipment expense. There has been no interest expense capitalized on construction projects in the past three years.

6. Goodwill and Other Intangible Assets

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

	December 31, 2014				December 31, 2013			
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount	Gross Carrying Amount	Accumulated Amortization	Valuation Allowance	Net Amount
Amortizable intangible assets:								
Core deposit premium	$31,270	$ (24,698)	$—	$6,572	$31,270	$ (22,781)	$—	$8,489
Mortgage servicing rights	3,693	(2,718)	(97)	878	3,430	(2,567)	(84)	779
Total	$34,963	$ (27,416)	$(97)	$7,450	$34,700	$ (25,348)	$(84)	$9,268

The carrying amount of goodwill and its allocation among segments at December 31, 2014 and 2013 is shown in the table below. As a result of ongoing assessments, no impairment of goodwill was recorded in 2014, 2013 or 2012. Further, the annual assessment of qualitative factors on January 1, 2015 revealed no likelihood of impairment as of that date.

(In thousands)	December 31, 2014	December 31, 2013
Consumer segment	$70,721	$70,721
Commercial segment	67,454	67,454
Wealth segment	746	746
Total goodwill	$138,921	$138,921

Changes in the net carrying amount of goodwill and other net intangible assets for the years ended December 31, 2014 and 2013 are shown in the following table.

(In thousands)	Goodwill	Core Deposit Premium	Mortgage Servicing Rights
Balance at December 31, 2012	$125,585	$4,828	$472
Summit acquisition	13,336	5,550	—
Originations	—	—	298
Amortization	—	(1,889)	(300)

Impairment reversal	—	—	309
Balance at December 31, 2013	138,921	8,489	779
Originations	—	—	263
Amortization	—	(1,917)	(151)
Impairment	—	—	(13)
Balance at December 31, 2014	$138,921	$6,572	$878

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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, 2014, temporary impairment of $97 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 16 on Fair Value Measurements.

Aggregate amortization expense on intangible assets for the years ended December 31, 2014, 2013 and 2012 was $2.1 million, $2.2 million and $2.5 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, 2014. The Company's actual amortization expense in any given period may be different from the estimated amounts depending upon the acquisition of intangible assets, changes in mortgage interest rates, prepayment rates and other market conditions.

(In thousands)	
2015	$1,986
2016	1,597
2017	1,235
2018	912
2019	680

7. Deposits

At December 31, 2014, the scheduled maturities of total time open and certificates of deposit were as follows:

(In thousands)	
Due in 2015	$1,638,332
Due in 2016	301,354
Due in 2017	80,693
Due in 2018	56,728
Due in 2019	42,596
Thereafter	2,515
Total	$2,122,218

The following table shows a detailed breakdown of the maturities of time open and certificates of deposit, by size category, at December 31, 2014.

(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	$145,232	$30,779	$363,581	$12,646	$552,238
Due in over 3 through 6 months	155,693	35,553	272,824	28,172	492,242
Due in over 6 through 12 months	260,582	49,132	238,723	45,415	593,852
Due in over 12 months	135,960	65,502	268,887	13,537	483,886
Total	$697,467	$180,966	$1,144,015	$99,770	$2,122,218

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, 2014 totaled $59.8 million.

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8. 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:					
2014	.1 %	.1 %	$1,119,578	$1,862,518	$1,862,518
2013	.1	.1	914,554	1,479,849	996,558
2012	.1	.1	785,978	1,149,156	683,550

Short-term borrowings consist primarily of federal funds purchased and securities sold under agreements to repurchase (repurchase agreements), which generally have one day maturities. At December 31, 2014, nearly all of these borrowings were short-term repurchase agreements comprised of non-insured customer funds, which were secured by a portion of the Company’s investment portfolio.

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. At December 31, 2014, total outstanding advances were $104.1 million with a weighted interest rate of 3.5% and a remaining maturity of three years. All of the outstanding advances have fixed interest rates and contain prepayment penalties. The FHLB has also issued letters of credit, totaling $233.1 million at December 31, 2014, to secure the Company’s obligations to certain depositors of public funds.

The Company's borrowings of long-term structured repurchase agreements matured in total during 2014, averaging $138.1 million during the year.

9. Income Taxes

The components of income tax expense from operations for the years ended December 31, 2014, 2013 and 2012 were as follows:

(In thousands)	Current	Deferred	Total
Year ended December 31, 2014:			
U.S. federal	$109,183	$(679)	$108,504
State and local	11,573	139	11,712
Total	$120,756	$(540)	$120,216
Year ended December 31, 2013:			
U.S. federal	$102,191	$7,984	$110,175
State and local	10,838	1,217	12,055
Total	$113,029	$9,201	$122,230
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

The components of income tax (benefit) expense recorded directly to stockholders’ equity for the years ended December 31, 2014, 2013 and 2012 were as follows:

(In thousands)	2014	2013	2012
Unrealized gain (loss) on securities available for sale	$36,525	$(84,582)	$19,425
Accumulated pension (benefit) loss	(4,433)	6,981	(3,608)
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(1,850)	(1,003)	(2,094)
Income tax (benefit) expense allocated to stockholders’ equity	$30,242	$(78,604)	$13,723

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Significant components of the Company’s deferred tax assets and liabilities at December 31, 2014 and 2013 were as follows:

(In thousands)	2014	2013
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$68,014	$70,154
Accrued expenses	14,590	15,740
Equity-based compensation	12,689	12,407
Deferred compensation	7,397	6,980
Pension	5,885	728
Other	16,173	14,740
Total deferred tax assets	124,748	120,749
Deferred tax liabilities:		
Equipment lease financing	67,531	64,320
Unrealized gain on securities available for sale	52,158	15,633
Land, buildings and equipment	14,520	14,757
Intangibles	7,532	7,282
Accretion on investment securities	5,919	5,972
Other	3,181	7,325
Total deferred tax liabilities	150,841	115,289
Net deferred tax assets (liabilities)	$(26,093)	$5,460

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 2014, 2013 and 2012 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)	2014	2013	2012
Computed “expected” tax expense	$133,690	$134,117	$138,774
Increase (decrease) in income taxes resulting from:			
Tax-exempt interest, net of cost to carry	(17,806)	(16,612)	(15,516)
State and local income taxes, net of federal tax benefit	7,613	7,836	7,692
Tax deductible dividends on allocated shares held by the Company’s ESOP	(1,116)	(1,116)	(2,991)
Other	(2,165)	(1,995)	(790)
Total income tax expense	$120,216	$122,230	$127,169

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 $6 thousand, $5 thousand and $81 thousand in 2014, 2013 and 2012, respectively. At December 31, 2014 and 2013, liabilities for interest and penalties were $178 thousand and $172 thousand, respectively.

As of December 31, 2014 and 2013, the gross amount of unrecognized tax benefits was $1.3 million and $1.4 million, respectively, and the total amount of unrecognized tax benefits that would impact the effective tax rate, if recognized, was $852 thousand 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 2011 through 2014 remain open to examination for U.S. federal income tax as well as income tax in major state taxing jurisdictions.

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The activity in the accrued liability for unrecognized tax benefits for the years ended December 31, 2014 and 2013 was as follows:

(In thousands)	2014	2013
Unrecognized tax benefits at beginning of year	$1,428	$1,581
Gross increases – tax positions in prior period	20	70
Gross decreases – tax positions in prior period	(5)	(2)
Gross increases – current-period tax positions	299	282
Lapse of statute of limitations	(430)	(503)
Unrecognized tax benefits at end of year	$1,312	$1,428

10. 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)	2014	2013	2012
Payroll taxes	$21,417	$21,118	$20,621
Medical plans	22,855	18,490	19,861
401(k) plan	12,057	12,465	12,613
Pension plans	2,555	1,627	2,441
Other	2,585	2,988	2,688
Total employee benefits	$61,469	$56,688	$58,224

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. Since January 2011, all benefits accrued under the pension plan have been frozen. However, the accounts continue to accrue interest at a stated annual rate. The CERP continues to provide credits based on hypothetical contributions in excess of those permitted under the 401(k) plan. In the tables presented below, the pension plan and the CERP are presented on a combined basis.

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. No contributions to the defined benefit plan were made in 2014 or 2013, and the minimum required contribution for 2015 is expected to be zero. The Company does not expect to make any further contributions in 2015 other than the necessary funding contributions to the CERP. Contributions to the CERP were $69 thousand, $69 thousand and $65 thousand during 2014, 2013 and 2012, respectively. As noted in the table below, pension cost in 2014 included a settlement loss of $1.7 million, resulting from a cash-out opportunity offered during the year to certain vested inactive participants with deferred benefits.

The following items are components of the net pension cost for the years ended December 31, 2014, 2013 and 2012.

(In thousands)	2014	2013	2012
Service cost-benefits earned during the year	$430	$509	$504
Interest cost on projected benefit obligation	5,069	4,509	5,162
Expected return on plan assets	(6,285)	(6,476)	(6,178)
Amortization of unrecognized net loss	1,654	3,085	2,953

Settlement loss recognized	1,687	—	—
Net periodic pension cost	$2,555	$1,627	$2,441

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The following table sets forth the pension plans' funded status, using valuation dates of December 31, 2014 and 2013.

(In thousands)	2014	2013
Change in projected benefit obligation		
Projected benefit obligation at prior valuation date	$113,673	$125,147
Service cost	430	509
Interest cost	5,069	4,509
Plan settlements	(7,163)	—
Benefits paid	(5,193)	(5,904)
Actuarial (gain) loss	18,631	(10,588)
Projected benefit obligation at valuation date	125,447	113,673
Change in plan assets		
Fair value of plan assets at prior valuation date	107,172	101,834
Actual return on plan assets	9,909	11,173
Employer contributions	69	69
Plan settlements	(7,163)	—
Benefits paid	(5,193)	(5,904)
Fair value of plan assets at valuation date	104,794	107,172
Funded status and net amount recognized at valuation date	$(20,653)	$(6,501)

The accumulated benefit obligation, which represents the liability of a plan using only benefits as of the measurement date, was $125.4 million and $113.7 million for the combined plans on December 31, 2014 and 2013, respectively.

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 are shown below, including amounts recognized in other comprehensive income during the periods. All amounts are shown on a pre-tax basis.

(In thousands)	2014	2013
Prior service credit (cost)	$—	$—
Accumulated loss	(37,145)	(25,479)
Accumulated other comprehensive loss	(37,145)	(25,479)
Cumulative employer contributions in excess of net periodic benefit cost	16,492	18,978
Net amount recognized as an accrued benefit liability on the December 31 balance sheet	$(20,653)	$(6,501)
Net gain (loss) arising during period	$(15,007)	$15,285
Amortization or settlement recognition of net loss	3,341	3,085
Total recognized in other comprehensive income	$(11,666)	$18,370
Total income (expense) recognized in net periodic pension cost and other comprehensive income	$(14,221)	$16,743

The estimated net loss to be amortized from accumulated other comprehensive income into net periodic pension cost in 2015 is $2.6 million.

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

	2014	2013	2012
Determination of benefit obligation at year end:			
Discount rate	3.95%	4.55%	3.65%
Assumed credit on cash balance accounts	5.00%	5.00%	5.00%
Determination of net periodic benefit cost for year ended:			
Discount rate	4.55%	3.65%	4.80%
Long-term rate of return on assets	6.00%	6.50%	6.50%

Assumed credit on cash balance accounts	5.00 %	5.00 %	5.00 %

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The following table shows the fair values of the Company's pension plan assets by asset category at December 31, 2014 and 2013. Information about the valuation techniques and inputs used to measure fair value are provided in Note 16 on Fair Value Measurements.

(In thousands)	Total Fair Value	Fair Value Measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Assets:				
U.S. government obligations	$1,290	$1,290	$—	$—
Government-sponsored enterprise obligations [a]	1,259	—	1,259	—
State and municipal obligations	10,638	—	10,638	—
Agency mortgage-backed securities [b]	1,762	—	1,762	—
Non-agency mortgage-backed securities	5,635	—	5,635	—
Asset-backed securities	5,776	—	5,776	—
Corporate bonds [c]	34,264	—	34,264	—
Equity securities and mutual funds: [d]				
U.S. large-cap	20,296	20,296	—	—
U.S. mid-cap	13,362	13,362	—	—
U.S. small-cap	3,590	3,590	—	—
International developed markets	3,377	3,377	—	—
Emerging markets	473	473	—	—
Money market funds	3,072	3,072	—	—
Total	$104,794	$45,460	$59,334	$—
December 31, 2013				
Assets:				
U.S. government obligations	$901	$901	$—	$—
Government-sponsored enterprise obligations [a]	2,512	—	2,512	—
State and municipal obligations	7,270	—	7,270	—
Agency mortgage-backed securities [b]				