COMMERCE BANCSHARES INC /MO/
Form 10-K
February 22, 2012
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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, 2011 — 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

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 checkmark 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, 2011, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $3,322,000,000.

As of February 6, 2012, there were 88,963,091 shares of Registrant's $5 Par Value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2012 annual meeting of shareholders, which will be filed within 120 days of December 31, 2011, are incorporated by reference into Part III of this Report.

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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. subsidiaries is included as Exhibit 21.

In June 2011, the Bank, which formerly was a national banking association, became a state chartered Federal Reserve member bank. The Bank’s main regulator was changed from the Office of the Comptroller of the Currency to supervision by both the Federal Reserve Bank of Kansas City and the Missouri Division of Finance. The Bank’s deposits continue to be fully insured by the FDIC in accordance with applicable laws and regulations.

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, 2011, the Company had consolidated assets of $20.6 billion, loans of $9.2 billion, deposits of $16.8 billion, and equity of $2.2 billion. All of the Company’s operations conducted by its subsidiaries are consolidated for purposes of preparing the Company’s consolidated financial statements. The Company does not utilize unconsolidated subsidiaries or special purpose entities to provide off-balance sheet borrowings or securitizations.

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 incoporates 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 the experienced team of managers assigned to each market and is also reflected in its financial centers and regional advisory boards, which are comprised of local business persons, professionals and other community representatives, who assist the Company in responding to local banking needs. In addition to this local market, community-based focus, the Company offers sophisticated financial products available at much larger financial institutions.

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

The markets the Bank serves, being located in the lower Midwest, provide natural sites for production and distribution facilities and also serve as transportation hubs. The economy has been well-diversified in these markets with many major industries represented, including telecommunications, automobile, aircraft and general manufacturing, health care, numerous service industries, food production, and agricultural production and related industries. In addition, several of the Illinois markets are located in areas with some of the most productive farmland in the world. The real estate lending operations of the Bank are centered in its lower Midwestern markets. Historically, these markets have generally tended to be less volatile than in other parts of the country. While the decline in the national real estate market resulted in significantly higher real estate loan losses during 2009, 2010 and 2011 for the banking industry, management believes the diversity and nature of the Bank’s markets has resulted in lower real estate loan losses in these markets and is a key factor in the Bank's relatively lower loan loss levels.

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

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 201 full-service branches, a widespread ATM network of 405 machines, and the use of alternative delivery channels such as extensive online banking and telephone banking services. In 2011, this retail segment contributed 27% 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 2011, the Commercial segment contributed 58% of total segment pre-tax income. The Wealth segment provides traditional trust and estate tax planning services, brokerage services, and advisory and discretionary investment portfolio management services to both personal and institutional corporate customers. This segment also manages the Company's family of proprietary mutual funds, which are available for sale to both trust and general retail customers. At December 31, 2011, the Wealth segment managed investments with a market value of $14.9 billion and administered an additional $12.4 billion in non-managed assets. Additional information relating to operating segments can be found on pages 47 and 89.

Supervision and Regulation

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). The Bank has a current CRA rating of "outstanding".

The Company is required to file with the Federal Reserve Board various reports and additional information the Federal Reserve Board may require. The Federal Reserve Board also makes regular examinations of the Company and its subsidiaries. The Company's banking subsidiary is a state chartered Federal Reserve member bank and is subject to regulation, supervision and examination by the Federal Reserve Bank of Kansas City and the State of Missouri Division of Finance. The Bank is also subject to regulation by the Federal Deposit Insurance Corporation (FDIC). In addition, there are numerous other federal and state laws and regulations which control the activities of the Company and the Bank, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with affiliates, loan limits, mergers and acquisitions, issuance of securities, dividend payments, and extensions of credit. If the Company fails to comply with these or other applicable laws and regulations, it may be subject to civil monetary penalties, imposition of cease and desist orders or other written directives, removal of management and, in certain circumstances, criminal penalties. This regulatory framework is intended primarily for the protection of depositors and the preservation of the federal deposit insurance funds, not for the protection of security holders. Statutory and regulatory controls increase a bank holding company's cost of doing business and limit the options of its management to employ assets and maximize income.

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

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, any capital 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.

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. Through December 31, 2012, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount of the account. 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 has established a risk-based assessment system under which institutions are classified and pay premiums according to their perceived risk to the federal deposit insurance funds. In February 2011, under the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (discussed further below), the FDIC issued a final rule changing its assessment base from total domestic deposits to average total assets minus average tangible equity. The rule altered other adjustments in the current assessment system for heavy use of unsecured liabilities, secured liabilities and brokered deposits, and added an adjustment for holdings of unsecured bank debt. For banks with more than $10 billion in assets, the FDIC 's new rule changed the assessment rate, abandoning the previous method for determining premiums, which were based on bank supervisory ratings, debt issuer ratings and financial ratios. Instead, the new rule relies on a scorecard designed to measure financial performance and ability to withstand stress, in addition to measuring the FDIC’s exposure should the bank fail. The new rule was effective for quarters beginning April 1, 2011. Because the Company has maintained a strong balance sheet with solid amounts of capital and has not offered many of the complex financial products that were prevalent in the marketplace, the risk-based FDIC insurance assessments under the new methods were less than amounts calculated under the old assessment methods. Accordingly, the Company's FDIC insurance expense in 2011 was $13.1 million, a decrease of $6.1 million as compared to 2010.

Payment of Dividends

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

Capital Adequacy

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

In addition, the Federal Reserve also requires bank holding companies to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization’s Tier I capital to its total consolidated quarterly average assets (as defined for regulatory purposes), net of the allowance for loan losses, goodwill and certain other intangible assets. The minimum leverage ratio for bank holding companies is 4%. At December 31, 2011, the Company was “well-capitalized” under regulatory capital adequacy standards, as further discussed on page 93.

In December 2010, the Basel Committee on Banking Supervision ("the Basel Committee") presented to the public the Basel III rules text, which proposes new global regulatory standards on bank capital adequacy and liquidity. The Basel Committee continued to refine Basel III during 2011 and seeks to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. The framework sets out tougher capital requirements, the introduction of a new leverage ratio calculation, higher requirements for minimum capital ratios, and higher risk-weightings for assets, as they relate to capital calculations. Basel III also establishes two minimum standards for liquidity to promote short-term resilience, as well as resilience over a longer period of time through a stable maturity structure of assets and liabilities.

Capital and liquidity standards consistent with Basel III will be formally implemented in the United States through a series of rulemakings. The U.S. bank agencies intend to issue a notice of proposed rulemaking during the first quarter of 2012 and a final rule later in the year that would implement the Basel III capital reforms. While it continues to evaluate the impact of this framework on its operations and reporting, the Company's capital ratios as of December 31, 2011 are well in excess of those minimum ratios proposed by both Basel III and the Federal Reserve.

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Legislation
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 Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act) contained major changes in laws that previously kept the banking industry largely separate from the securities and insurance industries. The GLB Act authorized the creation of a new kind of financial institution, known as a “financial holding company”, and a new kind of bank subsidiary, called a “financial subsidiary”, which may engage in a broader range of investment banking, insurance agency, brokerage, and underwriting activities. The GLB Act also included privacy provisions that limit banks’ abilities to disclose non-public information about customers to non-affiliated entities. Banking organizations are not required to become financial holding companies, but instead may continue to operate as bank holding companies, providing the same services they were authorized to provide prior to the enactment of the GLB Act. The Company currently operates as a bank holding company.

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.

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) was signed into law. The USA PATRIOT Act 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 U.S. Treasury Department issued a number of regulations implementing the USA PATRIOT Act that apply certain of its requirements to financial institutions such as the Company’s broker-dealer subsidiary. 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 Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (the Credit CARD Act) was signed into law in May 2009. It is comprehensive credit card legislation that aims to establish fair and transparent practices relating to open end consumer credit plans. Included in the Credit CARD Act was an extension of payment periods (with no late fees) from 14 days to 21 days, the advance warning period for significant changes to credit card accounts was extended from 15 days to 45 days, and opt-out provisions were made available to customers. Additionally, the Credit CARD Act included provisions governing when rate increases can be applied on late accounts, requirements for clearer disclosures of terms before opening an account, and prohibitions on charging over-limit fees and double-cycle billing, as well as new rules related to interest rate reinstatements on formerly overdue accounts and gift card expiration dates and inactivity fees.

The Federal Reserve issued new regulations, effective July 1, 2010, which prohibited financial institutions from assessing fees for paying ATM and one-time debit card transactions that overdraw consumer accounts unless the consumer affirmatively consents to the financial institution’s overdraft practices. The Company implemented new procedures to solicit and capture required customer consents and, effective July 1, 2010, prohibited such ATM and one-time debit card transactions causing overdrafts, unless an opt-in consent has been received. As not all customers provided such consent, these new regulations resulted in lower deposit fee income for subsequent periods. For 2011, overdraft fees were $40.9 million, as compared to $51.1 million in 2010.

In March 2010, legislation was passed which expanded Pell Grants and Perkins Loan programs and required all colleges and universities to convert to direct lending programs with the U.S. government as of July 1, 2010. Previously, colleges and universities had the choice of participating in either direct lending with the U.S. government or a program whereby loans were originated by banks but guaranteed by the U.S. government. The Company terminated its guaranteed student loan origination business effective July 1, 2010 and sold most of its student loan portfolios in 2010.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act is sweeping legislation intended to overhaul regulation of the financial services industry. Its goals are to establish a new council of “systemic risk” regulators, create a new consumer protection division within the Federal Reserve, empower the Federal Reserve to supervise the largest, most complex financial companies, allow the government to seize and liquidate failing financial companies, and give regulators new powers to oversee the derivatives market. The provisions of the Dodd-Frank Act are so extensive that full implementation may require several years, and an assessment of its full effect on the Company is not possible at this time.

In June 2011, the Federal Reserve, under the provisions of the Dodd-Frank Act, approved a final debit card interchange rule that significantly limits the amount of debit card interchange fees charged by banks. The new rule caps an issuer’s base fee at 21 cents per transaction and allows additional fees to help cover fraud losses. The new pricing is a reduction of approximately 45% when compared to previous market rates. The new rule also limits network exclusivity, requiring issuers to ensure that a debit card transaction can be carried on two unaffiliated networks: one signature-based and one PIN-based. The new rules apply to bank issuers with more than $10 billion in assets and take effect in phases, with the base fee cap effective October 1, 2011 and the network exclusivity rule effective on April 1, 2012. As a result of this rule, the Company's debit card revenues declined approximately $7.1 million in the fourth quarter of 2011 as compared to the third quarter of 2011.

The Dodd-Frank Act also established the Consumer Financial Protection Bureau (CFPB) and authorizes it to supervise certain consumer financial services companies and large depository institutions and their affiliates for consumer protection purposes. Subject to the provisions of the Act, the CFPB has responsibility to implement, examine for compliance with, and enforce “Federal consumer financial law.” As a depository institution, the Company will be subject to examinations by the CFPB, which will focus on the Company’s ability to detect, prevent, and correct practices that present a significant risk of violating the law and causing consumer harm.

In December 2011, the Federal Reserve Board issued proposed rules to strengthen regulation and supervision of large bank holding companies and systemically important nonbank financial firms. The proposal applies to all U.S. bank holding companies with consolidated assets of $50 billion or more with some provisions affecting banks with $10 billion or more in assets. These rules are meant to implement the Dodd-Frank Act's sections 165 and 166. The proposed rules include a wide range of measures in areas such as capital, liquidity, credit exposure, stress testing, risk management, and early remediation requirements. As a bank holding company with $10 billion or more in assets, the rules would require that the Company create a risk committee of the Board of Directors and chief risk officer, as well as require that the Company conduct its own annual stress-tests and publish a summary of the results.

Competition

The Company’s locations in regional markets throughout Missouri, Kansas, central Illinois, Tulsa, Oklahoma, and Denver, Colorado face intense competition from hundreds of financial service providers. The Company 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. The passage of the GLB Act, which removed barriers between banking and the securities and insurance industries, has resulted in greater competition among these industries. The Company generally competes on the basis of customer service and responsiveness to customer needs, interest rates on loans and deposits, lending limits, and customer convenience, such as location of offices. Within the St. Louis and Kansas City, Missouri markets, the Company has approximately 9% of deposit market share.

Employees

The Company and its subsidiaries employed 4,237 persons on a full-time basis and 623 persons on a part-time basis at December 31, 2011. The Company provides a variety of benefit programs including a 401K plan as well as group life, health, accident, and other insurance. The Company also maintains training and educational programs designed to prepare employees for positions of increasing responsibility.

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.

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Statistical Disclosure

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

Item 1a. RISK FACTORS

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

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

Given the concentration of the Company's banking business in the United States, it is particularly exposed to downturns in the U.S. economy. The economic trends which began in 2008, such as declines in the housing market, (e.g., falling home prices and increasing foreclosures), unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities and other complex financial instruments, but spreading to various classes of real estate, commercial and consumer loans in turn, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers. The weak U.S. economy and tightening of credit during recent years led to a lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected the Company's business, financial condition and results of operations through higher levels of loan losses and lower loan demand. While the economy has seen improvement in the past year, significant uncertainty remains and management does not expect significant economic growth in the near future.

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

- Continued high unemployment levels, weak economic activity and other market developments may affect consumer confidence levels and may cause declines in consumer credit usage, adverse changes in payment patterns, and higher loan delinquencies and default rates. These could impact the Company's future loan losses and provision for loan losses, as a significant part of the Company's business includes consumer and credit card lending.
- Reduced levels of economic activity may also cause declines in financial service transactions, including bank card, corporate cash management and other fee businesses, as well as the fees earned by the Company on such transactions.

- The Company’s ability to assess the creditworthiness of its customers may be impaired if the models and approaches it uses to select, manage, and underwrite its customers become less predictive of future behaviors, causing higher future credit losses.
- The process used to estimate losses inherent in the Company’s loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of

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its borrowers to repay their loans. If an instance occurs that renders these predictions no longer capable of accurate estimation, this may in turn impact the reliability of the process.

- Competition in the industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, thereby reducing market prices for various products and services which could in turn reduce Company revenues.
- Though bank failures slowed during 2011 as compared to 2009 and 2010, failures during this period remained higher than historical levels. Due to higher bank failures in recent years and continued uncertainty about the future, the Company may be required to pay high levels of FDIC premiums for extended periods of time.
- The U.S. economy is also affected by foreign economic events, such as the European debt crisis that developed during the past year. Although the Company does not hold foreign debt, global conditions affecting interest rates, business export activity, capital expenditures by businesses, and investor confidence may negatively affect the Company by means of reduced loan demand or reduced transaction volume with the Company.

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

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

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

Significant changes in federal monetary policy could materially affect the Company’s business.
The Federal Reserve System regulates the supply of money and credit in the United States. Its polices determine in large part the cost of funds for lending and investing by influencing the interest rate earned on loans and paid on borrowings and interest bearing deposits. Credit conditions are influenced by its open market operations in U.S.

government securities, changes in the member bank discount rate, and bank reserve requirements. Changes in Federal Reserve Board policies are beyond the Company's control and difficult to predict, and such changes may result in lower interest margins and a continued lack of demand for credit products.

The soundness of other financial institutions could adversely affect the Company.
The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institution counterparties. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment

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banks, mutual funds, and other institutional clients. Transactions with these institutions include overnight and term borrowings, interest rate swap agreements, securities purchased and sold, short-term investments, and other such transactions. As a result of this exposure, defaults by, or rumors or questions about, one or more financial services institutions or the financial services industry generally, could lead to market-wide liquidity problems and defaults by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or client, while other transactions expose the Company to liquidity risks should funding sources quickly disappear. In addition, the Company's credit risk may be exacerbated when the collateral held cannot be realized or is liquidated at prices not sufficient to recover the full amount of the exposure due to the Company. Any such losses could materially and adversely affect results of operations.

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

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

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

The Company's investment portfolio values may be adversely impacted by changing interest rates and 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 by credit rating agencies at the time of purchase, however, these securities are subject to changes in market value due to changing interest rates and implied credit spreads. Recently, budget deficits and other financial problems in a number of states and political subdivisions have been reported in the media. While the Company maintains rigorous risk management practices over bonds issued by municipalities, further credit deterioration in these bonds could occur and result in losses. Certain mortgage and asset-backed securities represent beneficial interests which are collateralized by residential mortgages, credit cards, automobiles, mobile homes or other assets. While these investment securities are highly rated at the time of initial investment, the value of these securities may decline significantly due to actual or expected deterioration in the underlying collateral, especially residential mortgage collateral. Market conditions have resulted in a deterioration in fair values for non-guaranteed mortgage-backed and other asset-backed securities. Under accounting rules, when the impairment is due to declining expected cash flows, some portion of the impairment, depending on the Company's intent to sell and the likelihood of being required to sell before recovery, must be recognized in current earnings. This could result in significant non-cash losses.

The Company is subject to interest rate risk.

The Company's net interest income is the largest source of overall revenue to the Company, representing 62% of total revenue. Interest rates are beyond the Company's control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits, and the rates received on loans and investment securities and paid on deposits. Management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations. However, any substantial, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations.

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Future loan losses could increase.
The Company maintains an allowance for loan losses that represents management’s best estimate of probable losses that have been incurred at the balance sheet date within the existing portfolio of loans. The level of the allowance reflects management’s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Although the loan losses have declined significantly in 2011, they continue to remain at elevated levels by historical standards, particularly in residential construction, consumer, and credit card loans, due to the deterioration in the housing industry and general economic conditions in recent years. Until the housing sector and overall economy begin to recover, it is likely that these higher loan loss levels will continue. While the Company’s credit loss ratios remain below industry averages, continued economic deterioration and further loan losses may negatively affect its 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 liquidity risk.
Due to a weak economy and diminished risk appetite during the last several years, individuals and businesses have increased the Company's deposits significantly. During 2011, total deposits increased by approximately $1.7 billion. At the same time, demand for loans has remained weak, and therefore, growth in deposits was utilized to increase the size of the Company's investment securities portfolio to $9.4 billion at December 31, 2011. As a result the Company's loan to deposit ratio at December 31, 2011 was 55% and was an indication of a strong balance sheet with low liquidity risk. However, should the demand for loans increase in the future while customer deposits begin to decline, the Company's liquidity risk could change and is dependent on its ability to manage maturities within its investment portfolio, which would be used to fund loan growth.

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

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

The Company may not attract and retain skilled employees.

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

Item 1b. UNRESOLVED STAFF COMMENTS
None

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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	83	38
811 Main Kansas City, MO	237,000	100	100
8000 Forsyth Clayton, MO	178,000	95	92
1551 N. Waterfront Pkwy Wichita, KS	120,000	99	32

Various installment loan, trust and safe deposit functions operate out of leased offices in downtown Kansas City, Missouri. Also, during 2011 the Company transferred its credit card operations from Omaha, Nebraska, to Kansas City. The Company has an additional 196 branch locations in Missouri, Illinois, Kansas, Oklahoma and Colorado which are owned or leased, and 162 off-site ATM locations.

Item 3. LEGAL PROCEEDINGS

The information required by this item is set forth in Item 8 under Note 18, Commitments, Contingencies and Guarantees on page 105.

Item 4. MINE SAFETY DISCLOSURES

None

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Executive Officers of the Registrant

The following are the executive officers of the Company as of February 22, 2012, 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, 58	Controller of the Company since December 1995. He is Controller of the Company's subsidiary bank, Commerce Bank.
Kevin G. Barth, 51	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.
Daniel D. Callahan, 54	Executive Vice President and Chief Credit Officer of the Company since December 2010, Senior Vice President of the Company since April 2005 and Vice President of the Company prior thereto. Executive Vice President of Commerce Bank since May 2003.
Sara E. Foster, 51	Executive Vice President of the Company since February 10, 2012 and Senior Vice President of the Company since February 1998.
David W. Kemper, 61	Chairman of the Board of Directors of the Company since November 1991, Chief Executive Officer of the Company since June 1986, and President of the Company since April 1982. He is Chairman of the Board, President and Chief Executive Officer of Commerce Bank. He is the son of James M. Kemper, Jr. (a former Director and former Chairman of the Board of the Company), the brother of Jonathan M. Kemper, Vice Chairman of the Company, and father of John W. Kemper.
John W. Kemper, 33	Executive Vice President and Chief Administrative Officer of the Company since February 10, 2012 and Senior Vice President of the Company prior thereto. Senior Vice President of Commerce Bank since January 2009. Prior to his employment with Commerce Bank in August 2007, he was employed as an engagement manager with a global management consulting firm, managing strategy and operations projects primarily focused in the financial service industry. He is the son of David W. Kemper, Chairman, President, and Chief Executive Officer of the Company and nephew of Jonathan M. Kemper, Vice Chairman of the Company.
Jonathan M. Kemper, 58	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, President, and Chief Executive Officer of the Company, and uncle of John W. Kemper.
Charles G. Kim, 51	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, N.A. (Clayton, MO), a former subsidiary of the Company.
Seth M. Leadbeater, 61	

	Vice Chairman of the Company since January 2004. Prior thereto he was Executive Vice President of the Company. He has been Vice Chairman of Commerce Bank since September 2004. Prior thereto he was Executive Vice President of Commerce Bank and President of Commerce Bank, N.A. (Clayton, MO).
Michael J. Petrie, 55	Senior Vice President of the Company since April 1995. Prior thereto, he was Vice President of the Company.
Robert J. Rauscher, 54	Senior Vice President of the Company since October 1997. Senior Vice President of Commerce Bank prior thereto.
V. Raymond Stranghoener, 60	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 2011).

	Quarter	High	Low	Cash Dividends
2011	First	$40.64	$36.70	$.219
	Second	41.81	38.14	.219
	Third	41.90	31.65	.219
	Fourth	38.67	31.49	.219
2010	First	$37.97	$34.06	$.213
	Second	39.20	32.22	.213
	Third	36.59	31.84	.213
	Fourth	38.66	32.71	.213
2009	First	$38.36	$24.01	$.207
	Second	33.91	25.68	.207
	Third	34.54	26.73	.207
	Fourth	36.63	31.01	.207

Commerce Bancshares, Inc. common shares are listed on the Nasdaq Global Select Market (NASDAQ) under the symbol CBSH. The Company had 4,218 shareholders of record as of December 31, 2011.

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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, 2006 with dividends invested on a Total Return basis.

Five Year Cumulative Total Return

	2006	2007	2008	2009	2010	2011
Commerce (CBSH)	100.00	99.38	104.66	99.39	109.66	113.11
NASDAQ Bank	100.00	79.26	57.79	48.42	57.29	51.19
S&P 500	100.00	105.50	66.47	84.06	96.71	98.76

The following table sets forth information about the Company’s purchases of its $5 par value common stock, its only class of stock registered pursuant to Section 12 of the Exchange Act, during the fourth quarter of 2011.

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, 2011	438	$38.80	438	823,677
November 1—30, 2011	—	—	—	3,000,000
December 1—31, 2011	700	$36.40	700	2,999,300
Total	1,138	$37.32	1,138	2,999,300

The Company’s stock purchases shown above were made under authorizations by the Board of Directors. Under the most recent authorization in November 2011, 2,999,300 shares remained available for purchase at December 31, 2011.

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Item 6. SELECTED FINANCIAL DATA
The required information is set forth below in Item 7.

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

Overview

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

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

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

- Net income and growth in earnings per share — Net income attributable to Commerce Bancshares, Inc. was $256.3 million, an increase of 15.6% compared to the previous year. The return on average assets was 1.32%. Diluted earnings per share increased 17.5% in 2011 compared to 2010.
- Growth in total revenue — Total revenue is comprised of net interest income and non-interest income. Total revenue in 2011 declined $12.1 million, or 1.1%, compared to 2010, which resulted from lower non-interest income. Non-interest income was primarily affected by regulation which reduced fees from overdraft, debit card and student lending activities. Net interest income rose slightly, although the net interest margin declined from 3.89% in 2010 to 3.65% in 2011. Total revenue has risen 3.7%, compounded annually, over the last five years.
- Expense control — Non-interest expense decreased $13.9 million, or 2.2%, this year, but included litigation costs of $18.3 million. Salaries and employee benefits, the largest expense component, declined by .4% due to lower salary, medical and pension costs, but were partly offset by higher incentive compensation. Other operating expenses were also well-controlled and included a decline in FDIC costs. Included in 2010 expense was $11.8 million related to early extinguishment of debt.
- Asset quality — Net loan charge-offs in 2011 decreased $32.4 million from those recorded in 2010, and averaged .70% of loans compared to 1.00% in the previous year. Total non-performing assets, which include non-accrual loans and foreclosed real estate, amounted to $93.8 million, a decrease of $3.5 million from balances at the previous year end, and represented 1.02% of loans outstanding.
- Shareholder return — Total shareholder return, including the change in stock price and dividend reinvestment, was 3.1% over the past year and 7.0% over the past 10 years.

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

Key Ratios

(Based on average balances)	2011	2010	2009	2008	2007
Return on total assets	1.32 %	1.22 %	.96 %	1.15 %	1.33 %
Return on total equity	12.15	11.15	9.76	11.81	13.97
Equity to total assets	10.87	10.91	9.83	9.71	9.55
Loans to deposits (1)	59.15	70.02	79.79	92.11	88.49
Non-interest bearing deposits to total deposits	30.26	28.65	26.48	24.05	24.00
Net yield on interest earning assets (tax equivalent basis)	3.65	3.89	3.93	3.96	3.85
(Based on end of period data)					
Non-interest income to revenue (2)	37.82	38.54	38.41	38.80	40.85
Efficiency ratio (3)	59.10	59.71	59.88	63.08	62.65
Tier I risk-based capital ratio	14.71	14.38	13.04	10.92	10.31
Total risk-based capital ratio	16.04	15.75	14.39	12.31	11.49
Tier I leverage ratio	9.55	10.17	9.58	9.06	8.76
Tangible common equity to assets ratio (4)	9.91	10.27	9.71	8.25	8.61
Cash dividend payout ratio	31.06	35.52	44.15	38.54	33.76

(1) Includes loans held for sale.
(2) Revenue includes net interest income and non-interest income.
(3) The efficiency ratio is calculated as non-interest expense (excluding intangibles amortization) as a percent of revenue.
(4) The tangible common equity ratio is calculated as stockholders' equity reduced by goodwill and other intangible assets (excluding mortgage servicing rights) divided by total assets reduced by goodwill and other intangible assets (excluding mortgage servicing rights).

Selected Financial Data

(In thousands, except per share data)	2011	2010	2009	2008	2007
Net interest income	$646,070	$645,932	$635,502	$592,739	$538,072
Provision for loan losses	51,515	100,000	160,697	108,900	42,732
Non-interest income	392,917	405,111	396,259	375,712	371,581
Investment securities gains (losses), net	10,812	(1,785)	(7,195)	30,294	8,234
Non-interest expense	617,249	631,134	621,737	615,380	574,159
Net income attributable to Commerce Bancshares, Inc.	256,343	221,710	169,075	188,655	206,660
Net income per common share-basic*	2.83	2.41	1.88	2.15	2.34
Net income per common share-diluted*	2.82	2.40	1.87	2.14	2.32
Cash dividends	79,140	78,231	74,720	72,055	68,915
Cash dividends per share*	.876	.853	.829	.823	.784
Market price per share*	38.12	37.84	35.12	37.97	36.91
Book value per share*	24.40	22.25	20.61	18.00	17.53
Common shares outstanding*	88,952	90,955	91,517	87,737	87,268
Total assets	20,649,367	18,502,339	18,120,189	17,532,447	16,204,831
Loans, including held for sale	9,208,554	9,474,733	10,490,327	11,644,544	10,841,264
Investment securities	9,358,387	7,409,534	6,473,388	3,780,116	3,297,015

Deposits	16,799,883	15,085,021	14,210,451	12,894,733	12,551,552
Long-term debt	511,817	512,273	1,236,062	1,447,781	1,083,636
Equity	2,170,361	2,023,464	1,885,905	1,579,467	1,530,156
Non-performing assets	93,803	97,320	116,670	79,077	33,417

*Restated for the 5% stock dividend distributed in December 2011.

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Results of Operations

(Dollars in thousands)	2011	2010	2009	$ Change '11-'10	$ Change '10-'09	% Change '11-'10	% Change '10-'09
Net interest income	$646,070	$645,932	$635,502	$138	$10,430	— %	1.6 %
Provision for loan losses	(51,515)	(100,000)	(160,697)	(48,485)	(60,697)	(48.5)	(37.8)
Non-interest income	392,917	405,111	396,259	(12,194)	8,852	(3.0)	2.2
Investment securities gains (losses), net	10,812	(1,785)	(7,195)	12,597	5,410	NM	75.2
Non-interest expense	(617,249)	(631,134)	(621,737)	(13,885)	9,397	(2.2)	1.5
Income taxes	(121,412)	(96,249)	(73,757)	25,163	22,492	26.1	30.5
Non-controlling interest (expense) income	(3,280)	(165)	700	(3,115)	(865)	NM	(123.6)
Net income attributable to Commerce Bancshares, Inc.	$256,343	$221,710	$169,075	$34,633	$52,635	15.6 %	31.1 %

Net income attributable to Commerce Bancshares, Inc. and subsidiaries (the "Company") for 2011 was $256.3 million, an increase of $34.6 million, or 15.6%, compared to $221.7 million in 2010. Diluted income per share was $2.82 in 2011 compared to $2.40 in 2010. The increase in net income resulted from a $48.5 million decrease in the provision for loan losses coupled with a decline of $13.9 million in non-interest expense and $12.6 million in higher net securities gains. These effects were partly offset by a $12.2 million decline in non-interest income and a $25.2 million increase in income tax expense. Non-interest expense included the accrual of $18.3 million for a lawsuit settlement regarding debit card overdrafts, which is discussed further in Note 18 to the consolidated financial statements. In addition, an indemnification obligation liability related to Visa, Inc. (Visa), also discussed in Note 18, was reduced by $4.4 million, decreasing expense. The return on average assets was 1.32% in 2011 compared to 1.22% in 2010, and the return on average equity was 12.15% compared to 11.15%. At December 31, 2011, the ratio of tangible common equity to assets was 9.91% compared to 10.27% at year end 2010.

During 2011, net interest income increased $138 thousand to $646.1 million, as compared to $645.9 million in 2010. This slight growth was due to lower rates incurred on deposits, higher average balances in investment securities, and lower average borrowing levels. These effects were partly offset by lower rates earned on both investment securities and loans, in addition to lower loan balances.

The provision for loan losses totaled $51.5 million in 2011, a decrease of $48.5 million from the prior year. Net loan charge-offs declined by $32.4 million in 2011 compared to 2010, mainly in construction, consumer, and consumer credit card loans.

Non-interest income for 2011 was $392.9 million, a decrease of $12.2 million, or 3.0%, compared to $405.1 million in 2010. This decrease is the result of a decline in overdraft fees of $10.2 million in 2011, due to the Company's implementation on July 1, 2010 of new overdraft regulations on debit card transactions, as well as a decline of $3.1 million in debit interchange income resulting from new rules adopted in Dodd-Frank legislation, which became effective during the fourth quarter of 2011. Also contributing to the decline in non-interest income in 2011 was a $14.6 million decrease in gains on sales of student loans. This occurred as new federal regulations over guaranteed student loans caused the Company to exit the guaranteed student loan business and the Company sold most of its student loans in 2010. Partially offsetting these decreases in non-interest income was a $9.5 million increase in corporate card revenue, resulting from both new customer transactions and increased volumes from existing customers as the Company continues to expand this product on a national basis. In addition, trust fees rose $7.4 million on strong new account sales.

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

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

Net income attributable to Commerce Bancshares, Inc. for 2010 was $221.7 million, an increase of $52.6 million, or 31.1%, compared to $169.1 million in 2009. Diluted income per share was $2.40 in 2010 compared to $1.87 in 2009. The increase in net

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income resulted from a $60.7 million decrease in the provision for loan losses coupled with growth of $10.4 million in net interest income and $8.9 million in non-interest income. The growth in income was partly offset by an increase of $9.4 million in non-interest expense. Several significant items of non-interest income and non-interest expense affected results for 2010. During 2010, the Company paid off $125.0 million in FHLB borrowings with high interest coupons prior to maturity and incurred a pre-payment penalty of $11.8 million. The Company also sold its held to maturity portfolio of student loans, totaling $311.0 million, for a gain of $6.9 million. During 2010, the Visa indemnification obligation liability was reduced by $4.4 million. The combined effect of these items was a reduction in pre-tax net income of $465 thousand. The return on average assets was 1.22% in 2010 compared to .96% in 2009, and the return on average equity was 11.15% compared to 9.76%. At December 31, 2010, the ratio of tangible common equity to assets improved to 10.27% compared to 9.71% at year end 2009.

During 2010, net interest income increased $10.4 million, or 1.6%, compared to 2009. This growth was mainly the result of lower rates paid on deposits and higher average balances in investment securities, but partly offset by lower yields on loans and investment securities and declining loan balances. The provision for loan losses totaled $100.0 million in 2010, a decrease of $60.7 million from the prior year. The Company incurred lower loan losses in nearly all categories, notably construction, consumer and business.

Non-interest income in 2010 increased $8.9 million, or 2.2%, over amounts reported in the previous year, mainly due to growth in bank card and trust fees, which rose $26.8 million and $4.1 million, respectively. Bank card fees increased due to strong growth in corporate card revenues. Offsetting this growth was a decline in deposit account fees of $13.7 million, or 12.9%, due largely to the effect of the new overdraft regulations mentioned above, in addition to lower brokerage and bond trading revenue. Non-interest expense increased $9.4 million, or 1.5%, over 2009. The growth in expense included the debt pre-payment penalty, partly offset by an $8.2 million reduction in FDIC insurance expense. Reductions in the Visa indemnification obligation were recorded in both 2010 and 2009. Income tax expense amounted to $96.2 million in 2010 and $73.8 million in 2009. The effective tax rate was 30.3% in 2010 compared to 30.4% in the previous year.

The Company distributed a 5% stock dividend for the eighteenth consecutive year on December 19, 2011. All per share and average share data in this report has been restated to reflect the 2011 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, lease, construction and business real estate loans. These loans are normally larger and more complex, and their collection rates are harder to predict. Personal loans, including personal mortgage, 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 this discussion and in Note 1.

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

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typically involve cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, estimates, or other inputs to the valuation techniques could have a material impact on the Company's future financial condition and results of operations. Assets and liabilities carried at fair value inherently result in more financial statement volatility. Under the fair value measurement hierarchy, fair value measurements are classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable, internally-derived inputs), as discussed in more detail in Note 15 on Fair Value Measurements. Most of the available for sale investment portfolio is priced utilizing industry-standard models that consider various assumptions observable in the marketplace or which can be derived from observable data. Such securities totaled approximately $8.7 billion, or 94.4% of the available for sale portfolio at December 31, 2011, and were classified as Level 2 measurements. The Company also holds $135.6 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, 2011, certain non-agency guaranteed mortgage-backed securities with a par value of $143.3 million were identified as other-than-temporarily impaired. The cumulative credit-related impairment loss on these securities amounted to $9.9 million, which was recorded in the consolidated income statement.

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 $70.5 million at December 31, 2011. Changes in fair value are reflected in current earnings and reported in investment securities gains (losses), net, in the consolidated income statements. 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.

(In thousands)	2011 Change due to Average Volume	2011 Change due to Average Rate	2011 Total	2010 Change due to Average Volume	2010 Change due to Average Rate	2010 Total
Interest income, fully taxable equivalent basis						
Loans	$(18,171)	$(25,066)	$(43,237)	$(40,397)	$(7,643)	$(48,040)
Loans held for sale	(5,292)	316	(4,976)	(809)	(1,319)	(2,128)
Investment securities:						
U.S. government and federal agency obligations	(1,787)	9,382	7,595	10,767	(7,848)	2,919
Government-sponsored enterprise obligations	1,112	78	1,190	2,009	(1,637)	372
State and municipal obligations	9,786	(3,267)	6,519	4,676	(3,089)	1,587
Mortgage-backed securities	29,458	(28,275)	1,183	927	(24,626)	(23,699)
Asset-backed securities	9,168	(17,204)	(8,036)	33,369	(24,976)	8,393
Other securities	(1,007)	1,521	514	(726)	805	79
Short-term federal funds sold and securities purchased under agreements to resell	31	(24)	7	(206)	32	(174)
Long-term securities purchased under agreements to resell	10,495	411	10,906	2,549	—	2,549
Interest earning deposits with banks	56	4	60	(385)	5	(380)
Total interest income	33,849	(62,124)	(28,275)	11,774	(70,296)	(58,522)
Interest expense						
Interest bearing deposits:						
Savings	61	169	230	60	(80)	(20)
Interest checking and money market	4,059	(7,731)	(3,672)	5,618	(7,731)	(2,113)
Time open and C.D.'s of less than $100,000	(4,722)	(6,797)	(11,519)	(8,420)	(20,691)	(29,111)
Time open and C.D.'s of $100,000 and over	763	(5,338)	(4,575)	(7,117)	(14,407)	(21,524)
Federal funds purchased and securities sold under agreements to repurchase	(90)	(753)	(843)	295	(1,410)	(1,115)
Other borrowings	(11,258)	(10)	(11,268)	(15,064)	(1,515)	(16,579)
Total interest expense	(11,187)	(20,460)	(31,647)	(24,628)	(45,834)	(70,462)
Net interest income, fully taxable equivalent basis	$45,036	$(41,664)	$3,372	$36,402	$(24,462)	$11,940

Net interest income totaled $646.1 million in 2011 compared to $645.9 million in 2010. On a tax equivalent basis, net interest income totaled $669.5 million and increased $3.4 million over the previous year. This slight increase was mainly the result of lower interest expense incurred on deposits and other borrowings coupled with higher interest income earned on investment securities and securities purchased under agreements to resell, partially offset by lower interest income earned on loans. The net yield on earning assets (tax equivalent) was 3.65% in 2011 compared with 3.89% in the previous year.

During 2011, interest income on loans (tax equivalent, including loans held for sale) declined $48.2 million from 2010 due to a $787.4 million decrease in average loan balances, coupled with an 8 basis point decrease in average rates earned. The decrease in average loans compared to the previous year included a decrease of $554.0 million in average student loans, contributing to a decrease in interest income of $10.8 million. The majority of the student loan portfolio, including loans held for sale and held to maturity, was sold in the fourth quarter of 2010. As a result of new regulations regarding federally guaranteed student loans, the Company is not originating new student loans. The average tax equivalent rate earned on the loan portfolio, including held for sale loans, was 5.07% compared to 5.15% in the previous year, reflecting the overall lower rate environment in the industry. Interest earned on business loans decreased $6.2 million as a result of a decline in rates of 25 basis points, which was offset by a slight increase in average balances. Interest on construction loans decreased $3.6 million due to a decline in average balances, but was offset by higher rates, while interest on personal real estate loans declined $7.5 million due to lower rates and balances. Demand for construction and personal real estate loans continues to be affected by the weak housing industry. Interest on consumer loans decreased $14.1 million from the previous year due to a decline of $131.4 million in average consumer loans coupled with a 47 basis point decrease in rates earned. Most of this decline in average balances was due to a decrease in marine and recreational

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vehicle (RV) loans of $125.7 million, resulting from the Company's decision to exit the marine/RV origination business in 2008. Also, interest earned on consumer credit card loans decreased by $4.7 million due to a combination of lower balances and rates earned on these loans.

Tax equivalent interest in investment securities increased by $9.0 million in 2011 due to a $1.4 billion increase in average balances outstanding, but was offset by lower rates earned on these investments. The average rate earned on the investment securities portfolio declined from 3.40% in 2010 to 2.93% in 2011. Interest income on mortgage-backed securities increased $1.2 million in 2011 due to growth in average balances of $734.6 million but was offset by a decline in rates earned on these securities. Interest on asset-backed securities declined $8.0 million due to a decline in rates of 70 basis points but was offset by higher average balances of $470.2 million. Interest (tax exempt) on municipal securities increased $6.5 million mainly due to higher average balances, which increased $208.1 million in 2011. Interest on U.S. government, agency and government sponsored enterprise securities grew by $8.8 million in 2011, which was mostly due to an increase of $7.0 million in inflation income on certain inflation-protected securities. Interest on long-term resell agreements also increased $10.9 million in 2011 compared to the prior year, due to a $618.7 million increase in the average balances of these instruments in 2011.
During 2011, interest expense on deposits decreased $19.5 million compared to 2010. This was mainly the result of lower rates on most deposit products coupled with a $283.5 million decline in average certificate of deposit balances, but partly offset by the effects of higher average balances of money market and interest checking accounts, which grew by $917.6 million. Average rates paid on deposit balances declined 21 basis points in 2011 to .43%. Interest expense on borrowings declined $12.1 million, mainly the result of lower average FHLB advances, which decreased $339.8 million, or 76.5%, due to scheduled maturities of advances and the early pay off of $125.0 million in the fourth quarter of 2010. The average rate paid on total interest bearing liabilities decreased to .43% compared to .71% in 2010.

During 2010, interest income on loans (tax equivalent) declined $48.0 million from 2009 due to lower average balances on most loan categories, coupled with lower rates earned on personal real estate and other personal banking loan products. The average tax equivalent rate earned on the loan portfolio was 5.28% compared to 5.27% in the previous year. Total average loan balances decreased $931.2 million, or 8.8%, reflecting declines of $346.8 million in business and business real estate loans, $182.6 million in construction loans, $109.2 million in personal real estate loans and $214.1 million in consumer loans. The decrease in business, business real estate and personal real estate loans was the result of loan principal pay downs and lower line of credit usage, which exceeded new loan origination due to lower demand. The decline in construction loans was mainly due to the weak housing economy and the Company's efforts to reduce this portfolio. In October 2010, the Company sold its entire held to maturity student loan portfolio, which totaled approximately $311.0 million, to another loan servicer. In the second half of 2010, the Company sold most of the student loans held for sale, which were federally guaranteed, and new regulations prohibit the Company from originating new federally guaranteed student loans in the future. Tax equivalent interest earned on investment securities decreased by $10.3 million, or 4.3%, due to lower rates earned, partly offset by higher average balances of securities. The average rate earned on the investment securities portfolio declined from 4.54% in 2009 to 3.40% in 2010, resulting in a decline in interest income of approximately $61.4 million due to lower rates. The average balances of mortgage and other asset-backed securities, U.S. government and federal agency securities, and state and municipal obligations increased $1.1 billion, $269.9 million and $93.1 million, respectively. Average tax equivalent rates earned on total interest earning assets in 2010 decreased to 4.38% compared to 4.85% in the previous year, or a decline of 47 basis points.

Interest expense on deposits decreased $52.8 million in 2010 compared to 2009. The decline resulted from lower rates paid on all deposit products coupled with a $930.1 million decline in average certificates of deposit, but partly offset by the effects of higher average balances of money market and interest checking accounts, which grew by $1.4 billion. Average rates paid on deposit balances declined 43 basis points from .92% in 2009 to .49% in 2010. Interest expense on borrowings declined $17.7 million, mainly the result of lower rates paid on total debt and lower average balances outstanding of FHLB borrowings. The average balance of FHLB borrowings decreased $383.7 million, partly due to scheduled maturities of advances and partly due to the early pay off of $125.0 million in advances prior to maturity. The average rate paid on total interest bearing liabilities decreased to .56% compared to 1.04% in 2009.

Provision for Loan Losses

The provision for loan losses totaled $51.5 million in 2011, which represented a decrease of $48.5 million from the 2010 provision of $100.0 million. Net loan charge-offs for the year totaled $64.5 million compared with $96.9 million in 2010, or a decrease of $32.4 million. The decrease in net loan charge-offs from the previous year was mainly the result of lower construction, consumer and consumer credit card losses, which declined $8.1 million, $8.3 million, and $16.1 million, respectively. The allowance for loan losses totaled $184.5 million at December 31, 2011, a decrease of $13.0 million compared to the prior year, and represented 2.01% 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.

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Non-Interest Income

(Dollars in thousands)	2011	2010	2009	% Change '11-'10	% Change '10-'09
Bank card transaction fees	$157,077	$148,888	$122,124	5.5 %	21.9 %
Trust fees	88,313	80,963	76,831	9.1	5.4
Deposit account charges and other fees	82,651	92,637	106,362	(10.8)	(12.9)
Bond trading income	19,846	21,098	22,432	(5.9)	(5.9)
Consumer brokerage services	10,018	9,190	10,831	9.0	(15.2)
Loan fees and sales	7,580	23,116	21,273	(67.2)	8.7
Other	27,432	29,219	36,406	(6.1)	(19.7)
Total non-interest income	$392,917	$405,111	$396,259	(3.0)%	2.2 %
Non-interest income as a % of total revenue*	37.8 %	38.5 %	38.4 %		
Total revenue per full-time equivalent employee	$219.0	$211.1	$201.3		

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

Non-interest income totaled $392.9 million, a decrease of $12.2 million, or 3.0%, compared to $405.1 million in 2010. Bank card fees increased $8.2 million, or 5.5%, over last year, primarily due to continued growth in transaction fees earned on corporate card and merchant activity, which grew by 19.7% and 5.4%, respectively. The growth in corporate card fees resulted from continued expansion in transaction volumes from existing customers and activity from new customers, while merchant sales volumes were strong. Debit card fees declined $3.1 million, or 5.4%, as a result of new regulations for pricing debit card transactions, which were effective October 1, 2011. These fees declined $7.1 million in the fourth quarter of 2011 compared to the previous quarter. Debit card fees totaled $53.9 million in 2011 and comprised 34.3% of total bank card fees, while corporate card fees totaled $57.8 million and comprised 36.8% of total fees. Trust fee income increased $7.4 million, or 9.1%, as a result of growth in personal and institutional trust fees. Trust revenue continues to be negatively affected by waived fees on certain low earning money market investment accounts. The market value of total customer trust assets (on which fees are charged) totaled $27.3 billion at year end 2011 and grew 8.9% over year end 2010. Deposit account fees decreased $10.0 million, or 10.8%, due mainly to lower overdraft fees resulting in part from new regulations in 2010. Overdraft fees comprised 49.5% of total deposit account fee income in 2011, down from 55.2% in 2010. Bond trading income decreased $1.3 million, or 5.9%, due to lower securities sales to correspondent banks and other commercial customers, while consumer brokerage services revenue increased by $828 thousand, or 9.0%, due to growth in advisory fees. Compared with last year, loan fees and sales declined $15.5 million due to a decline in gains on student loan sales, as the Company exited from the student loan origination business in 2010. Other income decreased $1.8 million largely due to higher write-downs in 2011 on various banking properties held for sale.

During 2010, non-interest income increased $8.9 million, or 2.2%, over 2009 to $405.1 million. Bank card fees increased $26.8 million, or 21.9%, due to growth of 50.2%, 13.2%, and 15.6% in corporate card, debit card and merchant transactions, respectively. Trust fee income increased $4.1 million, or 5.4%, as a result of growth in personal and institutional trust fees, partly offset by lower corporate fees. While most of the growth in trust fees came from private client business, fees from institutional trust services also grew $1.5 million, or 10.2%, in 2010. The market value of total customer trust assets totaled $25.1 billion at year end 2010 and grew 13.5% over year end 2009. Deposit account fees declined $13.7 million, or 12.9%, from the prior year as a result of a $13.6 million decline in overdraft fee revenue due to the regulations mentioned above. Also, corporate cash management fees, which comprised 35.7% of total deposit account fees in 2010, declined 1.9% as compared to 2009, due to lower sales/activity. Bond trading income declined $1.3 million, or 5.9%, due to lower sales volume, while consumer brokerage services revenue declined $1.6 million, or 15.2%, mainly due to lower fees earned on mutual fund sales. Loan fees and sales increased by $1.8 million over 2009. This increase included a $6.9 million gain recorded on the sale of the Company’s held to maturity portfolio of student loans in late 2010, partly offset by a $5.3 million decline in gains on sales of loans held for sale and adjustments to related impairment reserves. Other non-interest income decreased by $7.2 million partly due to impairment charges of $2.0 million on certain bank premises, coupled with other fixed asset retirements. Also included were declines in cash sweep commissions and equipment rental income, partially offset by higher fees on letters of credit and foreign exchange transactions.

Investment Securities Gains (Losses), Net

Net gains and losses on investment securities during 2011, 2010 and 2009 are shown in the table below. Included in these amounts are gains and losses arising from sales of bonds from the Company’s available for sale portfolio, including credit-related losses on debt securities identified as other-than-temporarily impaired. Also shown below are gains and losses relating to non-marketable private equity investments, which are primarily held by the Parent’s majority-owned private equity subsidiaries. These include fair value adjustments, in addition to gains and losses realized upon disposition. Portions of the fair value adjustments attributable to minority interests are reported as non-controlling interest in the consolidated income statement and resulted in expense of $2.6 million in 2011 and income of $108 thousand and $1.1 million in 2010 and 2009, respectively.

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Net securities gains of $10.8 million were recorded in 2011, which include $13.2 million in gains resulting from sales and fair value adjustments related to private equity investments. Partly offsetting these gains were credit-related impairment losses of $2.5 million on certain non-agency guaranteed mortgage-backed securities which have been identified as other-than-temporarily impaired. These identified securities had a total par value of $143.3 million at December 31, 2011. The cumulative credit-related impairment loss on these securities, recorded in earnings, amounted to $10.1 million.

Net securities losses of $1.8 million were recorded in 2010, compared to net losses of $7.2 million in 2009. Losses in 2010 were comprised of $5.1 million of credit-related other-than-temporary impairment (OTTI) losses, partly offset by $3.5 million of net gains resulting from sales from the available for sale portfolio, mainly in municipal and mortgage-backed bonds. Losses in 2009 were comprised of $2.5 million in OTTI losses and $5.0 million in losses from sales and fair value adjustments on private equity investments, partly offset by $322 thousand of net gains on sales from the available for sale portfolio.

(In thousands)	2011	2010	2009
Available for sale:			
U.S. government bonds	$—	$—	$5,342
Municipal bonds	177	1,172	(24)
Corporate bonds	—	498	4,877
Agency mortgage-backed bonds	—	1,434	—
Non-agency mortgage-backed bonds	—	384	(9,948)
Asset-backed bonds	—	—	75
OTTI losses on non-agency mortgage-backed bonds	(2,537)	(5,069)	(2,473)
Non-marketable:			
Private equity investments	13,172	(204)	(5,044)
Total investment securities gains (losses), net	$10,812	$(1,785)	$(7,195)

Non-Interest Expense

(Dollars in thousands)	2011	2010	2009	% Change '11-'10	% Change '10-'09
Salaries	$293,318	$292,675	$290,289	.2%	.8%
Employee benefits	52,007	53,875	55,490	(3.5)	(2.9)
Net occupancy	46,434	46,987	45,925	(1.2)	2.3
Equipment	22,252	23,324	25,472	(4.6)	(8.4)
Supplies and communication	22,448	27,113	32,156	(17.2)	(15.7)
Data processing and software	68,103	67,935	61,789	.2	9.9
Marketing	16,767	18,161	18,231	(7.7)	(.4)
Deposit insurance	13,123	19,246	27,373	(31.8)	(29.7)
Debit overdraft litigation	18,300	—	—	100.0	—
Debt extinguishment	—	11,784	—	(100.0)	100.0
Indemnification obligation	(4,432)	(4,405)	(2,496)	.6	76.5%
Other	68,929	74,439	67,508	(7.4)	10.3
Total non-interest expense	$617,249	$631,134	$621,737	(2.2)%	1.5%
Efficiency ratio	59.1%	59.7%	59.9%		
Salaries and benefits as a % of total non-interest expense	55.9%	54.9%	55.6%		
Number of full-time equivalent employees	4,745	4,979	5,125		

Non-interest expense was $617.2 million in 2011, a decrease of $13.9 million, or 2.2%, from the previous year. In December 2011, the Company reached a class-wide settlement on a debit overdraft lawsuit. The settlement provides for a payment of $18.3 million, which was recorded as expense in 2011. Additionally, the Company's indemnification obligation related to Visa litigation was reduced by $4.4 million in both 2011 and 2010 due to funding actions by Visa. Salaries and benefits expense decreased by $1.2 million, or .4%, due to lower salary expense, medical insurance costs and pension plan expense, partly offset by higher incentive compensation. Total salaries expense was up $643 thousand, or .2%, over 2010, while the number of full-time equivalent employees declined 4.7% to 4,745 at December 31, 2011. Occupancy costs decreased $553 thousand, or 1.2%, primarily resulting

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from lower depreciation expense and outside services expense. Equipment expense decreased $1.1 million, or 4.6%, due to lower equipment rental and service contract expense. Supplies and communication expense declined $4.7 million, or 17.2%, due to lower costs for customer checks, postage, paper supplies and telephone and network costs. Data processing and software costs increased slightly due to higher bank card processing costs, which were partly offset by lower student loan servicing costs. Marketing expense declined $1.4 million, or 7.7%, while deposit insurance was lower by $6.1 million, or 31.8%, mainly as a result of new FDIC assessment rules which became effective in the second quarter of 2011. Other non-interest expense decreased $5.5 million, or 7.4%, largely due to a decline in foreclosed property costs of $6.7 million, which was due to lower write-downs to fair value, sale losses and other holding costs in 2011.

In 2010, non-interest expense was $631.1 million, an increase of $9.4 million, or 1.5%, over the previous year. Non-interest expense included a debt pre-payment penalty of $11.8 million in 2010, in addition to reductions in the Visa indemnification obligation of $4.4 million and $2.5 million in 2010 and 2009, respectively. Excluding these items, non-interest expense would have amounted to $623.8 million in 2010, a decrease of $478 thousand from the prior year. Salaries and benefits grew $771 thousand, or .2%, in 2010 compared to 2009 mainly as a result of higher costs for incentives and 401K plan contributions, offset by lower costs for base salaries, pension and medical plans. Occupancy costs increased $1.1 million, or 2.3%, primarily resulting from higher real estate taxes and utilities expense. Equipment costs decreased $2.1 million in 2010 as compared to 2009 mainly due to lower depreciation on data processing equipment. Supplies and communication expense declined $5.0 million, or 15.7%, which reflected certain initiatives to reduce paper supplies, customer checks and courier costs. Data processing and software costs grew $6.1 million, primarily due to higher bank card processing costs, which increased in proportion to the growth in bank card revenues. Deposit insurance decreased $8.1 million in 2010 compared to 2009, mainly due to a special assessment levied by the FDIC in 2009 which did not reoccur in 2010. Other non-interest expense increased $6.9 million and included higher foreclosed property expense of $6.3 million, which increased due to higher write-downs to fair value and additional holding costs. Also included were higher costs for professional services, partially offset by lower operating losses.

Income Taxes

Income tax expense was $121.4 million in 2011, compared to $96.2 million in 2010 and $73.8 million in 2009. Income tax expense in 2011 increased 26.1% over 2010, compared to a 19.8% increase in pre-tax income. The effective tax rate, including the effect of non-controlling interest, was 32.1%, 30.3% and 30.4% in 2011, 2010 and 2009, respectively. The Company's effective tax rate in 2011 is higher than in 2010 and 2009 primarily due to increased state and local taxes. The Company’s effective tax rates in the years noted above were lower than the federal statutory rate of 35% mainly due to tax-exempt interest on state and local municipal obligations.

Financial Condition

Loan Portfolio Analysis

Classifications of consolidated loans by major category at December 31 for each of the past five years are shown in the table below. This portfolio consists of loans which were acquired or originated with the intent of holding to their maturity. Loans held for sale are separately discussed in a following section. A schedule of average balances invested in each loan category below appears on page 52.

	Balance at December 31				
(In thousands)	2011	2010	2009	2008	2007
Commercial:					
Business	$2,808,265	$2,957,043	$2,877,936	$3,404,371	$3,257,047
Real estate — construction and land	386,598	460,853	665,110	837,369	668,701
Real estate — business	2,180,100	2,065,837	2,104,030	2,137,822	2,239,846
Personal banking:					

Real estate — personal	1,428,777	1,440,386	1,537,687	1,638,553	1,540,289
Consumer	1,114,889	1,164,327	1,333,763	1,615,455	1,648,072
Revolving home equity	463,587	477,518	489,517	504,069	460,200
Student	—	—	331,698	358,049	—
Consumer credit card	788,701	831,035	799,503	779,709	780,227
Overdrafts	6,561	13,983	6,080	7,849	10,986
Total loans	$9,177,478	$9,410,982	$10,145,324	$11,283,246	$10,605,368

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In December 2008, the Company elected to reclassify certain segments of its real estate, business, and consumer portfolios. The reclassifications were made to better align the loan reporting with its related collateral and purpose. Amounts reclassified to real estate construction and land pertained mainly to commercial or residential land and lots which were held by borrowers for future development. Amounts reclassified to personal real estate related mainly to one to four family rental property secured by residential mortgages. The table below shows the effect of the reclassifications on the various lending categories as of the transfer date. Because the information was not readily available and it was impracticable to do so, periods prior to 2008 were not restated.

(In thousands)	Effect of reclassification
Business	$(55,991)
Real estate – construction and land	158,268
Real estate – business	(214,071)
Real estate – personal	142,093
Consumer	(30,299)
Net reclassification	$—

The contractual maturities of loan categories at December 31, 2011, and a breakdown of those loans between fixed rate and floating rate loans are as follows:

(In thousands)	Principal Payments Due In One Year or Less	After One Year Through Five Years	After Five Years	Total
Business	$1,403,140	$1,217,035	$188,090	$2,808,265
Real estate — construction and land	242,161	135,515	8,922	386,598
Real estate — business	617,678	1,349,474	212,948	2,180,100
Real estate — personal	142,855	395,218	890,704	1,428,777
Total business and real estate loans	$2,405,834	$3,097,242	$1,300,664	6,803,740
Consumer (1)				1,114,889
Revolving home equity (2)				463,587
Consumer credit card (3)				788,701
Overdrafts				6,561
Total loans				$9,177,478
Loans with fixed rates	$628,522	$1,616,857	$485,129	$2,730,508
Loans with floating rates	1,777,312	1,480,385	815,535	4,073,232
Total business and real estate loans	$2,405,834	$3,097,242	$1,300,664	$6,803,740

(1) Consumer loans with floating rates totaled $144.7 million.
(2) Revolving home equity loans with floating rates totaled $459.0 million.
(3) Consumer credit card loans with floating rates totaled $541.4 million.

Total loans at December 31, 2011 were $9.2 billion, a decrease of $233.5 million, or 2.5%, from balances at December 31, 2010. The decline in loans during 2011 occurred principally in business, construction, consumer and credit card loans, partly offset by growth in business real estate loans. Business loans decreased $148.8 million, or 5.0%, reflecting declines in commercial, lease and agribusiness loans, as demand remained weak and usage on lines of credit continued at low levels. Business real estate loans were higher by $114.3 million, or 5.5%, due in part to growth in multi-family apartment lending. Construction loans decreased $74.3 million, or 16.1%, which was reflective of continued uncertain economic conditions in the real estate markets and lower overall demand. Personal real estate loans declined $11.6 million and continued to be affected by the weak housing industry. Consumer loans declined $49.4 million, primarily because the Company ceased most marine and recreational vehicle lending from that portfolio several years ago, while consumer auto loans increased due to higher new loan originations. Revolving home equity loans decreased $13.9 million due to fewer new account activations. Consumer credit card loans decreased by $42.3 million, or 5.1%, partly due to deleveraging of consumers and the competitiveness of customer promotions among financial institutions.

The Company currently generates approximately 31% of its loan portfolio in the St. Louis market, 29% in the Kansas City market, and 40% in various other regional markets. The portfolio is diversified from a business and retail standpoint, with 59% in loans to businesses and 41% in loans to consumers. A balanced approach to loan portfolio management and an historical aversion toward credit concentrations, from an industry, geographic and product perspective, have contributed to low levels of problem loans and loan losses.

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

Commercial Loans

Business

Total business loans amounted to $2.8 billion at December 31, 2011 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 $401.0 million at December 31, 2011 and increased 20.9% over December 31, 2010. The portfolio also includes direct financing and sales type leases totaling $241.8 million, which are used by commercial customers to finance capital purchases ranging from computer equipment to office and transportation equipment. These leases comprise 2.6% of the Company’s total loan portfolio. Also included in this portfolio are corporate card loans, which totaled $166.9 million at December 31, 2011. These loans, which decreased by 5.1% in 2011, are made in conjunction with the Company’s corporate card business, which assists the increasing number of businesses that are shifting from paper checks to a credit card payment system in order to automate payment processes. These loans are generally short-term, with outstanding balances averaging between 7 to 13 days in duration, which helps to limit risk in these loans.

Business loans 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. The portfolio is diversified from an industry standpoint and includes businesses engaged in manufacturing, wholesaling, retailing, agribusiness, insurance, financial services, public utilities, 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 $5.0 million in 2011 (.2% of average business loans) and $4.6 million in 2010, remaining low in both years. Non-accrual business loans were $25.7 million (.9% of business loans) at December 31, 2011 compared to $8.9 million at December 31, 2010. The increase was largely due to two new loans, totaling $17.0 million, which were placed on non-accrual status in 2011.

Real Estate-Construction and Land

The portfolio of loans in this category amounted to $386.6 million at December 31, 2011 and comprised 4.2% of the Company’s total loan portfolio. These loans are predominantly made to businesses in the local markets of the Company’s banking subsidiary. Commercial construction and land development loans totaled $245.9 million, or 63.6% of total construction loans at December 31, 2011. 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, 2011 totaled $140.7 million, or 36.4% of total construction loans. The largest percentage of residential construction and land development loans are for projects located in the Kansas City and St. Louis metropolitan areas. Credit risk in this sector has been high over the last few years, especially in residential land development lending, as a result of the weak housing industry. However, in 2011 net loan charge-offs continued to fall, decreasing 53.7% to $7.0 million, compared to net charge-offs of $15.0 million in 2010. The net charge-offs in 2011 were mainly comprised of $4.7 million in charge-offs on loans to two specific borrowers. Construction and land development loans on non-accrual status declined to $22.8 million at year end 2011 compared to $52.8 million at year end 2010 with approximately 46% of the non-accrual balance at year end 2011 comprised of loans to three individual borrowers. The Company's watch list, which includes special mention and substandard categories, included $20.4 million of residential land and construction loans which are being closely monitored.

Real Estate-Business

Total business real estate loans were $2.2 billion at December 31, 2011 and comprised 23.8% 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, and other commercial properties. Emphasis is placed on owner-occupied (48.5% of this portfolio) and income producing commercial real estate properties, which present lower risk levels. The borrowers and/or the properties are generally located in local and regional markets. Additional information about loans by category is

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presented on page 34. At December 31, 2011, non-accrual balances amounted to $19.4 million, or .9%, of the loans in this category, up from $16.2 million at year end 2010. The Company experienced net charge-offs of $3.6 million in 2011 (.2% of average business real estate loans), compared to net charge-offs of $4.1 million in 2010.

Personal Banking Loans

Real Estate-Personal

At December 31, 2011, there were $1.4 billion in outstanding personal real estate loans, which comprised 15.6% of the Company's total loan portfolio. The mortgage loans in this category are mainly for owner-occupied residential properties. The Company originates both adjustable rate and fixed rate mortgage loans. The Company retains adjustable rate mortgage loans, and from time to time retains 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, 2011, 48% of the portfolio was comprised of adjustable rate loans while 52% was comprised of fixed rate loans. Levels of mortgage loan origination activity increased in 2011 compared to 2010, with originations of $223 million in 2011 compared with $197 million in 2010. Growth in mortgage loan originations continued to be constrained in 2011 as a result of the weakened economy, slower housing starts, demand for fixed rates, and lower housing sales within the Company's markets. 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 and the fact that it does not offer subprime lending products or purchase loans from brokers. Net loan charge-offs for 2011 amounted to $2.8 million, compared to $2.1 million in the previous year. The non-accrual balances of loans in this category increased to $7.6 million at December 31, 2011, compared to $7.3 million at year end 2010.

Consumer

Consumer loans consist of auto, marine, tractor/trailer, recreational vehicle (RV), fixed rate home equity, and other consumer installment loans. These loans totaled $1.1 billion at year end 2011. Approximately 62% of consumer loans outstanding were originated indirectly from auto and other dealers, while the remaining 38% were direct loans made to consumers. Approximately 32% of the consumer portfolio consists of automobile loans, 38% in marine and RV loans and 13% in fixed rate home equity lending. As mentioned above, total consumer loans declined $49.4 million in 2011 as a result of the run-off of $115.0 million in marine and RV loans, partly offset by growth in auto lending of $27.4 million, or 8.3%. Net charge-offs on consumer loans were $12.2 million in 2011 compared to $20.5 million in 2010. Net charge-offs decreased to 1.1% of average consumer loans in 2011 compared to 1.6% in 2010. Consumer loan net charge-offs included marine and RV loan net charge-offs of $9.8 million, which were 2.1% of average marine and RV loans in 2011, compared to 2.5% in 2010.

Revolving Home Equity

Revolving home equity loans, of which 99% are adjustable rate loans, totaled $463.6 million at year end 2011. An additional $641.3 million was available in unused lines of credit, which can be drawn at the discretion of the borrower. Home equity loans are secured mainly by second mortgages (and less frequently, first mortgages) on residential property of the borrower. The underwriting terms for the home equity line product permit borrowing availability, in the aggregate, generally up to 80% or 90% of the appraised value of the collateral property at the time of origination.

Consumer Credit Card

Total consumer credit card loans amounted to $788.7 million at December 31, 2011 and comprised 8.6% 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 62% of the households in Missouri that own a Commerce credit card product also maintain a deposit relationship with the subsidiary bank. At December 31, 2011, approximately 69% of the outstanding credit card loan balances had a floating interest rate, compared to 56% in the prior year. Net charge-offs amounted to $31.6 million in 2011, a decline of $16.1 million from $47.7 million in 2010. The ratio of credit card loan net charge-offs to total average credit card loans totaled 4.2% in 2011 compared to 6.3% in 2010. These ratios, however, remain below national loss averages in those years.

Loans Held for Sale

Total loans held for sale at December 31, 2011 were $31.1 million, a decrease of $32.7 million from $63.8 million at year end 2010. Loans classified as held for sale consist of student loans and residential mortgage loans.

Most of the portfolio is comprised of loans to students attending colleges and universities, which totaled $28.5 million at December 31, 2011. These loans are normally sold to the secondary market when the student graduates and the loan enters into repayment status. Nearly all of these loans are based on variable rates. Because of recent legislation, the Company was required to terminate its guaranteed student loan origination business effectively July 1, 2010, and the 2011 year end balance is largely comprised of loans which have not yet been sold under agreements with various student loan servicing agencies.

The remainder of the held for sale portfolio consists of fixed rate mortgage loans, which are sold in the secondary market, generally within three months of origination. The loans are sold primarily to other financial institutions and federal agencies under industry-standard contracts which require various representations by the Company as to ownership, tax status, document delivery, and compliance with selection criteria underwriting standards, and may obligate the Company to repurchase such loans if these representations cannot be satisfied. The Company did not receive any repurchase requests in 2011, and does not believe there are any significant risks or uncertainties associated with its sales. Mortgage loans held for sale totaled $2.5 million and $10.4 million at December 31, 2011 and 2010, respectively.

Allowance for Loan Losses

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

Loans subject to individual evaluation generally consist of business, construction, business real estate and personal real estate loans on non-accrual status, and include troubled debt restructurings that are on non-accrual status. These non-accrual loans are evaluated individually for impairment based on factors such as payment history, borrower financial condition, collateral, current economic conditions and loss experience. For collateral dependent loans, appraisals on collateral (including exit costs) are normally obtained annually but discounted based on date last received and market conditions, so values are conservative and reasonable. From these evaluations of expected cash flows and collateral values, 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. These loans also include certain troubled debt restructurings, which are collectively evaluated because they have similar risk characteristics. Allowances determined for personal banking loans, which are generally smaller balance homogeneous type loans, use consistent methodologies which consider historical and current loss trends, delinquencies and current economic conditions. Allowances for commercial type loans, which are generally larger and more complex in structure with more unpredictable loss characteristics, use methods which consider historical and current loss trends, current loan grades, delinquencies, industry concentrations, economic conditions throughout the Company's markets as monitored by Company credit officers, and general economic conditions.

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

At December 31, 2011, the allowance for loan losses was $184.5 million compared to a balance at year end 2010 of $197.5 million. Total loans delinquent 90 days or more and still accruing were $15.0 million at December 31, 2011, a decrease of $5.5 million compared to year end 2010. Non-accrual loans at December 31, 2011 were $75.5 million, a decrease of $9.8 million from the prior year, and were comprised of $22.8 million of construction loans, $25.7 million of business loans and $19.4 million of business real estate loans. As the result of improving credit trends noted in the Company's analysis of the allowance, the provision for loan losses was $13.0 million less than net charge-offs for the year, thereby reducing the allowance for loan losses to $184.5 million. The percentage of allowance to loans, excluding loans held for sale, decreased to 2.01% at December 31, 2011 compared to 2.10% at year end 2010 as a result of the decrease in the allowance balance. The percentage of allowance to non-accrual loans was 244% at December 31, 2011.

Net loan charge-offs totaled $64.5 million in 2011, representing a $32.4 million decrease compared to net charge-offs of $96.9 million in 2010. Net charge-offs incurred in construction and land loans were $7.0 million, a decrease of $8.1 million compared to $15.0 million in 2010. Net charge-offs related to consumer loans decreased $8.3 million to $12.2 million at December 31, 2011,

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which included net charge-offs of $9.8 million related to marine and RV loans. Additionally, net charge-offs related to consumer credit cards were $31.6 million in 2011 compared to $47.7 million in 2010. Approximately 49.0% of total net loan charge-offs during 2011 were related to consumer credit card loans compared to 49.2% during 2010. Net consumer credit card charge-offs decreased to 4.2% of average consumer credit card loans in 2011 compared to 6.3% in 2010.

The ratio of net charge-offs to total average loans outstanding in 2011 was .70% compared to 1.00% in 2010 and 1.31% in 2009. The provision for loan losses in 2011 was $51.5 million, compared to provisions of $100.0 million in 2010 and $160.7 million in 2009.

The Company considers the allowance for loan losses of $184.5 million adequate to cover losses inherent in the loan portfolio at December 31, 2011.

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)	2011	2010	2009	2008	2007
Loans outstanding at end of year[(A)]	$9,177,478	$9,410,982	$10,145,324	$11,283,246	$10,605,368
Average loans outstanding[(A)]	$9,222,568	$9,698,670	$10,629,867	$10,935,858	$10,189,316
Allowance for loan losses:					
Balance at beginning of year	$197,538	$194,480	$172,619	$133,586	$131,730
Additions to allowance through charges to expense	51,515	100,000	160,697	108,900	42,732
Allowances of acquired companies	—	—	—	—	1,857
Loans charged off:					
Business	6,749	8,550	15,762	7,820	5,822
Real estate — construction and land	7,893	15,199	34,812	6,215	2,049
Real estate — business	4,176	4,780	5,957	2,293	2,396
Real estate — personal	3,217	2,484	3,150	1,765	181
Consumer	16,052	24,587	35,979	26,229	14,842
Revolving home equity	1,802	2,014	1,197	447	451
Consumer credit card	39,242	54,287	54,060	35,825	28,218
Overdrafts	2,254	2,672	3,493	4,499	4,909
Total loans charged off	81,385	114,573	154,410	85,093	58,868
Recoveries of loans previously charged off:					
Business	1,761	3,964	2,925	3,406	1,429
Real estate — construction and land	943	193	720	—	37
Real estate — business	613	722	709	117	1,321
Real estate — personal	445	428	363	51	42
Consumer	3,896	4,108	3,772	4,782	5,304
Revolving home equity	135	39	7	18	5
Consumer credit card	7,625	6,556	4,785	4,309	4,520
Overdrafts	1,446	1,621	2,293	2,543	3,477
Total recoveries	16,864	17,631	15,574	15,226	16,135
Net loans charged off	64,521	96,942	138,836	69,867	42,733
Balance at end of year	$184,532	$197,538	$194,480	$172,619	$133,586
Ratio of allowance to loans at end of year	2.01%	2.10%	1.92%	1.53%	1.26%

Ratio of provision to average loans outstanding	.56 %	1.03 %	1.51 %	1.00 %	.42 %

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

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	Years Ended December 31				
	2011	2010	2009	2008	2007
Ratio of net charge-offs to average loans outstanding, by loan category:					
Business	.17 %	.16 %	.41 %	.13 %	.14 %
Real estate — construction and land	1.66	2.69	4.61	.89	.30
Real estate — business	.17	.20	.24	.10	.05
Real estate — personal	.19	.14	.18	.11	.01
Consumer	1.09	1.64	2.20	1.28	.61
Revolving home equity	.36	.41	.24	.09	.10
Consumer credit card	4.23	6.28	6.77	4.06	3.56
Overdrafts	11.62	14.42	12.27	16.40	10.36
Ratio of total net charge-offs to total average loans outstanding	.70 %	1.00 %	1.31 %	.64 %	.42 %

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)	2011		2010		2009		2008		2007	
	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	$49,217	30.5 %	$47,534	31.4 %	$40,455	28.4 %	$35,185	30.2 %	$29,392	30.7 %
RE — construction and land	28,280	4.2	21,316	4.9	33,659	6.6	24,714	7.4	8,507	6.3
RE — business	45,000	23.8	51,096	22.0	31,515	20.7	26,081	19.0	14,842	21.1
RE — personal	3,701	15.6	4,016	15.3	5,435	15.2	4,985	14.5	2,389	14.5
Consumer	15,369	12.1	19,449	12.4	30,257	13.1	30,503	14.3	24,611	15.6
Revolving home equity	2,220	5.1	2,502	5.1	1,737	4.8	1,445	4.4	5,839	4.3
Student	—	—	—	—	229	3.3	—	3.2	—	—
Consumer credit card	39,703	8.6	50,532	8.8	49,923	7.9	47,993	6.9	44,307	7.4
Overdrafts	1,042	.1	1,093	.1	1,270	—	1,713	.1	2,351	.1
Unallocated	—	—	—	—	—	—	—	—	1,348	—
Total	$184,532	100.0 %	$197,538	100.0 %	$194,480	100.0 %	$172,619	100.0 %	$133,586	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. 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 consumer 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. 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.

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

	December 31				
(Dollars in thousands)	2011	2010	2009	2008	2007
Non-performing assets:					
Non-accrual loans:					
Business	$25,724	$8,933	$12,874	$4,007	$4,700
Real estate — construction and land	22,772	52,752	62,509	48,871	7,769
Real estate — business	19,374	16,242	21,756	13,137	5,628
Real estate — personal	7,612	7,348	9,384	6,794	1,095
Consumer	—	—	90	87	547
Total non-accrual loans	75,482	85,275	106,613		