

COMMERCE BANCSHARES INC /MO/

Form 10-Q

November 07, 2013

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark

One)

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

For the quarterly period ended September 30, 2013

OR

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

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

COMMERCE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri

43-0889454

(State of Incorporation)

(IRS Employer Identification No.)

1000 Walnut,

64106

Kansas City, MO

(Address of principal executive offices)

(Zip Code)

(816) 234-2000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

Yes No

As of November 1, 2013, the registrant had outstanding 91,294,404 shares of its \$5 par value common stock, registrant's only class of common stock.

Commerce Bancshares, Inc. and Subsidiaries

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited) (In thousands)	December 31, 2012
ASSETS		
Loans	\$ 10,823,654	\$ 9,831,384
Allowance for loan losses	(163,532)	(172,532)
Net loans	10,660,122	9,658,852
Loans held for sale	—	8,827
Investment securities:		
Available for sale (\$704,650,000 and \$736,183,000 pledged in 2013 and 2012, respectively, to secure swap and repurchase agreements)	8,577,282	9,522,248
Trading	18,295	28,837
Non-marketable	114,520	118,650
Total investment securities	8,710,097	9,669,735
Short-term federal funds sold and securities purchased under agreements to resell	87,167	27,595
Long-term securities purchased under agreements to resell	1,150,000	1,200,000
Interest earning deposits with banks	267,548	179,164
Cash and due from banks	594,309	573,066
Land, buildings and equipment, net	353,473	357,612
Goodwill	138,676	125,585
Other intangible assets, net	9,050	5,300
Other assets	481,855	353,853
Total assets	\$ 22,452,297	\$ 22,159,589
LIABILITIES AND EQUITY		
Deposits:		
Non-interest bearing	\$ 6,185,098	\$ 6,299,903
Savings, interest checking and money market	9,680,816	9,817,943
Time open and C.D.'s of less than \$100,000	1,013,598	1,074,618
Time open and C.D.'s of \$100,000 and over	1,338,252	1,156,189
Total deposits	18,217,764	18,348,653
Federal funds purchased and securities sold under agreements to repurchase	1,760,393	1,083,550
Other borrowings	105,928	103,710
Other liabilities	186,726	452,102
Total liabilities	20,270,811	19,988,015
Commerce Bancshares, Inc. stockholders' equity:		
Preferred stock, \$1 par value		
Authorized and unissued 2,000,000 shares	—	—
Common stock, \$5 par value		
Authorized 100,000,000 shares; issued 91,929,481 shares in 2013 and 91,729,235 shares in 2012	459,647	458,646
Capital surplus	1,104,669	1,102,507

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Retained earnings	610,720	477,210
Treasury stock of 548,585 shares in 2013 and 196,922 shares in 2012, at cost	(23,528) (7,580)
Accumulated other comprehensive income	26,025	136,344
Total Commerce Bancshares, Inc. stockholders' equity	2,177,533	2,167,127
Non-controlling interest	3,953	4,447
Total equity	2,181,486	2,171,574
Total liabilities and equity	\$22,452,297	\$22,159,589

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Three Months		For the Nine Months	
	Ended September 30 2013	2012	Ended September 30 2013	2012
	(Unaudited)			
INTEREST INCOME				
Interest and fees on loans	\$ 110,587	\$ 111,619	\$ 326,391	\$ 335,627
Interest and fees on loans held for sale	—	85	176	278
Interest on investment securities	46,356	46,513	144,548	157,832
Interest on short-term federal funds sold and securities purchased under agreements to resell	35	24	72	70
Interest on long-term securities purchased under agreements to resell	5,095	4,913	16,734	13,770
Interest on deposits with banks	71	40	223	207
Total interest income	162,144	163,194	488,144	507,784
INTEREST EXPENSE				
Interest on deposits:				
Savings, interest checking and money market	3,502	4,623	10,801	14,338
Time open and C.D.'s of less than \$100,000	1,380	1,945	4,785	6,055
Time open and C.D.'s of \$100,000 and over	1,535	1,743	4,901	5,482
Interest on federal funds purchased and securities sold under agreements to repurchase	166	221	654	623
Interest on other borrowings	855	851	2,496	2,633
Total interest expense	7,438	9,383	23,637	29,131
Net interest income	154,706	153,811	464,507	478,653
Provision for loan losses	4,146	5,581	14,810	18,961
Net interest income after provision for loan losses	150,560	148,230	449,697	459,692
NON-INTEREST INCOME				
Bank card transaction fees	43,891	39,488	123,141	112,655
Trust fees	25,318	23,681	76,221	70,328
Deposit account charges and other fees	20,197	19,873	58,511	59,184
Capital market fees	3,242	5,110	10,938	16,991
Consumer brokerage services	2,871	2,441	8,410	7,543
Loan fees and sales	1,553	1,358	4,340	4,625
Other	9,239	8,971	27,303	24,995
Total non-interest income	106,311	100,922	308,864	296,321
INVESTMENT SECURITIES GAINS (LOSSES), NET				
Impairment (losses) reversals on debt securities	(588)	)5,989	508	11,579
Noncredit-related losses (reversals) on securities not expected to be sold	258	(6,546)	(1,768)	(12,806)
Net impairment losses	(330)	)557	(1,260)	(1,227)
Realized gains (losses) on sales and fair value adjustments	980	3,737	(1,823)	)9,783
Investment securities gains (losses), net	650	3,180	(3,083)	)8,556
NON-INTEREST EXPENSE				
Salaries and employee benefits	91,405	89,292	271,855	266,346
Net occupancy	11,332	11,588	33,801	33,953
Equipment	4,465	4,976	13,828	15,164
Supplies and communication	5,449	5,400	16,835	16,680
Data processing and software	19,987	19,279	58,522	55,030

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Marketing	3,848	4,100	11,255	12,391
Deposit insurance	2,796	2,608	8,353	7,746
Other	17,030	16,148	53,866	52,882
Total non-interest expense	156,312	153,391	468,315	460,192
Income before income taxes	101,209	98,941	287,163	304,377
Less income taxes	32,764	32,155	91,871	99,541
Net income	68,445	66,786	195,292	204,836
Less non-controlling interest expense	221	780	246	2,298
Net income attributable to Commerce Bancshares, Inc.	\$68,224	\$66,006	\$195,046	\$202,538
Net income per common share — basic	\$.75	\$.71	\$2.14	\$2.18
Net income per common share — diluted	\$.75	\$.72	\$2.14	\$2.18

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
	(Unaudited)			
Net income	\$68,445	\$66,786	\$195,292	\$204,836
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities for which a portion of an other-than-temporary impairment has been recorded in earnings	(130	)3,695	887	7,592
Net unrealized gains (losses) on other securities	3,815	25,160	(112,632	)46,552
Pension loss amortization	476	453	1,426	1,358
Other comprehensive income (loss)	4,161	29,308	(110,319	)55,502
Comprehensive income	72,606	96,094	84,973	260,338
Less non-controlling interest expense	221	780	246	2,298
Comprehensive income attributable to Commerce Bancshares, Inc.	\$72,385	\$95,314	\$84,727	\$258,040
See accompanying notes to consolidated financial statements.				

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Commerce Bancshares, Inc. Shareholders

(In thousands, except per share data)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated		Total
					Other Comprehensive Income (Loss)	Non-Controlling Interest	
	(Unaudited)						
Balance January 1, 2013	\$458,646	\$1,102,507	\$477,210	\$(7,580)	\$136,344	\$4,447	\$2,171,574
Net income			195,046			246	195,292
Other comprehensive loss					(110,319)		(110,319)
Distributions to non-controlling interest						(740)	(740)
Acquisition of Summit Bancshares Inc.	1,001	11,125		31,071			43,197
Purchase of treasury stock				(69,195)			(69,195)
Issuance of stock under purchase and equity compensation plans		(3,957)		12,111			8,154
Net tax benefit related to equity compensation plans		454					454
Stock-based compensation		4,605					4,605
Issuance of nonvested stock awards		(10,065)		10,065			—
Cash dividends (\$.675 per share)			(61,536)				(61,536)
Balance September 30, 2013	\$459,647	\$1,104,669	\$610,720	\$(23,528)	\$26,025	\$3,953	\$2,181,486
Balance January 1, 2012	\$446,387	\$1,042,065	\$575,419	\$(8,362)	\$110,538	\$4,314	\$2,170,361
Net income			202,538			2,298	204,836
Other comprehensive income					55,502		55,502
Distributions to non-controlling interest						(1,976)	(1,976)
Purchase of treasury stock				(75,536)			(75,536)
Issuance of stock under purchase and equity compensation plans		(4,987)		14,753			9,766
Net tax benefit related to equity compensation plans		1,233					1,233
Stock-based compensation		3,705					3,705
Issuance of nonvested stock awards		(8,501)		8,501			—
Cash dividends (\$.657 per share)			(60,819)				(60,819)
Balance September 30, 2012	\$446,387	\$1,033,515	\$717,138	\$(60,644)	\$166,040	\$4,636	\$2,307,072

See accompanying notes to consolidated financial statements.

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Commerce Bancshares, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Nine Months Ended September 30	
	2013	2012
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	\$ 195,292	\$ 204,836
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	14,810	18,961
Provision for depreciation and amortization	31,152	32,565
Amortization of investment security premiums, net	22,840	29,989
Investment securities (gains) losses, net(A)	3,083	(8,556)
Net gains on sales of loans held for sale	—	(376)
Proceeds from sales of loans held for sale	—	22,649
Net decrease in trading securities	15,977	5,454
Stock-based compensation	4,605	3,705
Decrease in interest receivable	2,694	4,728
Decrease in interest payable	(1,319)	(1,067)
Increase (decrease) in income taxes payable	7,183	(5,571)
Net tax benefit related to equity compensation plans	(454)	(1,233)
Other changes, net	(7,086)	(10,718)
Net cash provided by operating activities	288,777	295,366
INVESTING ACTIVITIES:		
Cash received in acquisition	47,643	—
Proceeds from sales of investment securities(A)	6,624	14,931
Proceeds from maturities/pay downs of investment securities(A)	2,047,277	2,341,083
Purchases of investment securities(A)	(1,522,765)	(2,036,260)
Net increase in loans	(796,215)	(489,628)
Long-term securities purchased under agreements to resell	(125,000)	(125,000)
Repayments of long-term securities purchased under agreements to resell	175,000	125,000
Purchases of land, buildings and equipment	(18,731)	(19,243)
Sales of land, buildings and equipment	723	2,338
Net cash used in investing activities	(185,444)	(186,779)
FINANCING ACTIVITIES:		
Net increase (decrease) in non-interest bearing, savings, interest checking and money market deposits	(569,342)	554,167
Net increase (decrease) in time open and C.D.'s	81,449	(479,383)
Net increase in short-term federal funds purchased and securities sold under agreements to repurchase	726,843	1,868
Repayment of long-term borrowings	(50,961)	(8,073)
Purchases of treasury stock	(69,195)	(75,536)
Issuance of stock under stock purchase and equity compensation plans	8,154	9,766
Net tax benefit related to equity compensation plans	454	1,233
Cash dividends paid on common stock	(61,536)	(60,819)
Net cash provided by (used in) financing activities	65,866	(56,777)
Increase in cash and cash equivalents	169,199	51,810
Cash and cash equivalents at beginning of year	779,825	517,551

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Cash and cash equivalents at September 30	\$949,024	\$569,361
(A) Available for sale and non-marketable securities		
Income tax payments, net	\$84,331	\$104,175
Interest paid on deposits and borrowings	\$24,956	\$30,198
Loans transferred to foreclosed real estate	\$6,744	\$7,178
Loans transferred from held for sale to held for investment category	\$8,941	\$—
See accompanying notes to consolidated financial statements.		

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Commerce Bancshares, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013 (Unaudited)

1. Principles of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts of Commerce Bancshares, Inc. and all majority-owned subsidiaries (the Company). Most of the Company's operations are conducted by its subsidiary bank, Commerce Bank (the Bank). The consolidated financial statements in this report have not been audited. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications were made to 2012 data to conform to current year presentation. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations for the three and nine month periods ended September 30, 2013 are not necessarily indicative of results to be attained for the full year or any other interim periods.

The significant accounting policies followed in the preparation of the quarterly financial statements are disclosed in the 2012 Annual Report on Form 10-K.

2. Acquisition

On September 1, 2013, the Company acquired Summit Bancshares Inc. (Summit). Summit's results of operations are included in the Company's consolidated financial results beginning on that date. The transaction was accounted for using the acquisition method of accounting and, as such, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair value on the acquisition date. In this transaction, the Company acquired all of the outstanding stock of Summit in exchange for shares of Company stock valued at \$43.2 million. The valuation of Company stock was determined on the basis of the closing market price of the Company's common shares on August 30, 2013. The Company's acquisition of Summit added \$261.6 million in assets (including \$207.4 million in loans), \$232.3 million in deposits and two branch locations in Tulsa and Oklahoma City, Oklahoma. Intangible assets recognized as a result of the transaction consisted of approximately \$13.1 million in goodwill and \$4.9 million in core deposit premium. Most of the goodwill was assigned to the Company's Commercial segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of core deposit premium was estimated by a third party using an after-tax cost savings method. This methodology calculates the present value of the estimated after-tax cost savings attributable to the core deposit base, relative to alternative costs of funds and tax benefit, if applicable, over the expected remaining economic life of the depositors. Based on an estimation of the expected remaining economic life of the depositors, the core deposit premium is being amortized over a 14 year period, using an accelerated method.

Historical pro forma information for the acquisition has not been presented because the effect on the Company's financial statements was not material. Acquired loans with evidence of deterioration in credit quality were not material to the consolidated financial statements of the Company. Accordingly, the provisions of ASC 310-30, which require special accounting for such loans, were not applied.

On September 3, 2013, the Company granted nonvested restricted stock awards of 42,674 shares of Company stock to various former Summit officers, which are included in the activity shown in Note 13. These awards vest over periods of 3 to 4 years and, assuming no awards are forfeited, compensation expense of approximately \$1.8 million is expected to be recognized over the vesting period.

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3. Loans and Allowance for Loan Losses

Major classifications within the Company's held for investment loan portfolio at September 30, 2013 and December 31, 2012 are as follows:

(In thousands)	September 30, 2013	December 31, 2012
Commercial:		
Business	\$3,634,461	\$3,134,801
Real estate – construction and land	363,194	355,996
Real estate – business	2,357,894	2,214,975
Personal Banking:		
Real estate – personal	1,766,609	1,584,859
Consumer	1,489,066	1,289,650
Revolving home equity	421,569	437,567
Consumer credit card	787,215	804,245
Overdrafts	3,646	9,291
Total loans	\$10,823,654	\$9,831,384

At September 30, 2013, loans of \$3.5 billion were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits. Additional loans of \$1.4 billion were pledged at the Federal Reserve Bank as collateral for discount window borrowings.

Allowance for loan losses

A summary of the activity in the allowance for loan losses during the three and nine months ended September 30, 2013 and 2012, respectively, follows:

(In thousands)	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	Commercial	Personal Banking	Total	Commercial	Personal Banking	Total
Balance at beginning of period	\$98,599	\$67,433	\$166,032	\$105,725	\$66,807	\$172,532
Provision	(2,885)	)7,031	4,146	(10,275)	)25,085	14,810
Deductions:						
Loans charged off	913	12,174	13,087	3,879	36,405	40,284
Less recoveries on loans	3,144	3,297	6,441	6,374	10,100	16,474
Net loan charge-offs (recoveries)	(2,231)	)8,877	6,646	(2,495)	)26,305	23,810
Balance September 30, 2013	\$97,945	\$65,587	\$163,532	\$97,945	\$65,587	\$163,532
Balance at beginning of period	\$114,671	\$63,862	\$178,533	\$122,497	\$62,035	\$184,532
Provision	(2,479)	)8,060	5,581	(10,125)	)29,086	18,961
Deductions:						
Loans charged off	1,795	12,480	14,275	7,502	39,710	47,212
Less recoveries on loans	1,720	3,473	5,193	7,247	11,504	18,751
Net loan charge-offs	75	9,007	9,082	255	28,206	28,461
Balance September 30, 2012	\$112,117	\$62,915	\$175,032	\$112,117	\$62,915	\$175,032

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The following table shows the balance in the allowance for loan losses and the related loan balance at September 30, 2013 and December 31, 2012, disaggregated on the basis of impairment methodology. Impaired loans evaluated under ASC 310-10-35 include loans on non-accrual status, which are individually evaluated for impairment, and other impaired loans discussed below, which are deemed to have similar risk characteristics and are collectively evaluated. All other loans are collectively evaluated for impairment under ASC 450-20.

(In thousands)	Impaired Loans		All Other Loans	
	Allowance for Loans		Allowance for Loans	
	Loan Losses	Outstanding	Loan Losses	Outstanding
September 30, 2013				
Commercial	\$7,689	\$73,698	\$90,256	\$6,281,851
Personal Banking	2,607	30,183	62,980	4,437,922
Total	\$10,296	\$103,881	\$153,236	\$10,719,773
December 31, 2012				
Commercial	\$5,434	\$80,807	\$100,291	\$5,624,965
Personal Banking	2,051	36,111	64,756	4,089,501
Total	\$7,485	\$116,918	\$165,047	\$9,714,466

Impaired loans

The table below shows the Company's investment in impaired loans at September 30, 2013 and December 31, 2012. These loans consist of all loans on non-accrual status and other restructured loans whose terms have been modified and classified as troubled debt restructurings under ASC 310-40. These restructured loans are performing in accordance with their modified terms, and because the Company believes it probable that all amounts due under the modified terms of the agreements will be collected, interest on these loans is being recognized on an accrual basis. They are discussed further in the "Troubled debt restructurings" section on page 14.

(In thousands)	Sept. 30, 2013	Dec. 31, 2012
Non-accrual loans	\$37,846	\$51,410
Restructured loans (accruing)	66,035	65,508
Total impaired loans	\$103,881	\$116,918

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The following table provides additional information about impaired loans held by the Company at September 30, 2013 and December 31, 2012, segregated between loans for which an allowance for credit losses has been provided and loans for which no allowance has been provided.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
September 30, 2013			
With no related allowance recorded:			
Business	\$8,444	\$9,485	\$—
Real estate – construction and land	7,056	14,276	—
Real estate – business	6,048	9,038	—
	\$21,548	\$32,799	\$—
With an allowance recorded:			
Business	\$18,026	\$20,549	\$2,740
Real estate – construction and land	22,970	24,934	2,687
Real estate – business	11,154	16,710	2,262
Real estate – personal	12,770	15,641	1,552
Consumer	4,647	4,647	134
Revolving home equity	643	643	2
Consumer credit card	12,123	12,123	919
	\$82,333	\$95,247	\$10,296
Total	\$103,881	\$128,046	\$10,296
December 31, 2012			
With no related allowance recorded:			
Business	\$9,964	\$12,697	\$—
Real estate – construction and land	8,440	15,102	—
Real estate – business	5,484	8,200	—
Real estate – personal	1,166	1,380	—
Revolving home equity	510	843	—
	\$25,564	\$38,222	\$—
With an allowance recorded:			
Business	\$19,358	\$22,513	\$1,888
Real estate – construction and land	20,446	25,808	1,762
Real estate – business	17,115	23,888	1,784
Real estate – personal	14,157	17,304	857
Consumer	4,779	4,779	93
Revolving home equity	779	779	18
Consumer credit card	14,720	14,720	1,083
	\$91,354	\$109,791	\$7,485
Total	\$116,918	\$148,013	\$7,485

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Total average impaired loans for the three and nine month periods ended September 30, 2013 and 2012, respectively, are shown in the table below.

(In thousands)	Commercial	Personal Banking	Total
Average Impaired Loans:			
For the three months ended September 30, 2013			
Non-accrual loans	\$32,570	\$4,866	\$37,436
Restructured loans (accruing)	40,881	25,163	66,044
Total	\$73,451	\$30,029	\$103,480
For the nine months ended September 30, 2013			
Non-accrual loans	\$36,656	\$5,287	\$41,943
Restructured loans (accruing)	40,200	25,857	66,057
Total	\$76,856	\$31,144	\$108,000
For the three months ended September 30, 2012			
Non-accrual loans	\$51,337	\$7,621	\$58,958
Restructured loans (accruing)	41,885	19,750	61,635
Total	\$93,222	\$27,371	\$120,593
For the nine months ended September 30, 2012			
Non-accrual loans	\$59,159	\$7,399	\$66,558
Restructured loans (accruing)	44,063	21,204	65,267
Total	\$103,222	\$28,603	\$131,825

The table below shows interest income recognized during the three and nine month periods ended September 30, 2013 and 2012 for impaired loans held at the end of each respective period. This interest all relates to accruing restructured loans, as discussed in the "Troubled debt restructurings" section on page 14.

(In thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Interest income recognized on impaired loans:				
Business	\$124	\$248	\$372	\$745
Real estate – construction and land	218	210	653	630
Real estate – business	48	72	145	216
Real estate – personal	64	22	192	65
Consumer	87	16	261	47
Revolving home equity	9	1	26	2
Consumer credit card	262	328	785	983
Total	\$812	\$897	\$2,434	\$2,688

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Delinquent and non-accrual loans

The following table provides aging information on the Company's past due and accruing loans, in addition to the balances of loans on non-accrual status, at September 30, 2013 and December 31, 2012.

(In thousands)	Current or Less Than 30 Days Past Due	30 – 89 Days Past Due	90 Days Past Due and Still Accruing	Non-accrual Total	
September 30, 2013					
Commercial:					
Business	\$3,616,498	\$5,837	\$596	\$ 11,530	\$3,634,461
Real estate – construction and land	342,953	11,126	83	9,032	363,194
Real estate – business	2,310,501	35,495	—	11,898	2,357,894
Personal Banking:					
Real estate – personal	1,747,785	12,176	1,262	5,386	1,766,609
Consumer	1,473,403	14,008	1,655	—	1,489,066
Revolving home equity	419,333	1,576	660	—	421,569
Consumer credit card	769,906	10,050	7,259	—	787,215
Overdrafts	3,377	269	—	—	3,646
Total	\$10,683,756	\$90,537	\$11,515	\$ 37,846	\$10,823,654
December 31, 2012					
Commercial:					
Business	\$3,110,403	\$10,054	\$1,288	\$ 13,056	\$3,134,801
Real estate – construction and land	325,541	16,721	56	13,678	355,996
Real estate – business	2,194,395	3,276	—	17,304	2,214,975
Personal Banking:					
Real estate – personal	1,564,281	10,862	2,854	6,862	1,584,859
Consumer	1,273,581	13,926	2,143	—	1,289,650
Revolving home equity	433,437	2,121	1,499	510	437,567
Consumer credit card	786,081	10,657	7,507	—	804,245
Overdrafts	8,925	366	—	—	9,291
Total	\$9,696,644	\$67,983	\$15,347	\$ 51,410	\$9,831,384

Credit quality

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

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Commercial Loans

(In thousands)	Business	Real Estate-Construction	Real Estate- Business	Total
September 30, 2013				
Pass	\$3,534,162	\$ 323,142	\$2,239,654	\$6,096,958
Special mention	63,931	1,636	52,241	117,808
Substandard	24,838	29,384	54,101	108,323
Non-accrual	11,530	9,032	11,898	32,460
Total	\$3,634,461	\$ 363,194	\$2,357,894	\$6,355,549
December 31, 2012				
Pass	\$3,018,062	\$ 297,156	\$2,103,913	\$5,419,131
Special mention	58,793	11,400	38,396	108,589
Substandard	44,890	33,762	55,362	134,014
Non-accrual	13,056	13,678	17,304	44,038
Total	\$3,134,801	\$ 355,996	\$2,214,975	\$5,705,772

The credit quality of Personal Banking loans is monitored primarily on the basis of aging/delinquency, and this information is provided in the table in the above "Delinquent and non-accrual loans" section. In addition, FICO scores are obtained and updated on a quarterly basis for most of the loans in the Personal Banking portfolio. This is a published credit score designed to measure the risk of default by taking into account various factors from a borrower's financial history. The Bank normally obtains a FICO score at the loan's origination and renewal dates, and updates are obtained on a quarterly basis. Excluded from the table below are certain Personal Banking loans for which FICO scores are not obtained because they generally pertain to commercial customer activities and are often underwritten with other collateral considerations. At September 30, 2013, these were comprised of \$228.3 million in personal real estate loans and \$60.4 million in consumer loans, or 6.5% of the Personal Banking portfolio. At December 31, 2012, these were comprised of \$224.5 million in personal real estate loans and \$87.4 million in consumer loans, or 7.6% of the Personal Banking portfolio. For the remainder of loans in the Personal Banking portfolio, the table below shows the percentage of balances outstanding at September 30, 2013 and December 31, 2012 by FICO score.

Personal Banking Loans

	% of Loan Category			
	Real Estate - Personal	Consumer	Revolving Home Equity	Consumer Credit Card
September 30, 2013				
FICO score:				
Under 600	1.8	%5.5	%2.0	%4.0
600 - 659	3.2	10.5	8.2	11.8
660 - 719	9.7	24.5	15.4	33.6
720 - 779	26.6	28.2	29.5	28.2
780 and Over	58.7	31.3		